

# **FY 2004 Performance and Accountability Report**

**U. S. Department of Education**

*November 12, 2004*

U.S. Department of Education  
Rod Paige  
Secretary

Office of the Under Secretary  
Edward R. McPherson  
Under Secretary

Strategic Accountability Service  
Hugh Walkup  
Director

Office of the Chief Financial Officer  
Jack Martin  
Chief Financial Officer

November 2004

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## MESSAGE FROM THE SECRETARY

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I am pleased to present the U.S. Department of Education's fiscal year 2004 Performance and Accountability Report. The report represents a measure of the Department's progress toward achieving its vision to ensure no child is left behind and presents the audited financial statements, which fairly state the financial status of the Department.

This is my fourth report to Congress and the American public. In 2001, I reported on our nation's dire need to ensure our investment in public education makes a difference for the millions of students who have been left behind. The next two reports focused on building a culture of accountability through the No Child Left Behind Act of 2001, and putting the law into action. This year I proudly report about our progress in accomplishing our vision and mission.

Thanks to No Child Left Behind and unprecedented commitment to management excellence, a culture of accountability has taken root at the Department. Nationally, we see a powerful testimony to this renewed attitude. While fourth-grade reading scores between 1992 and 2000 remained stagnant, there has been a five-point increase in the last three years nationally. We also see important movement among African American and Hispanic fourth-graders who know their reading and math basics. As a result the achievement gap is closing.

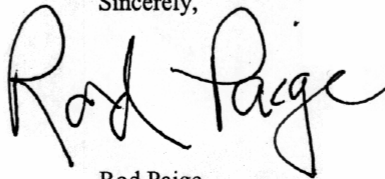
These achievements come at a time when the Department is maximizing taxpayer investments in education. For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), the Department accounting systems and management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved. For the third consecutive year, we received an unqualified "clean" audit opinion.

These achievements are a result of the careful attention to and tracking of the five-year Strategic Plan established in 2002, and subsequent annual plans. The Department is serious about its regular review and reporting of performance and financial accountability as required by the Government Performance and Results Act and the Government Management Reform Act.

In promoting a culture of accountability, we have made every effort to clearly, accurately, and completely report on the Department's progress toward fulfilling its responsibilities and goals. Except for data limitations explicitly discussed in the Performance Details section or in the Performance Data Tables (Appendix A), I hereby provide assurance that performance data herein are complete and reliable. Actions we are taking to resolve inadequacies are thoroughly discussed in the Performance Details section, Performance Data Tables (Appendix A), and Data Quality and Timeliness (Appendix B). We hope this report will be of use to Congress and the American public.

Each day we get closer to the best in American education, discarding our deficiencies and correcting long-standing problems. With continued effort, and working with our state and local partners, we can be confident about the years to come.

Sincerely,



Rod Paige  
November 12, 2004



*In our tradition of quality reporting,  
the Department of Education  
proudly presents this  
FY 2004 Performance and Accountability Report.*

## CONTENTS

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	Page
Message from the Secretary .....	iii

### MANAGEMENT'S DISCUSSION AND ANALYSIS

<b>The Journey from Access to Excellence</b> .....	2
<b>Department at a Glance</b> .....	5
Our Mission.....	5
Our Customers: Students, Parents, Schools, and Postsecondary Institutions.....	5
Organization and History .....	6
Civil Rights Enforcement.....	7
<b>Performance Highlights</b> .....	9
Goal Overviews.....	9
Strategic Planning and Reporting.....	11
Integration of Performance with Budget and Finance.....	12
<b>Financial Highlights</b> .....	14
Overview .....	14
Departmental Management .....	14
Lines of Business.....	14
Financial Position .....	15
Future Trends .....	17
Management Challenges .....	18
Improper Payments Information Act of 2002: Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005–FY 2007 .....	19
<b>Management Controls</b> .....	22
Federal Managers' Financial Integrity Act.....	22
<b>Education's Scorecard on the <i>President's Management Agenda</i></b> .....	24

### PERFORMANCE DETAILS

<b>Goals and Objectives</b> .....	26
<b>How the Department Reports Performance Results</b> .....	27
<b>Goal 1: Create a Culture of Achievement</b> .....	29
<b>Goal 2: Improve Student Achievement</b> .....	43
<b>Goal 3: Develop Safe Schools and Strong Character</b> .....	65
<b>Goal 4: Transform Education into an Evidence-Based Field</b> .....	75
<b>Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education</b> .....	83
<b>Goal 6: Establish Management Excellence</b> .....	101

**FINANCIAL DETAILS**

**Financial Summary**..... 110  
**From the Chief Financial Officer** ..... 111  
**Principal Financial Statements** ..... 113  
**Notes to Principal Financial Statements** ..... 120  
**Required Supplementary Stewardship Information** ..... 149  
**Required Supplementary Information**..... 157  
**Report of Independent Auditors**..... 163

**OTHER STATUTORILY REQUIRED REPORTS**

**Report to Congress on Audit Follow-up** ..... 182  
**Credit Management and Debt Collection Improvement Act**..... 182

**APPENDIXES**

**A: Performance Data Tables**..... 185  
**B: Performance Data Quality and Timeliness** ..... 225  
**C: Sample Program Performance Report** ..... 231  
**D: Improper Payments Act of 2002**..... 233  
**E: Management Challenges**..... 241

**GLOSSARY**

**Glossary of Acronyms**..... 249

**LIST OF FIGURES**

**Management’s Discussion and Analysis**  
 Department of Education Organization Chart ..... 7  
 FY 2004 Discrimination Complaints ..... 8  
 Total Assets vs. Total Liabilities ..... 16  
 Net Cost by Fiscal Year ..... 16  
 E-Government Operations Model ..... 17

**Goal 1**  
 Status of States in Meeting Adequate Yearly Progress (AYP) in Title I Schools ..... 32  
 Twelve States Meet 2005–06 Assessment Requirements Two Years Ahead of Schedule ..... 33

**Goal 2**  
 Approximate FY 2004 Expenditures that Supported Goal 2 ..... 45  
 Course-Taking Levels Over Time ..... 49  
 Use of Teacher Quality Grant Funds, District Level, 2002–03 ..... 56

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	<b>Page</b>
<b>Goal 3</b>	
Approximate FY 2004 Expenditures that Supported Goal 3.....	67
Rate of Serious Crimes and Victimization Involving Youth Ages 12 to 17, 1991–2002 .....	67
Trends in Drug Use: Grades 8, 10, and 12: Any Illicit Drug Use in the Last 12 Months .....	68
Students Who Did Not Go to School on One or More of the Last 30 Days	
Because They Felt Unsafe at School or on Their Way to or from School .....	71
<b>Goal 4</b>	
Approximate FY 2004 Expenditures that Supported Goal 4.....	77
Number of Months Before Initial Release of NAEP Results .....	79
<b>Goal 5</b>	
Approximate FY 2004 Expenditures that Supported Goal 5.....	85





# Management's Discussion and Analysis

*Today, education is perhaps the most important function of state and local governments. ... It is the very foundation of good citizenship. ... In these days, it is doubtful that any child may reasonably be expected to succeed in life if he is denied the opportunity of an education. Such an opportunity, where the state has undertaken to provide it, is a right which must be made available to all on equal terms. ...*

*We conclude that, in the field of public education, the doctrine of "separate but equal" has no place.*

—*Brown v. Board of Education of Topeka*,  
347 U.S. 483 (1954)

**The message of *Brown v. Board* was: separate schools are inherently unequal. The message of No Child Left Behind is: separate instruction—instruction that is based upon assumptions that certain children cannot learn—is inherently unequal. And this Administration, and I, as Secretary of Education, will not tolerate schools that practice the soft bigotry of low expectations.**

—*Secretary Rod Paige*

# *The Journey from Access*

## **Schools Respond to Crisis**

As Hurricane Charley approached landfall on Saturday August 14, 2004, the Charleston County School District in South Carolina was prepared to respond to the catastrophe thanks to an emergency and crisis-planning grant from the Department. The district's campus safety coordinator, stationed at a command post established by the city of Charleston, watched NOAA satellites and monitored the situation until she got clearance from transportation/highway patrol. She then radioed the district's logistics team to examine the schools as the storm left the geographic area. Hours after Charley passed, all 79 schools had been individually inspected and repaired. Because of this assessment and response effort, all schools were open on Monday.

## **Students With Disabilities Meet the Challenge**

Expectations for students with disabilities have increased over the last 15 years and so has progress. Today's students

- First receive services at the average age of 7.4, almost one year earlier than 15 years ago.
- Receive services in greater numbers with about three-quarters of eligible students receiving at least one service compared to a little more than half 15 years ago.
- Are more likely to be educated at the typical grade level for their ages; 53 percent of high school students are educated at the typical grade level compared to 32 percent 15 years ago.
- Are more likely to be served in regular classroom; 28 percent are served in regular classrooms 100 percent of the time.
- Are more likely to earn a high school diploma; currently almost half of students achieve this distinction.

**Sources.** Wagner, M., Cameto, R., and Newman, L. (2003). *Youth with disabilities: A changing population*. Menlo Park, CA: SRI International. Department of Education, Annual Office of Special Education Programs state reported data.

### Beating the Odds IV

Students in schools in large cities often face the greatest odds and need the most help to reach academic excellence. Thus, the most recent Council of Great City Schools' report, *Beating the Odds IV*, was met with applause. Schools in large cities are meeting the challenge and made important gains in reading and math scores on 2003 state assessments. Fresh evidence also exists that gaps may be narrowing between cities and states, between African Americans and whites, and between Hispanics and whites. Findings show that

- 84.6 percent of all grades included in the Great City Schools report showed gains in math scores.
- 72.1 percent showed gains in reading scores.
- 73.1 percent of fourth grades tested narrowed the achievement gap between whites and African American students.
- 60.0 percent of fourth grades tested narrowed the gap between whites and Hispanics.

Districts in the Council of Great City Schools enroll 15 percent of the nation's public school students and 30 percent of the nation's African American, Hispanic, limited English proficient, and poor students.

Source. [http://www.cgcs.org/reports/beat\\_the\\_oddsIV.html](http://www.cgcs.org/reports/beat_the_oddsIV.html).

### Taking What Works into the Classroom

Transforming education into an evidence-based field means moving research findings into classroom practice. Progress was made this year when the Department's What Works Clearinghouse (WWC) released a series of study reports reviewing the evidence of effectiveness of Peer-Assisted Learning. In evaluating the quality of research on students working in pairs or small groups, the clearinghouse found that the first set of peer-assisted learning studies shows positive effects for some peer-assisted learning strategies, but no effects for others. With two-thirds of teachers engaging students in some type of group work on a weekly basis, synthesized information on Peer-Assisted Learning studies could not be more timely, relevant and useful. The clearinghouse focuses on studies that measure elementary academic outcomes in reading, math, and science and that can be used to inform instructional practice and teacher professional development.

Sources. <http://www.w-w-c.org> and <http://www.ed.gov/news/pressreleases/2004/07/07012004.html>.

# to Excellence

### Financial Aid Management Attains Best-Ever Performance in Key Indicators

"Low interest rates and strong program management are some of the factors that have resulted in an all-time low in student loan default rates—5.2 percent," Secretary Rod Paige said on September 14 as the Department released the national cohort default rates for FY 2002, the latest year for which data are available.

A number of factors have contributed to the lower rate. Schools and partners in the student loan industry have made debt repayment a priority, and interest rates are at historic lows. In July, student loan interest rates dropped to 3.37 percent—the lowest in 35 years—saving student loan borrowers millions of dollars and making repayment more affordable.

The Department's Office of Federal Student Aid (FSA), the federal government's first Performance-Based Organization, directs efforts to improve service to students and parents and to strengthen overall management of student aid programs. The historic lows in default rates occurred largely through FSA's activities in

- Working with student aid partners to identify borrowers who may need repayment assistance and to discuss consolidation and other options before the borrower goes into default.
- Increasing the efficiency of Direct Loan consolidations, which has reduced federal costs from \$111 per consolidation in FY 2001 to \$66 per consolidation in FY 2004.
- Increasing total annual collections on defaulted loans that the Department holds from \$691 million in FY 1998 to \$1.8 billion in FY 2004.

*I fervently believe that every child can learn.*

—Secretary Rod Paige

## Our Mission

“Mighty oaks from tiny acorns grow,” and the seal of the Department of Education reflects this belief. We at the Department are committed to the millions of children, youth, and adults who depend on education to fulfill their goals. Achieving these goals is hard work. Becoming a police officer, a teacher, an economist, a nurse—indeed, any profession requiring years of disciplined study—means more than a student wanting to be someone special when he or she grows up. It means a challenging curriculum taught by dedicated instructors. It means encouragement and assistance when subjects become difficult. It means having money available to pay for advanced studies.

Education is the bedrock of individual aspiration and achievement; it is also the bedrock of our economy and our nation’s strength. We rely on education to train our first responders, our health care professionals, our scientists and engineers—all our citizens.

Our democracy depends on an educated electorate and skilled workers. We at the Department of Education play an important supporting role by helping America’s schools to strive for greater success.

## Our Customers: Students, Parents, Schools, and Postsecondary Institutions

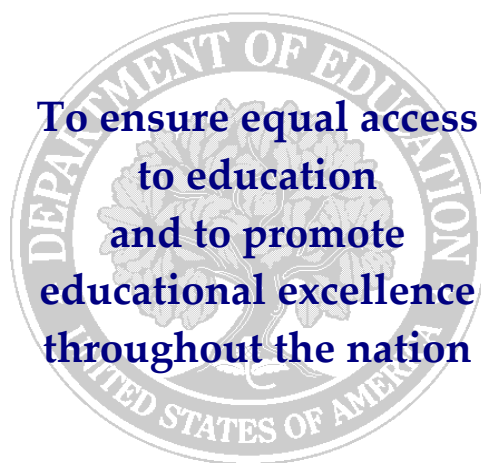
When the No Child Left Behind Act took effect on January 8, 2002, the federal government intensified its commitment to more than 50 million students of America’s elementary and secondary schools. The Department of Education has invested significant resources to further the academic improvement of America’s children between preschool and the 12th grade. In fiscal year (FY) 2004, we channeled \$34

billion in support of more than 92,000 public schools across the nation.

American student achievement at the elementary and secondary level has, with few exceptions, shown little improvement since 1970 despite federal assistance that has supplemented increasing state and local education revenues. A single year—or even three years—of No Child Left Behind’s commitment to standards and accountability will not reverse a generation’s lack of academic progress.

But there are signs of improvement throughout American schools as educators seek to realize each student’s potential to meet high academic standards. A recent three-year trend analysis of student achievement in the 23 states with comparable reading scores and the 24 states with comparable math scores found reading achievement up in 65 percent of those states (15) and math achievement up in 96 percent

(23). Reading scores declined in 5 states (22 percent); math scores declined in 1 (4 percent). More results from this study<sup>1</sup> are shown in the following table.



Results for States That Had at Least Three Years’ Data Disaggregated by Race, Ethnicity, and Family Income	
In Reading	In Mathematics
The African American-white gap narrowed in 16 states and grew wider in 3.	The African American-white gap narrowed in 17 states, grew wider in 2, and remained the same in 1.
The Latino-white gap narrowed in 14 states, grew wider in 3, and remained the same in 2.	The Latino-white gap narrowed in 16 states, grew wider in 3, and remained the same in 1.
The Native American-white gap narrowed in 13 states, grew wider in 2, and remained the same in 2.	The Native American-white gap narrowed in 14 states, grew wider in 2, and remained the same in 2.
The gap between poor and non-poor students narrowed in 9 states and grew wider in 1.*	The gap between poor and non-poor students narrowed in all 10 states examined.*

\*Only 10 states provided data for both poor and non-poor students.

<sup>1</sup> Education Trust, *Measured Progress: Achievement Rises and Gaps Narrow, But Too Slowly*, October 2004.

Scores on the most recent National Assessment of Educational Progress in school year (SY) 2002–03 showed significant increases nationally in mathematics achievement in the fourth and eighth grades that were replicated among African Americans and Hispanics (both of whom reduced gaps with white students), and economically disadvantaged students (who reduced gaps with those from higher-income families). Also, preliminary student performance data and school accountability indicators on statewide academic assessments brought encouraging news during SY 2003–04. Compared to a year ago, the percentage of schools making adequate yearly progress toward student proficiency has increased significantly in many states. Increases in the number of schools meeting state adequate yearly progress targets are partly the result of increased flexibility allowed to states in defining adequate yearly progress and partly the result of increases in the number of students from all subgroups meeting state proficiency standards on state assessments.

Although federal funds constitute less than 10 percent of all elementary and secondary school funding, these funds are being directed toward classroom activities that help all students learn important fundamentals:

- Funding increases for Title I grants to high-poverty schools and Reading First grants for increasing the focus on beginning readers helped disadvantaged children to concentrate on classroom essentials and improve literacy skills, from which all other knowledge springs.
- Similar targeted funding increases for the Individuals with Disabilities Education Act extended comparable opportunities to students overcoming serious obstacles to living, working, and learning.
- Federal assistance for teacher professional development helped states push toward the goal of having highly qualified teachers in core subjects at every public elementary and secondary school by 2006.

Through these concentrated investments, and guided by the principles of accountability and research-based

instruction, the Department's efforts help to ensure a quality education for all American children.

We also are committed to continually enriching America's renowned postsecondary education systems and to lowering barriers to access for those facing economic obstacles. As with the earlier instructional years, the Department of Education supplements existing higher education spending with concentrated funding that improves institutional quality and opens the postsecondary door to students from disadvantaged backgrounds. We also play a primary role in financing the education of millions of students each year by making available student loans at lower-than-market interest rates and by providing increased funds for need-based Pell grants. Recent data on graduation rates from postsecondary degree-granting institutions are showing promising results for students from traditionally underrepresented subgroups, as African American and Hispanic students have reduced the graduation gap with white students since 2000. Although many factors contribute to this excellent news, the provision of need-based aid by the Department may play a significant role.

At a time of constrained federal discretionary spending, achieving the goals of academic excellence and expanded access to quality education requires that every dollar be spent wisely. As an agency that supplements far larger sums of state and local money, the Department of Education faces a further challenge of targeting funds toward their best use in support of ongoing local academic improvement efforts. To serve our customers and America's future, we strive to meet this challenge every day.

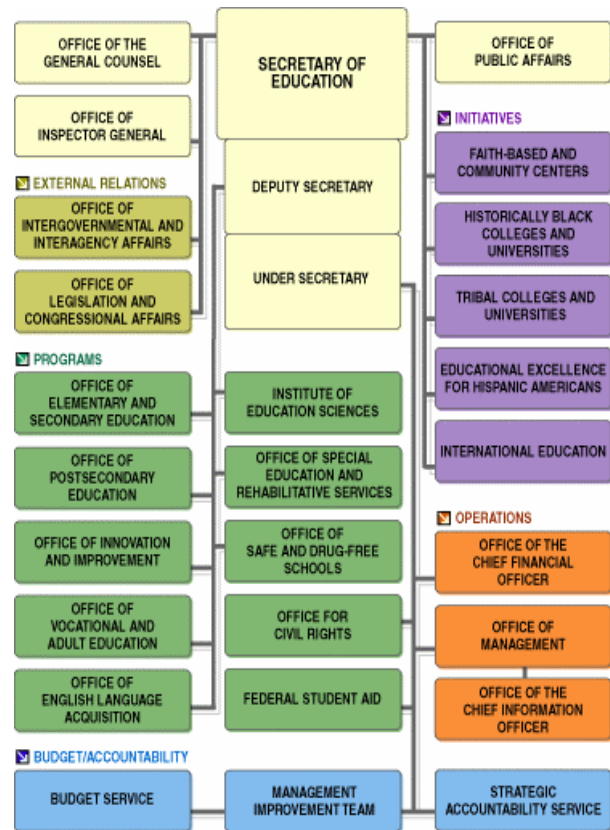
## Organization and History

With the smallest workforce of the 15 cabinet-level departments (4,400 employees) managing the third-highest annual appropriation of discretionary funds, we at the Department of Education make a dollar go a long way. In addition to our appropriations, which are largely used to provide discretionary and formula grants to educational entities throughout the nation, our student loan portfolio is exceeded in total loan volume, education-related or otherwise, by only two American banks.

The Department organization chart is aligned with our 2002–2007 Strategic Plan, and our functions are neatly divided between program policy and internal management concerns. The Office of the Deputy Secretary oversees the Department's principal offices that administer the policies, regulations, and guidance regarding the numerous federal education laws. The staff of these offices assist states, school districts, colleges, students, parents, and the general public in increasing the awareness and availability of optimal educational opportunities throughout the United States. The Office of the Under Secretary directs the internal management of the Department, ensuring that funds are responsibly accounted for and that program performance is measured and improved effectively.

Many of our major activities spring from laws first enacted before the Department was created in 1980. The Elementary and Secondary Education Act, the Higher Education Act, the Individuals with Disabilities Education Act, and the Pell Grant Program emerged between 1965 and 1975, giving the federal government a significant role in education policy, especially in comparison to its original function of keeping education statistics in a smaller Office of Education 137 years ago.

Today, the federal role in education is a subject of intense debate, and some Americans seek a smaller federal role in education matters. The Department is duly attentive to this concern. We do not supersede the authority of states and school districts, which spend over \$450 billion annually on elementary and secondary education to operate schools, employ teachers and administrators, and establish challenging content and achievement standards. Our role is to support state and local efforts with resources that target students in need of economic and academic assistance, with sponsored research that provides teachers with effective instructional strategies, and with leadership that encourages state and local leaders to improve education opportunities for all. We do more with less; our staffing level is more than 40 percent below the level at the Department's creation, although program funding has



increased in inflation-adjusted terms by 96 percent. We also use our resources wisely, with approximately two percent of Department appropriations funding administrative overhead. In this manner, the task of making sure that no child is left behind benefits from a targeted and coordinated federal presence.

### Civil Rights Enforcement

In 2004, President Bush delivered remarks honoring the anniversaries of two watershed events in America's longstanding efforts to bring about equal educational opportunity. In a speech commemorating the 50th anniversary of *Brown v. Board of Education*, the landmark Supreme Court decision that declared separate but equal schools to be unconstitutional, the President stated, "...while our schools are no longer segregated by law, they are still not equal in opportunity and excellence."<sup>2</sup> On the 40th anniversary of the passage of the Civil Rights Act of 1964, the landmark statute that

<sup>2</sup> President George W. Bush, May 17, 2004, at the grand opening of the *Brown v. Board of Education* National Historic Site.

prohibited racial restrictions in the public arena, the President observed, “the evil of bigotry is not finally defeated. Yet the laws of this nation...are on the side of equality.”<sup>3</sup>

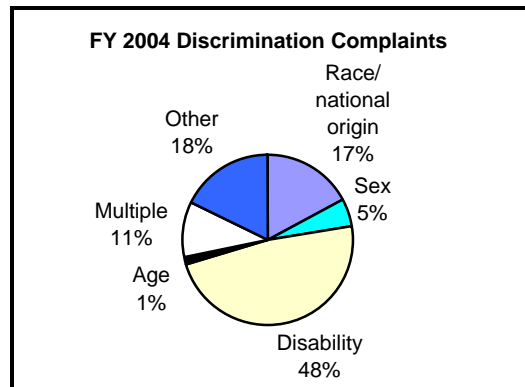
The Department is responsible for enforcing five federal civil rights laws prohibiting discrimination by recipients of federal financial assistance on the basis of race, color, national origin (Title VI of the Civil Rights Act of 1964), sex (Title IX of the Education Amendments of 1972), disability (Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans with Disabilities Act of 1990), and age (Age Discrimination Act of 1975). In addition, we enforce the Boy Scouts of America Equal Access Act, prohibiting discrimination against any group officially affiliated with the Boy Scouts of America or any youth group listed in Title 36 of the United States Code as a patriotic society. These laws protect more than 54 million students<sup>4</sup> attending elementary and secondary schools and more than 16 million students<sup>5</sup> attending colleges and universities. The Department's Office for Civil Rights (OCR) is a law enforcement agency established to support these civil rights statutes.

In FY 2004, the Department received and resolved nearly 5,000 complaints of discrimination, thereby positively affecting the lives of the nation's students. For example, in FY 2004 the Department received a complaint alleging that the principal of a junior high school was placing black and white students in segregated classrooms. We initiated an investigation and determined that classes were segregated by race. During the investigative process, we learned that the new district superintendent had also conducted an investigation and determined that no educational justification existed for the segregated classrooms. The district entered into a voluntary agreement with the Department to develop and implement a race-neutral method for assigning students to classrooms.

<sup>3</sup> President George W. Bush, July 1, 2004, at a White House ceremony commemorating the 40th anniversary of the Civil Rights Act of 1964.

<sup>4</sup> U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2013* (NCES 2004-013), table 1, p. 45. Available at <http://nces.ed.gov/pubs2004/2004013b.pdf>.

<sup>5</sup> Ibid, table 10, p. 57.



Besides investigating complaints, the Department initiated more than 40 compliance reviews on issues including the misidentification of minorities in special education, the misidentification of English language learners in special education, and access for physically disabled students to postsecondary institutions. We also continued 26 compliance reviews of state departments of education to ensure that Title IX coordinators were designated and trained and that Title IX nondiscrimination policy and other information were published in accordance with regulations.

In addition to conducting complaint investigations and compliance reviews, we continued our nationwide technical assistance initiative to help students with disabilities make the transition from high school to college, giving presentations on the subject at conferences and hosting interactive group discussions for colleges, parents, students, and high school guidance counselors. In response to Executive Order 13166, which mandates improved access to federal programs and activities for persons with limited English proficiency, the Department contracted for telephonic language assistance services so that those customers can readily communicate with OCR staff. We also translated several pamphlets, including our most requested publication, *How to File a Discrimination Complaint with the Office for Civil Rights*, into Hindi, Korean, Hmong, Arabic, Vietnamese, Farsi, Chinese, Punjabi, and Urdu. These publications will soon enrich our electronic civil rights reading room, which already contains Spanish-language civil rights publications, including a complaint form written in Spanish.<sup>6</sup>

<sup>6</sup> Available at <http://www.ed.gov/about/offices/list/ocr/docs/list-sp.html>.



## PERFORMANCE HIGHLIGHTS

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The Department's *2002–2007 Strategic Plan*<sup>7</sup> built upon the foundation of the No Child Left Behind Act to chart a course for fundamental improvement in American education and accountability in managing our own affairs. The six goals of our strategic plan encapsulate the major tasks that we must accomplish to fulfill our mission. Every day, we strive to accomplish the following:

- Create a culture of achievement.
- Improve student achievement.
- Develop safe schools and strong character.
- Transform education into an evidence-based field.
- Enhance the quality of and access to postsecondary and adult education.
- Establish management excellence.

### Goal Overviews

**Goal 1. Create a Culture of Achievement.** When the Department embarked on a five-year plan for strengthening schools and accelerating the pace of student achievement, we identified *creating a culture of achievement* as the first strategic goal. The characteristics we have defined for this culture are *accountability for results* measured at the Department level by program performance measures and at the state level by state accountability plans and student assessments; *flexibility and local control* supplied by the No Child Left Behind provisions that allow states to target federal funds where they are most needed; *expanded parental options* offered by charter schools, school transfers, and supplemental services; and *doing what works* by knowing the results of scientific research in education interventions and using those interventions in classrooms.

Key results for Goal 1 include the following:

- Two years ahead of schedule, 23 percent<sup>8</sup> of states had accountability systems in place that included standards-based assessments in reading/language arts and mathematics in each of grades three through eight and once at the high school level.
- The number of state-approved providers offering supplemental educational services increased from 1,451 reported by 44 states and jurisdictions in October 2003 to 2,535 by the end of September 2004, with 51 of 52 states and jurisdictions reporting.

**Goal 2. Improve Student Achievement.** The No Child Left Behind Act of 2001 introduced the essential road map for elementary and secondary education reform: funds to states for establishing research-based kindergarten through third-grade reading programs, increased emphasis on mathematics and science instruction, better performance by high school students, and a highly qualified teacher in every classroom. To reach the goal of improved student achievement, the Department worked with our partners: states, districts, and local schools. We helped states interpret and meet the requirements of the law by issuing regulations and guidance. We prepared grant application packages for use by applicants, funded program activities, and required accountability for program performance. The Department's practical work is a catalyst for improving state and district policy-making and for increasing academic achievement for all students.

Key results for Goal 2 include the following:

- All states that assessed reading in third grade met their targets for achievement of students in the aggregate.
- High school students, including students in the aggregate, African American students, and Hispanic students, participated in advanced placement tests at a higher percentage rate than they did in the previous year.

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<sup>7</sup> Available at <http://www.ed.gov/about/reports/strat/plan2002-07/index.html>.

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<sup>8</sup> This is a preliminary estimate; the Department has not yet reviewed these state systems to determine whether they meet No Child Left Behind requirements.

**Goal 3. Develop Safe Schools and Strong Character.**

A safe and orderly learning environment is essential to students' social and academic development. In underscoring the Department's commitment to safe and drug-free schools, Secretary Paige stated that "we must ensure that all students learn about citizenship and character in schools that are safe and free of alcohol and drugs if we are to meet the lofty goals of the No Child Left Behind Act." As today's students develop into tomorrow's citizens, their academic accomplishments, character development, and civic awareness will have an immense impact on the nation's economic and social prosperity.

To develop and maintain safe schools, the Department works with grantees to implement comprehensive programs for reducing and preventing substance abuse, improving crisis planning and response, and providing character education. In FY 2004, the Department worked with state and local educational, law enforcement, and public health agencies to reduce and prevent violence and substance abuse. To support students' social and personal development, our character and citizenship education programs implemented strategies to imbue students with democratic societal values while creating a solid foundation for a healthy school climate.

A key result for Goal 3 is the following:

- Youth victimization and criminal involvement rates for 2003, the most recent data available, show a reduction from 2002 rates.

**Goal 4. Transform Education into an Evidence-Based Field.** Transforming education into an evidence-based field requires high standards for evaluating education research, which lead to a better understanding of what works in education. In FY 2004, the Department demonstrated how we can use rigorous studies to inform the work of decision-makers at all levels of education. Education improvement goes hand in hand with valid and reliable evidence of effectiveness. The Department's Institute of Education Sciences has furthered its research oversight role to provide educators and decision-makers with the tools necessary to obtain and understand research in the field.

This year, the Department strengthened the quality of the research and projects that we fund and conduct. The National Center for Education Statistics completed reports of national significance, while constantly improving its reporting and methodological techniques. The National Institute on Disability and Rehabilitation Research made contributions to those with disabilities through its support of new technology.

Key results for Goal 4 include the following:

- Department education research projects met high methodological standards in FY 2004. Approximately 90 percent of projects that addressed causal questions used rigorous research methods employing randomized experimental design.
- The Department's What Works Clearinghouse released its first study reports; they addressed peer-assisted learning and middle school mathematics curricula.

**Goal 5. Enhance the Quality of and Access to Postsecondary and Adult Education.** Just as elementary and secondary education are enhanced via No Child Left Behind, postsecondary and adult education benefit from the Department's efforts to improve educational excellence throughout America. Pell Grants and federal student loans help millions of Americans pursue postsecondary degrees and certificates each year. Approximately \$1 billion in federal TRIO and GEAR UP grant program funds help underprivileged middle and high school students prepare for postsecondary education. Funding is targeted to higher education institutions with historic ties to underserved minority populations so that they can better provide opportunities for higher education. Vocational rehabilitation agencies assist individuals with disabilities to improve employment skills and enhance economic independence. Adult literacy efforts bring hope to many Americans for a more prosperous future. International programs offer individuals a chance to interact with and learn from diverse cultures all over the world.

Department programs enable many Americans to access postsecondary and adult education. Student loan interest

rates are the lowest in 35 years, providing incentives for postsecondary enrollment and less burdensome repayment. Wise management of our student loan portfolio provides needed funds quickly and helps achieve historically low cohort default rates. Enhancing the excellence of postsecondary and adult education and enabling affordable access to as many people as possible will help America maintain its competitive advantage in the global economy. In FY 2004, the Department made significant progress toward attaining these goals, as well as identifying areas in need of further improvement.

Key results for Goal 5 include the following:

- Graduation rates from four-year institutions have increased since 2000 in the aggregate as well as for white, African American, and Hispanic students. Gaps in graduation rates between whites and African Americans and between whites and Hispanics have narrowed slightly during that time. Graduation rates from two-year degree-granting institutions have decreased since 2000, but gaps between whites and African Americans and between whites and Hispanics have narrowed noticeably.
- Ninety-four percent of persons that achieve an employment outcome after being served by state vocational rehabilitation agencies obtain competitive employment.

**Goal 6. Establish Management Excellence.** The most important asset of a government agency is the public's respect and confidence. To earn them, an organization must establish a culture of management excellence. The first step to achieving management excellence is to articulate clearly the results to be achieved. The Department has established the management results it seeks in Goal 6 of the *Strategic Plan* and in the *Blueprint for Management Excellence*. The *Blueprint for Management Excellence* is a living plan consisting of a series of actions to focus all of the Department's employees on the most pressing issues affecting the management of the Department. Both Goal 6 of the *Strategic Plan* and the *Blueprint for Management Excellence* directly align with the *President's Management Agenda*.

Goal 6 of the *Strategic Plan*, the *Blueprint for Management Excellence*, and the *President's Management Agenda* clearly articulate goals for ensuring the Department has the right people, in the right place, at the right time, doing the right work. The plans set up a framework for how information technology investments can improve the work processes of the Department and the services for our customers and partners. The plans also focus the Department's efforts on ensuring that appropriate internal controls and financial systems are in place to provide managers with accurate and timely financial and performance information for managing day-to-day operations. The accurate and timely financial and performance information allows the Department to tie performance expectations and funding requirements effectively.

Key results for Goal 6 include the following:

- The Department dramatically improved internal controls and data integrity, as reflected in three sequential clean audit opinions and the ability to use financial data on a day-to-day basis to help inform management and programmatic decisions Department-wide.
- The Department improved the way we exchange data and interact with customers by enhancing the use, management, and security of information technology investments.
- The Department identified and refined performance measures for our programs, using data and analysis to inform funding recommendations, and focusing on the results to be expected from the programs.

## Strategic Planning and Reporting

These six goals of the *Strategic Plan 2002–2007*<sup>9</sup> establish appropriate priorities for the Department of Education in enabling greater academic achievement in America's classrooms. The preceding overviews demonstrate a coordinated set of objectives and actions

<sup>9</sup> Available at <http://www.ed.gov/about/reports/strat/plan2002-07/index.html>.

flowing from the goals that shape our work into a cohesive whole.

The Government Performance and Results Act requires us to establish meaningful performance standards for activities for the agency as a whole and for the 158 statutorily authorized programs that we administer. Whether a program's budget is \$12 billion (such as Title I) or \$12 million (such as Client Assistance State Grants), we have established performance measures and targets for most of our programs so that we can demonstrate accountability to the public.

Our *FY 2004 Annual Plan*<sup>10</sup> was the fundamental planning document for the year just passed. It identified specific strategies and action steps to carry out our goals and objectives, made necessary adjustments to agencywide performance measures and targets originally established in our strategic plan, and established and refined program-level measures and targets in an online supplement.

At the end of FY 2004, this *Performance and Accountability Report*<sup>11</sup> shows the extent to which these actions translated into meaningful results and successful investment of public funds. We also include in this document the lessons we learned that will refine our policy and management activities during FY 2005 to enable us to achieve greater success.

## Integration of Performance with Budget and Finance

Focusing on results and accountability with performance monitoring and financial reporting is a sound practice for increasing the productivity of cash. One critical gauge of how well taxpayer dollars are being used is for an agency to link the performance of its programs to subsequent budget determinations. Not long ago, few federal programs could discern such a linkage, but the absence of performance metrics at the program level is now

clearly the exception rather than the rule. Furthermore, if the conventional wisdom that one gets what one measures is proven true, the increasing use of rigorous performance measurement will help to bring about the positive results we seek.

The Department constantly seeks to strengthen the linkage between financial investments and program quality. We do this not only through the development of program measures, but also through various reporting mechanisms and effective budget management. This report is one example of how we provide comprehensive, accurate information to the American public in a timely manner. The following are some other major activities related to budget and performance integration.

**Program Assessment Rating Tool.** The President's Office of Management and Budget (OMB) has systematically assessed the quality of government programs over the past three years. Through the Program Assessment Rating Tool (PART), OMB works with federal agencies to judge the effectiveness of programs with regard to their stated purpose, strategic planning, internal management, and results and accountability. Although primarily a diagnostic tool for programs, PART reviews provide critical information that can be used to establish funding priorities for the subsequent budget cycle.

By September 2004, 60 Department programs had been evaluated by OMB and the Department in this manner. Programs receiving ratings lower than *effective* are required to implement a plan of action to upgrade their demonstrated level of quality. By 2006, most Department programs will have undergone a PART evaluation.

This *Performance and Accountability Report* includes detailed information on the first 18 programs evaluated through PART in preparation for the Department's FY 2004 budget submission. The Performance Details section will show how these programs have implemented changes to improve their effectiveness during FY 2004.

**Crosswalk of Appropriations and Net Cost to Strategic Plan Goals.** This *Performance and Accountability Report* strengthens the alignment of

<sup>10</sup> Available at <http://www.ed.gov/about/reports/annual/2004plan/index.html>.

<sup>11</sup> Available at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

financial data and performance priorities by again identifying appropriations and net costs for the goals of the *Strategic Plan*. Each Department program is aligned with the same strategic goal as a year ago, enabling both our appropriations and our estimated net costs to clearly reflect the discrete priorities of the *Strategic Plan*.

**Integrating Performance Plan into Budget.** During the past year, the Department incorporated our FY 2005 annual performance plan into our submission of the Department's budget to OMB. For the FY 2006 budget cycle, the budget and annual plan are again being formulated concurrently and are increasingly integrated. Of particular note, many Department-wide performance measures and targets are consolidated with existing program-level measures that accurately reflect departmental objectives for the specified activity.

**Funding Challenges.** The Department's challenges of linking performance results to the budget are complicated by the fact that we accomplish our objectives indirectly, with nearly 98 percent of our funding going out in grants and loans, and further complicated by the schedule of funding for these programs.

In the Department, only a portion of a given fiscal year's appropriations are actually available to state, school, organization, and student recipients during the fiscal year they are appropriated; the remainder become available at or near the end of the appropriation year or in the subsequent year and remain available to recipients for varying lengths of time, as long as 27 months or more. Thus, linking appropriated funds and program results for a particular fiscal year is not only complex, but also different for different programs.

For example, large formula programs, such as Title I and IDEA State Grants, may receive both "forward-funded"

and "advance" appropriations. Forward-funded amounts of FY 2004 funds for these programs were not available for award until July 2004, nine months after the beginning of FY 2004. Advance amounts were not available until October 2004 (at the beginning of FY 2005). Both forward-funded and advance amounts in FY 2004 are intended for use primarily during SY 2004–05, and these funds can be carried over for obligation at the state and local levels through the end of September 2006.

Funds for competitive grant programs are generally available when appropriations are passed by the Congress. However, the processes required for conducting the grant competitions often result in awarding grants near the end of the fiscal year, with funding available to grantees for additional years.

Thus, the results we see during FY 2004, which are to be measured for this report, are not solely the results of actions taken with FY 2004 funds, but rather the combination of funds from FY 2002, FY 2003, and FY 2004. Furthermore, the actual results of education programs are often not apparent until long after the funds are expended. For example, a program to nurture middle school students in ways that will increase the likelihood they go to college has approximately a six-year lag time for measuring initial results.

Although we cannot isolate program results and link them directly to a fiscal year's funding, performance during a single program year serves as a proxy, because most of our programs are ongoing. Therefore, in the spirit of budget and performance integration, this report shows the approximate proportion of both funds appropriated for FY 2004 and funds expended in FY 2004 that support each of the Department's programs and strategic goals.

## FINANCIAL HIGHLIGHTS

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### Overview

Fiscal operations in FY 2004 achieved marked progress as required by the Secretary and the President. We continue to execute our annual plans and our *Blueprint for Management Excellence*, which provide the foundation for our progress toward management excellence.

Goal 6 of the Department's strategic plan commits us to management excellence, and overall financial performance is improving in concert with our increased focus on academic performance. As the No Child Left Behind Act approaches its third anniversary, the Department earned our third consecutive unqualified independent audit opinion. This indicates that the taxpayers and other readers of our financial statements can rely on the information presented and are accurately informed of the status of the Department's financial position and the stewardship of our assets.

Solid management controls ensure that an unqualified audit opinion is sustained and that effective stewardship of assets is maintained. The Department recognizes the need for accountability, and management supports the culture change necessary to derive results from all levels.

In addition to effectively maintaining management controls, many of the processes that previously required herculean efforts are now routine for fiscal managers, a direct result of strategic system investments. The Department derives the maximum benefit from this investment by redeploying resources to create effective financial management tools that enhance and drive improvements. Some of these fiscal management tools include improved reconciliation processes, executive management reports, and other reports necessary to monitor the progress of our programs.

The Department's fiscal management continues to improve. In the first quarter of FY 2004, the Department achieved "green" on the *President's Management Scorecard* for financial management. This achievement is a direct result of continued improvements in effective systems utilization, meeting and exceeding quarterly

reporting deadlines, and developing and using new management reports.

### Departmental Management

The Department continues to use the *Blueprint for Management Excellence* to establish priorities for management improvement; facilitate effective monitoring of Department programs; eliminate financial management deficiencies; and prevent fraud, waste, and abuse of taxpayer dollars. These priorities include the following:

- Improving financial integrity through reporting transparency, monitoring, and effective internal controls.
- Managing information technology to meet internal requirements and customer needs.
- Improving management of human capital.

Improved management reporting enables managers to be accountable and supports the concepts of the Government Performance and Results Act (GPRA) and the principles of the *President's Management Agenda*. Both GPRA and the *President's Management Agenda* require the Department to (1) establish a strategic plan with programmatic goals and objectives, (2) develop appropriate measurement indicators, and (3) measure performance in achieving those goals.

During FY 2004, we improved our management reporting to include monthly fiscal reporting for program managers. Improved reporting capabilities enable the Department to integrate program results with fiscal costs that assist us to measure program results against performance. Our financial reporting capabilities have become routine. This enables us to extend our financial analysis for both program management and fiscal reporting in less time, thereby utilizing Department resources more efficiently and effectively.

### Lines of Business

The Department managed a budget of \$67 billion in FY 2004, of which 59 percent went toward elementary

and secondary programs and grants. Postsecondary grants and loans accounted for 33 percent. The remaining eight percent went toward other programs and grants including research, development, and dissemination, as well as rehabilitation services.

As noted earlier, the Department receives through appropriation approximately two percent of our total budget for administrative expenditures. Therefore, management must be diligent in its allocation and administration of resources. The remaining 98 percent of our appropriations is spent on three primary lines of business— Grants, Guaranteed Loans, and Direct Loans.

**Grants.** A significant part of the Department's budget is used to support ongoing programs that were reauthorized or created by the implementation of the No Child Left Behind Act. This support is provided to state and local governments, schools, individuals, and others that have an interest in educating the American public.

The Department's two largest programs, Title I grants for elementary and secondary education, and Pell grants for postsecondary financial aid, each exceeded \$12 billion in awards made to the public for FY 2004. Special Education Grants to States under the Individuals with Disabilities Education Act (IDEA), our next largest program, awarded more than \$11 billion.

**Guaranteed Loans.** The Federal Family Education Loans Program makes loan capital available to students and their families through more than 3,400 private lenders. Through 36 active state and private nonprofit Guaranty Agencies, the Department administers the federal loan guarantee protecting lenders against losses related to borrower default. The program accounts for about 75 percent of student loan volume. As of the end of September, the total principal balance of outstanding guaranteed loans held by lenders was approximately \$245 billion, with the government's estimated maximum exposure being \$240 billion.

**Direct Loans.** Student Financial Assistance programs assist nearly 9.6 million students and their parents by making higher education more affordable each year. The Federal Direct Student Loan Program provides an alternative method for delivering assistance to students

of our nation. The Student Loan Reform Act of 1993 created this program, which uses Treasury funds to provide loan capital directly to schools. The schools then disburse loan funds to students. The Direct Loan Program accounts for approximately 25 percent of the new student-loan volume. In FY 2004, the Department disbursed approximately \$20 billion in direct loans to eligible borrowers. As of September 30, 2004, the value of the Department's direct loan portfolio is \$93.7 billion.

## Financial Position

The Department's financial statements, which appear on pp. 115–119, received an unqualified audit opinion issued by the independent accounting firm of Ernst & Young LLP for the third consecutive year. Preparing these statements is part of the Department's continuing efforts to achieve financial management excellence and to provide accurate and reliable information that is useful for assessing performance and allocating resources. Department management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

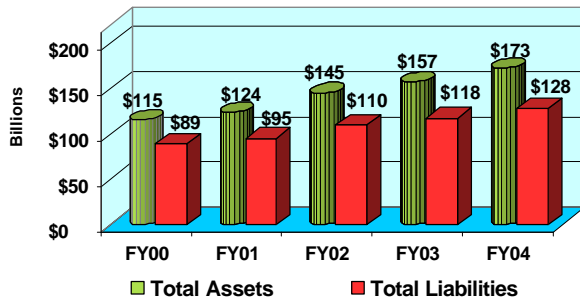
The financial statements presented in this report have been prepared from the accounting records of the Department of Education in conformity with generally accepted accounting principles (GAAP) in the United States. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

**Balance Sheet.** The Balance Sheet presents, as of a specific point in time, the economic value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department.

The Balance Sheet displayed on p. 115 reflects total assets of \$172.6 billion, a 10 percent increase over FY 2003. This increase is attributable to the increased funding related to implementation of the No Child Left Behind Act and the anticipated steady growth of the Student Financial Assistance programs.

The majority of our liabilities, 80 percent, consist of intragovernmental liabilities. The Department's intragovernmental liabilities consist mainly of Treasury debt, which is directly related to the Department's focus on ensuring that funds are available for any student desiring a postsecondary education.

Total Assets vs Total Liabilities

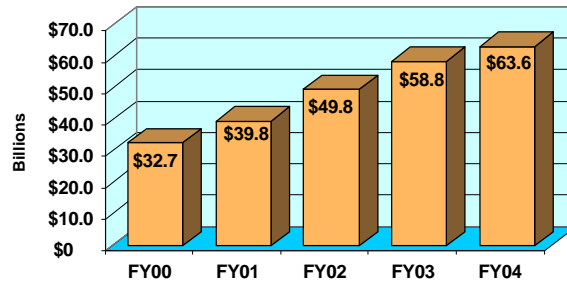


Several factors influenced the change in the Department's Net Position during FY 2004. This includes the timing of the execution of prior year subsidy re-estimates and the overall management of Department capital structure. Net Position increased by 12 percent over FY 2003.

**Statement of Net Cost.** The Statement of Net Cost is designed to present the components of the net cost of the Department. Net cost is the gross cost incurred less any revenues earned from Department activities. The Statement of Net Cost is presented to be consistent with the Department's strategic goals, as directed by the *President's Management Agenda*. The Department experienced an eight percent increase in total net costs during FY 2004.

The Enhancement of Postsecondary and Adult Education (Program A), which tracks with the Department's funding for Strategic Goal 5, experienced a six percent increase in costs over FY 2003. Programs B and C are representative of creating a culture of achievement, safe schools, and the transformation of education, and combined they track with Goals 2 and 3. These programs experienced a 10 percent cost increase in FY 2004.

Net Cost by Fiscal Year



**Statement of Budgetary Resources.** This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the United States Government*.

The statement displayed on p. 118 shows that the Department had \$131.8 billion in budgetary resources, \$17.4 billion of which remained unobligated with \$15.8 billion not available at year-end. The amounts not available at year-end represent funding that is provided in advance for activities in future periods. The Department had \$61.7 billion in Net Outlays for FY 2004.

**Statement of Financing.** This statement demonstrates the relationship between an entity's proprietary and budgetary accounting information. It links the net cost of operations (proprietary) with net obligations (budgetary) by identifying key differences between the two statements. This statement is structured to identify total resources used during the fiscal year, and then makes adjustments based on whether the resource was used to finance the net obligations or net cost.

This statement, displayed on p. 119, identifies \$66.9 billion of resources used to finance activities, \$402 million of resources not part of the net cost of operations, and \$2.9 billion of components of net cost of operations that will not require or generate resources in the current period.



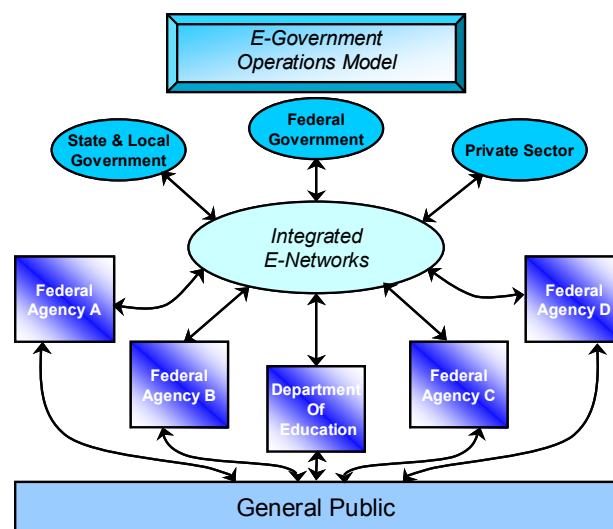
## Future Trends

From a financial management perspective, the Department of Education is unique among federal government agencies. The Department has a high number of appropriations, over 200, which we must manage, consolidate, and for which we must account. We maintain the smallest number of employees while managing the third largest discretionary budget of cabinet-level agencies.

A continuation of the current trends in full-time equivalents (FTEs) will result in a critical reliance on a sound departmental intellectual capital plan. It will become increasingly important for the Department to coordinate strategic technology investments with human capital management.

**Technology Transformation.** Technology improvements will continue to empower organizations in the future by increasing the availability of a critical resource: time. Through these improvements, executive management can spend additional time on policy analysis and decision-making rather than on the processing and compiling of key data. This trend at the Department will continue to accelerate at an increasing rate as many of our investments in systems and e-government continue to mature.

Major Department investments currently include a re-implementation of the existing financial accounting system and full participation in the ongoing e-government initiative. The chart on this page depicts our vision of the e-government operational model that highlights electronic information-sharing capabilities via data networks.



This model will create public value by optimizing government operations and providing effective oversight in a most efficient manner through a unified data network. To ensure success, the strategic technology investment plan will be coordinated with human resource management and planning governmentwide.

**Human Capital Transformation.** A results-oriented enterprise requires that an organization clearly identify and achieve valuable results. The Department of Education's *Results Agenda* clearly articulates the expectations for this organization. As a result, Department personnel have the information available to understand what is expected of them and for what they will be held accountable.

The Under Secretary has articulated the following five human capital expectations:

- Effective and efficient hiring processes.
- Performance standards that clearly articulate expected results.
- Performance evaluations that differentiate among performance levels.
- Pay for performance.
- Customized development and succession plans.

The Department is focusing significant resources on a consistent approach for the development and implementation of a human capital management plan.

The plan integrates human capital management with competitive sourcing and restructuring requirements. As noted in the Technology Transformation section, this plan will be coordinated with other departmental strategic infrastructure investments.

The Department's continued commitment to strategic investments in both systems and human capital will result in a robust, cost-effective environment. This, in turn, provides taxpayers with an improved return on their investment in the Department.

**Economic Transformation.** Two external factors, tuition costs and interest rates, are expected to have significant impact on the Department.

First, increasing tuition costs for postsecondary education should compel a greater number of individuals to seek tuition assistance. This assistance could be in the form either of loans or grants. To the extent that postsecondary institutions can control tuition increases, demand for tuition assistance should slow accordingly.

Second, significant portions of the Department's budget relate to external economic conditions. Prevailing low interest rates will drive a surge in the refinancing and consolidation of student loans. If interest rates remain stable, this trend can be expected to continue, albeit at a decreasing rate.

As transactional volumes vary, in the future, the utilization of technology will stabilize the resulting fluctuations in Department activity. Technology will enable existing Department personnel to more effectively process changing volume levels.

**Regulatory Transformation.** Activities and processes centering on governance, risk management, and compliance are converging. Organizations that want to create positive headlines must excel in all three areas. These long-term management issues require continued focus and sustained management commitment to ensure future success. The Department's future success is highly dependent on our ability to merge and execute all of these activities and processes into a coherent strategic operating model.

Focus on the regulatory environment requires the Department to concentrate on the costs of identifying and controlling compliance risk. Compliance risk includes systemic, non-systemic and residual risk. It is defined as the risk of impairment to the organization's operations model, reputation, and financial condition from failure to fully comply with laws and regulations, internal controls, and taxpayer expectations.

The Department must take a holistic approach to total risk management. The value of adopting such an approach far outweighs the costs of implementation. Senior management must build long-term value by making investments to comply with relevant regulations, embed compliance within the organization, manage the costs associated with compliance, and identify and address regulatory change. Our progressive focus on compliance will ensure that fewer resources are necessary for remediation activity.

## Management Challenges

The major challenges facing the Department include the following.

**Financial Management.** Two challenges in this area include the implementation of the Improper Payments Information Act of 2002, and the re-implementation of the Department's financial accounting system to Oracle version 11i.

With respect to improper payments, the Department has engaged a contractor to design an erroneous payment and risk management system. A second contractor is performing recovery audit services on contracts and purchase orders. These two projects will develop and refine a comprehensive risk assessment and mitigation strategy.

With respect to the Oracle 11i re-implementation, the Department has developed a four-tiered systems approach. Tiers 1 and 2 of the plan have been completed, and the entire plan will be completed by October 2006.

**Student Financial Assistance Programs.** The Department has several challenges related to reducing

the risk of fraud and error in the student aid programs while maintaining appropriate end-user access. To address these challenges, the Department has undertaken a multiphased approach.

The Department has begun work to enhance and improve oversight and program reviews of schools, Guaranty Agencies, lenders, and third-party contractors. The Department has developed and trained staff, related technical assistance guidelines, and formed a workgroup to study data collection issues. In addition, the Department will be enhancing, improving, and implementing policies and procedures related to management controls, supervisory review, documentation, and record retention affecting program review. Planned improvements include corrective action plans related to Guaranty Agency oversight and an improved electronic management system.

The Department has developed strategies to reduce improper payments in the Pell Grant Program. Working jointly with the Treasury Department and the Office of Management and Budget, the Department has submitted a legislative proposal to amend the Internal Revenue Code that would permit income data verification.

**Information Technology.** The challenges that face the Department relating to information technology include investment management, security, critical infrastructure protection, and contingency planning. The Department has made significant strides relating to our information technology challenges. The Department will certify our mission-critical general support systems and major applications by December 31, 2004, with the remaining systems certified by the end of the second quarter of FY 2005. In addition, we have completed a management study on mission-essential infrastructure protection that will be used to test critical infrastructure interdependencies within the Department. The Department has also initiated several modernization efforts to increase business efficiency and improve customer service in e-government systems.

**Program Performance and Accountability.** The Department has several challenges involving data reliability, program and contract monitoring, and

program accountability and compliance. As indicated in this report, the Department addressed this issue in the strategic plan, and the Secretary has made accountability a key priority. As an example, the Department established an Insular Affairs Committee to address accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas.

**Human Capital.** The Department encounters the same challenge that faces the rest of the federal government: a long-standing lack of a consistent strategic approach to managing and maintaining an appropriately skilled workforce. To address this challenge, the Department has undertaken a comprehensive human capital management initiative. This initiative includes effective planning for future needs, recruitment, hiring, and the development of the current workforce. The plan includes the five human capital expectations stated in the Human Capital Transformation section on pp. 17–18.

We have implemented a new performance appraisal system and identified and addressed training gaps and mission-critical leadership positions. We are aware that we still have much to do and are diligently working to improve our overall situation.

## **Improper Payments Information Act of 2002: Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005–FY 2007**

The Department has undertaken the following initiatives relating to the implementation of the Improper Payments Information Act of 2002.

**Student Financial Assistance Programs.** The Department has completed the following required steps related to these programs:

- Identified those programs and activities that are susceptible to significant erroneous payments.
- Implemented a plan to reduce improper payments.

- Reported estimates of the annual amount of improper payments in programs and activities that demonstrate continual progress by the Department.

The Department, Office of Management and Budget, and the Treasury Department have developed and submitted to the Congress proposed legislation to authorize the matching of Title IV Student Financial Assistance applicant data. Passage of this legislation will enable the Department to further reduce the risk of improper payments. In FY 2005, the Department will be assessing ways to improve the measure of the risks associated with all Title IV programs.

**Title I Programs.** The Department performed a risk assessment of the Title I Program during FY 2004. This assessment documented that the risk of improper payments under the current statutory requirements is minimal. However, one area that the Department is closely monitoring, in conjunction with the U.S. Department of Agriculture (USDA), is the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under USDA's National School Lunch Program, for this purpose. In many districts, these data are the only indicator of poverty available at the individual school level.

USDA has raised concerns about the reliability of these data, and it is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

**Remaining Grant Programs.** The Department continues to refine our methods for assessing the potential risk of improper payments in our remaining grant programs. The Department performed a preliminary risk assessment of these programs during FY 2004 using data extracted from our Grant Administration and Payments System (GAPS) and the last two semiannual reports by the Office of Inspector

General (periods ending September 30, 2003, and March 31, 2004). This initial assessment indicates that the potential for improper payments in these programs is minimal.

**Verification Plan.** The Department realizes that the implementation of this initial risk assessment process draws on a limited data set, and we have put in place a vehicle to complete a more detailed risk assessment of these grant programs. We have established a memorandum of understanding with the Department of Energy's Oak Ridge National Laboratory to utilize data-mining techniques on information available from multiple sources including the Federal Audit Clearinghouse's Single Audit Database, the Department's GAPS database, and possibly other sources of grant data. The relevant data from these sources will be run through an algorithm to assign a relative level of risk to the Department's grant programs and recipients. This effort is to be completed by January 2005. Any programs shown to have an unacceptable level of risk will be targeted for additional sampling and verification efforts.

**Recovery Auditing Progress.** To effectively address the risk of improper administrative payments, the Department executed a formal agreement for recovery auditing work on contract payments. All vendor payment transactions made from FY 1998 through FY 2003 were reviewed. Potential recoveries are minimal. FY 2004 payments will be reviewed during FY 2005. Our purchase and travel card programs remain subject to monthly data-mining to identify potential misuse or abuse.

The Department plans to develop a manager's internal control training program that will focus on controls to eliminate improper payments. This training will focus on the utilization of the risk assessment criteria to properly assess the risk of improper payments in the Department's programs.

The Department will record and maintain corrective action plans as required. We will configure corrective action plans based on the results of the initiatives

outlined above. These plans will include due dates, process owners, and task completion dates.

In summary, the Department is accelerating efforts to comply with the Improper Payments Information Act of 2002. We are focused on identifying and managing the

risks of improper payments and mitigating risk in this area with adequate control activities. The implementation of our current and anticipated actions ensures that we will maintain an effective program for reducing improper payments throughout the Department.

## MANAGEMENT CONTROLS

The Department of Education is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. The Department has made significant progress and continues to work toward achieving a culture of accountability. Management, administrative, and financial system controls have been developed to ensure the following:

- All programs and operations achieve their intended results efficiently and effectively.
- Resources are used in accordance with the Department's mission.
- All programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

We believe that the rapid implementation of audit recommendations is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals.

### Federal Managers' Financial Integrity Act

During FY 2004, in accordance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and using the guidelines of the Department and Office of Management and Budget, we reviewed our management control system. The objectives of our management control system are to provide reasonable assurance that the following occur:

- Our obligations and costs are in compliance with applicable laws.
- Our assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office and the Office of Inspector General (OIG), specifically requested studies, or observations of daily operations. These reviews ensure that our systems and controls comply with the standards established by FMFIA. Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual

assurance statements from assistant secretaries serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statements are based upon each principal office's evaluation of progress made in correcting any previously reported problems; new problems identified by the OIG, the Government Accountability Office, and

#### Statement on Management and Financial Controls

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that the Department of Education accounting systems and management controls, taken as a whole, provide reasonable assurance that the objectives of FMFIA have been achieved.

—Rod Paige  
Secretary of Education

other management reports; and the management environment within each principal office. Department organizations that have material weaknesses identified are required to submit plans for correcting those weaknesses. The plans, combined with the individual assurance statements, provide the framework for continually monitoring and improving the Department's management controls.

**FMFIA Section 2, Management Control.** All of the 80 internal control material weaknesses identified since the inception of FMFIA, have been corrected and closed.

Last year, the Department removed information technology (IT) security as an FMFIA material weakness.

**FMFIA Section 4, Financial Management Systems.**

All of the 95 financial management systems nonconformances that have been identified prior to FY 2003 have been corrected and closed. The Department did not declare any new material nonconformances under FMFIA during FY 2003 or during FY 2004.

**Federal Financial Management Improvement Act.**

The Secretary has determined that the Department is in compliance with the Federal Financial Management Improvement Act (FFMIA).

Under FFMIA, the Department has continued to take significant actions on IT security. The 2004 Federal Information Security Management Act (FISMA) Report issued by the OIG on October 6, 2004, indicates that additional efforts are necessary to correct remaining reportable conditions.

The Department has ensured that all major applications and general support systems have developed security system plans, configuration management plans, and contingency/disaster recovery plans in accordance with applicable guidance from the National Institute of Standards and Technology (NIST), and that those plans are consistent across the enterprise. The Department has also taken corrective actions and closed more than 600 weaknesses previously identified and has created a Web-based portal that provides greater access to performance data related to IT corrective actions. We

have also completed a Critical Infrastructure Protection Plan interdependence study that assessed the viability of our continuity of operations plans. In addition, several of our principal offices have implemented effective procedures for periodic test and evaluation of the network level security controls that protect the Department's major applications and general support systems.

The Department is currently in the process of revalidating the certification and accreditation (C&A) of our mission-critical systems. This action is being taken because the 2004 FISMA report issued by the OIG states that there was a significant deficiency in the C&A process. While the Department generally concurs with the OIG findings, it does not concur with the OIG conclusion that significant weaknesses in the processes supporting the system certification and accreditations constitute a significant deficiency in the Department's C&A program.

There are marked differences in the evaluation methods used by the Department and the OIG to determine the adequacy of system certification and accreditations. Those differences have resulted in the inability of both parties to reach consensus on C&A report conclusions. Department management also believes that the guidance used by the OIG in conducting the FISMA evaluation may overly emphasize system scan "hits" while underemphasizing the more crucial assessment of context risk and countermeasures. The Department expects to complete the revalidation of mission-critical systems by December 31, 2004, and the remaining systems by March 31, 2005.

## EDUCATION'S SCORECARD ON THE PRESIDENT'S MANAGEMENT AGENDA

Under the *President's Management Agenda*, the Executive Branch Management Scorecard tracks how well the departments and major agencies are executing the five governmentwide initiatives and other program-specific initiatives. The scorecard employs a simple grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory.

**Status.** Scores for “status” are based on standards for success published in the President’s FY 2003 budget. The standards for success were defined by the President’s Management Council and discussed with experts throughout government and academe, including individual fellows from the National Academy of Public Administration. Under each of these standards, an agency is green if it meets all of the standards for success, yellow if it has achieved some but not all of the criteria, and red if it has one or more serious flaws.

**Progress.** The Office of Management and Budget assesses agency “progress” on a case-by-case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency.

The assessments are based on the following criteria: green, implementation proceeding according to plans agreed upon with the agencies; yellow, some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and red, initiative is in serious jeopardy and unlikely to realize objectives without significant management intervention.

**Department of Education Results.** During FY 2004, the Department made two significant gains in status scores:

- From red to green in Financial Performance during the first quarter.
- From red to yellow in Budget and Performance Integration during the third quarter.

Although our progress scores in Competitive Sourcing and E-government fell during the year, they returned to green by the end of the fiscal year as a result of our increased attention to these areas.

The scorecard is available at <http://www.results.gov/agenda/scorecard.html>.

<b>President's Management Agenda FY 2004 Scorecard</b>						
Target Area			Q1	Q2	Q3	Q4
Governmentwide Initiatives	Human Capital	Status	Y	Y	Y	Y
		Progress	G	G	G	G
	Competitive Sourcing	Status	Y	Y	Y	Y
		Progress	G	Y	R	G
	Financial Performance	Status	G	G	G	G
	Progress	G	G	G	G	
	E-government	Status	Y	Y	Y	Y
		Progress	G	G	Y	G
	Budget-Performance Integration	Status	R	R	Y	Y
		Progress	G	G	G	G
Program Initiatives	Elimination of Fraud and Error in Student Financial Aid Programs	Status	Y	Y	Y	Y
		Progress	G	G	G	G
	Faith-Based and Community Initiative	Status	Y	Y	Y	Y
		Progress	G	G	G	G

Status: G = green = meets all standards  
 Y = yellow = meets some standards  
 R = red = has one or more serious flaws

Progress: G = green = implementation proceeding according to plan  
 Y = yellow = some slippage in implementing plan or other issues  
 R = red = unlikely to reach objectives without intervention



# Performance Details

## GOALS AND OBJECTIVES

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### **Goal 1: Create a Culture of Achievement**

- 1.1 Link federal education funding to accountability for results.
- 1.2 Increase flexibility and local control.
- 1.3 Increase information and options for parents.
- 1.4 Encourage the use of scientifically based methods within federal education programs.

### **Goal 2: Improve Student Achievement**

- 2.1 Ensure that all students read on grade level by the third grade.
- 2.2 Improve mathematics and science achievement for all students.
- 2.3 Improve the performance of all high school students.
- 2.4 Improve teacher and principal quality.
- 2.5 Improve U.S. students' knowledge of world languages, regions, and international issues and build international ties in the field of education.

### **Goal 3: Develop Safe Schools and Strong Character**

- 3.1 Ensure that our nation's schools are safe and drug free and that students are free of alcohol, tobacco, and other drugs.
- 3.2 Promote strong character and citizenship among our nation's youth.

### **Goal 4: Transform Education into an Evidence-Based Field**

- 4.1 Raise the quality of research funded or conducted by the Department.
- 4.2 Increase the relevance of our research in order to meet the needs of our customers.

### **Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education**

- 5.1 Reduce the gaps in college access and completion among student populations differing by race/ethnicity, socioeconomic status, and disability while increasing the educational attainment of all.
- 5.2 Strengthen accountability of postsecondary institutions.
- 5.3 Establish effective funding mechanisms for postsecondary education.
- 5.4 Strengthen Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities.
- 5.5 Enhance the literacy and employment skills of American adults.
- 5.6 Increase the capacity of U.S. postsecondary education institutions to teach world languages, area studies, and international issues.

### **Goal 6: Establish Management Excellence**

- 6.1 Develop and maintain financial integrity and management and internal controls.
- 6.2 Improve the strategic management of the Department's human capital.
- 6.3 Manage information technology resources, using e-gov, to improve services for our customers and partners.
- 6.4 Modernize the Student Financial Assistance programs and reduce their high-risk status.
- 6.5 Achieve budget and performance integration to link funding decisions to results.
- 6.6 Leverage the contributions of faith-based and community organizations to increase the effectiveness of Department programs.
- 6.7 By becoming a high-performance, customer-focused organization, earn the President's Quality Award.

## HOW THE DEPARTMENT REPORTS PERFORMANCE RESULTS

**Strategic Measures and Results.** Performance results are discussed throughout this report. Department-wide strategic performance measures are discussed at a summary level in Management’s Discussion and Analysis, with key results specified for each of the strategic goals. (See pp. 9-11.)

The Performance Details section offers a more in-depth discussion of each strategic goal. In those discussions, we report our key results in the topic area of each of our 26 objectives. We focus on results of the programs we administer, but we also provide national context for the topic. Additionally, for each objective, we report the status of our strategic measures. Many of our strategic measures are in clusters—for example, reading scores on state assessments—for all students and disaggregated by race, ethnicity, and income. To provide an overall picture of our progress without excessive detail in the Performance Details section, we roll clusters into a single status—exceeded, met, or did not meet, as explained below. We provide the status in tabular form for each objective, accompanied by narrative explanation and a reference to the pages in appendix A that contain detailed reporting.

### Methodology for Performance Goal Status

The following algorithm was used to calculate the composite score for clusters of measures.

For the most recent year with data (see appendix A), each component measure was assigned a score:

- 4 points were assigned for exceeded (did better than) the target.
- 3 points were assigned for met the target.
- 2 points were assigned for made progress toward the target.
- 1 point was assigned for did not meet the target.

Points were summed and averaged.

- An average score of 3.5 or above was scored as “Exceeded.”
- An average score between 2.5 and 3.4 was scored “Met.”
- An average score between 1.5 and 2.4 was scored “Made progress.”
- An average score below 1.5 was scored “Did not meet.”

The status reported in the Performance Details section is the status for the most recent year with available data (of years that the measure was in place).

If data are pending for all years for which the measure has been in place, then the measure is reported as “Pending,” even if trend data are available for prior years.

Clusters for which the information was not collected are so designated.

Because our strategic measures focus on student-level data, which come to us from state and local agencies, schools, and universities, our most recent data for many measures are from the previous year, or even from two years prior. We report the most recent data we have available. Where FY 2004 data are not available for this *FY 2004 Performance and Accountability Report*, we will report them in a subsequent report.

Appendix A provides information on our individual strategic measures at the most detailed level. For each measure, a table shows trend data, most recent data, targets for years with pending data, and the status of meeting the target for all years not previously reported. Documentation below the table includes for each measure the source, a discussion of data quality, related Web links, and additional information. For measures with pending data, an expected availability date is provided; and for measures for which we failed to meet the target, there is a discussion of cause and future plans.

**Allocating Costs.** Of the Department’s six strategic goals, the first goal sets the context and adds value to the next four goals by making explicit the underpinning principles that inform them. (See p. 31.) The next four “content” goals are focused on specific education areas—student achievement, safe schools and character, education research, and postsecondary education. The sixth goal, management excellence, supports the prior four goals. In 2003, the Department determined that the most appropriate manner to allocate costs is to identify the content goal that each of our programs most directly supports and to attribute each program’s appropriated budget authority and its proportional share of administrative budget authority to that goal. We also make a corresponding attribution of goal expenditures (net cost) based on programs. The total percentage of expenditures attributed to each goal is shown in the pie graph at the beginning of each goal discussion. Near the end of each goal discussion is a list of the programs that most directly support that goal; the list provides the supporting detail for both the amount of appropriations and the amount of expenditures attributed to each program.

**Program Measures.** In addition to strategic measures, the Department has program performance measures for most of our 158 grant and loan programs. Each strategic goal discussion reports the percentage of performance measures met by those programs that most directly support that goal. A full performance report for each program that has measures can be found at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

**Evaluation of the FY 2005 Plan.** The Department's FY 2005 Performance Plan, published as part of the President's FY 2005 budget request, currently continues the use of both strategic and program-level measures. The Department is considering modifying this approach and, instead, identifying key valid, reliable, and important program measures and featuring them as our strategic measures.

# Goal 1

*We must measure excellence not by number of dollars spent  
but by numbers of children who learn.*

—Secretary Rod Paige

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## GOAL 1. CREATE A CULTURE OF ACHIEVEMENT

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Goal 1 is the philosophical foundation for the Department's other five strategic goals. Goal 1 asserts that in our dedication to improving achievement for all students, we will put into practice a culture of accountability that extends to all education levels: federal, state, and local. To that end, states and districts that receive federal funds are expected to report improved student achievement as a return on the investment. Local district and school policy-makers and implementers, in return for higher degrees of accountability, are granted greater flexibility to use federal resources according to local needs. We ask parents to be accountable in improving student achievement, and we assist them in that task by providing useful information and by increasing options for the education of their children. To ensure that we and our partners operate from a base of knowledge that leads to success, the Department has begun the effort to transform education into an evidence-based field that promotes what works.

The Department does not identify specific programs or funding streams as supporting this goal. This strategic goal directs and adds value to the other goals by making explicit the principles that inform each goal: accountability for results, flexibility and local control, expanded parental options, and doing what works.

### Accountability for Results Means Money Well Spent

Our country's plentiful education resources have not always brought commensurate results in student achievement, especially for low-income students, students of various racial and ethnic groups, students with disabilities, and limited English proficient students. With an increased emphasis on accountability, the central tenet of No Child Left Behind is that all children can learn and must have the opportunity to obtain a high-quality education and reach proficiency on challenging state academic standards. To that end, No Child Left Behind asks states to set rigorous academic standards for all students and to hold schools and districts accountable for all students reaching proficiency in reading/language arts and mathematics by school year (SY) 2013–14. In 2004, the second year after No Child Left Behind was signed into law, we present a summary of state progress

in implementing the requirements of No Child Left Behind.

**State Progress in Implementing No Child Left Behind.** Our report on FY 2003 and FY 2004 state progress in implementing No Child Left Behind is organized around the following major categories of the law's requirements: standards and assessments, adequate yearly progress, public school choice, supplemental services, and teacher quality.

**Standards and Assessments.** The Department has been proactive to ensure that states are taking the necessary steps to administer annual academic assessments in reading/language arts and mathematics in each of grades three through eight and once at the high school level by SY 2005–06 and annual academic assessments in science at the elementary, middle, and high school levels by SY 2007–08. After completing negotiated rulemaking, the Department issued final regulations for meeting the standards and assessments requirements of No Child Left Behind in July 2002. Additionally, in March 2003, the Department issued nonregulatory guidance on standards and assessments to answer key questions on the standards and assessments requirements. Further, in the summer of 2004, the Department issued *Standards and Assessments Peer Review Guidance*, which provides guidance to states on what would be useful evidence to demonstrate compliance with No Child Left Behind requirements and to guide peer review teams that will examine the evidence submitted by states. As required by statute, the Department will use a peer review process to review state systems of standards and assessments.

In the June 2002 and May 2003 Consolidated State Application submissions, states submitted major milestones and detailed timelines for the development and implementation of their standards and assessments under No Child Left Behind. By the summer of 2003, all states had implemented academic content standards or grade-level expectations for each of grades three through eight and high school in reading/language arts and mathematics. These academic content standards and grade-level expectations form the basis for aligning academic assessments under No Child Left Behind. Through its monitoring of states, the Department's Office of Elementary and Secondary Education has been working closely with states to ensure that they are on

track for meeting the timelines described in their consolidated applications and for meeting the requirements of reading/language arts and mathematics assessments in SY 2005–06 and science assessments in SY 2007–08. During SY 2003–04, 13 states had already implemented standards-based assessments in each of grades three through eight and at the high school level in reading/language arts, and 12 states had done so in mathematics, well ahead of the SY 2005-06 deadline.

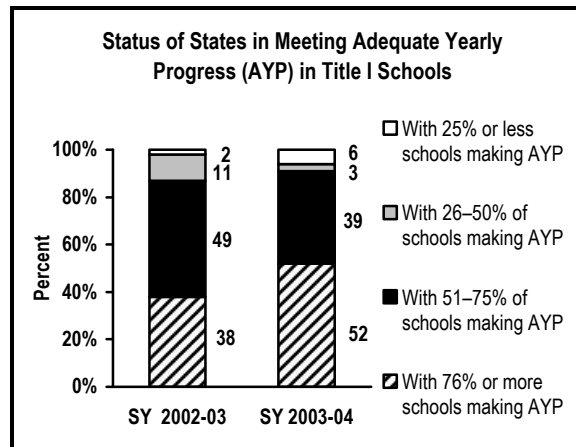
**Adequate Yearly Progress.** As required by No Child Left Behind, states must annually determine if every public elementary and secondary school and every public school district has made adequate yearly progress (AYP) toward the goal of having all students proficient in reading/language arts and mathematics by SY 2013–14. Each state’s definition of adequate yearly progress is defined in its state accountability plan, which was reviewed and approved by the Department. Each state has defined AYP in the context of its approved accountability system that includes state-set targets for the following:

- Student proficiency in reading/language arts and mathematics for all students and for each subgroup of students.
- At least a 95 percent participation rate in state assessments in reading/language arts and mathematics by all students and by all subgroups of students.
- High school graduation rates.
- An additional academic indicator for elementary and middle schools.

In January 2003, states initially submitted their accountability plans for review and approval; by June 2003, all states had approved accountability plans that they then used to make AYP determinations for all of their public schools and districts based upon data from SY 2002–03. Working with states in their implementation of state accountability systems, the Department responded to states’ needs for additional flexibility. During 2004, the Department provided additional flexibility to states in their calculations of AYP through the following policies:

- States, school districts, and schools are now permitted to develop alternate achievement standards for students with the most significant cognitive disabilities and to include the *proficient* scores of these students with who take assessments based on the alternate achievement standards.<sup>1</sup>
- States and districts may average up to three years of participation data when complying with the requirement to assess 95 percent of all students.<sup>2</sup>
- States are not required to count the assessment results of limited English proficient students in their first year of enrollment in United States schools; states may also include in the limited English proficient subgroup for up to two years those students who were limited English proficient but who have attained English proficiency.<sup>3</sup>

Preliminary AYP reports on SY 2003–04 are encouraging and indicate more schools nationwide meeting their academic achievement targets in reading/language arts and mathematics. Of the 34 states for which data are available, 29 increased the percentage of schools making AYP from SY 2002–03. Additionally, of the 29 with increases of schools making AYP, 18 states had increases of 10 or more percentage points.



<sup>1</sup> Amendment to Title I regulations at 68FR 68697 (December 9, 2003), available at <http://www.ed.gov/legislation/FedRegister/finrule/2003-4/120903a.html>.

<sup>2</sup> May 19, 2004, letter to chief state school officers, available at <http://www.ed.gov/policy/elsec/guid/stateletters/prates.html>.

<sup>3</sup> February 20, 2004, letter to chief state school officers, available at <http://www.ed.gov/policy/elsec/guid/stateletters/asny.html>.



Twelve States Meet 2005–06 Assessment Requirements Two Years Ahead of Schedule, in SY 2003–04 (Shown in green grid)														
	3rd Grade		4th Grade		5th Grade		6th Grade		7th Grade		8th Grade		High School	
	Math	RLA	Math	RLA	Math	RLA	Math	RLA	Math	RLA	Math	RLA	Math	RLA
Alabama														
Alaska														
Arizona														
Arkansas														
<b>California</b>														
Colorado														
Connecticut														
Delaware														
Dist. of Columbia														
<b>Florida</b>														
<b>Georgia</b>														
Hawaii														
Idaho														
Illinois														
Indiana														
Iowa														
Kansas														
Kentucky														
Louisiana														
Maine														
<b>Maryland</b>														
Massachusetts														
Michigan														
Minnesota														
<b>Mississippi</b>														
Missouri														
Montana														
Nebraska														
Nevada														
New Hampshire														
New Jersey														
New Mexico														
New York														
<b>North Carolina</b>														
North Dakota														
Ohio														
Oklahoma														
Oregon														
Pennsylvania														
Puerto Rico														
Rhode Island														
<b>South Carolina</b>														
<b>South Dakota</b>														
<b>Tennessee</b>														
<b>Texas</b>														
<b>Utah</b>														
Vermont														
Virginia														
Washington														
<b>West Virginia</b>														
Wisconsin														
Wyoming														

\*No Child Left Behind requires states by SY 2005–06 to administer standards-based assessments in reading/language arts (RLA) and mathematics at each of grades three through eight and once at the high school level.

**Note.** Shaded or cross-hatched cells indicate that a standards-based state assessment was given at that grade and subject matter in SY 2003–04.

**Public School Choice.** No Child Left Behind requires that if a Title I school is identified as in need of improvement because it missed its adequate yearly progress targets for two consecutive years, the district is required to allow its students to transfer to a school within the district that has not been identified as in need of improvement and to provide transportation to the new school. The district continues to provide students with this option as long as the student's home school does not make adequate yearly progress. This option provides an opportunity for children in such schools to obtain a better education environment immediately instead of waiting for the home school to improve. It also creates an incentive for school leaders to focus their attention on the needs of schools in need of improvement.

**Supplemental Services.** Under No Child Left Behind, if a Title I school is identified as in need of improvement because it missed its adequate yearly progress targets for at least three years, the school is required to offer supplemental educational services to children in that school. This provision of No Child Left Behind provides eligible low-income parents with the opportunity to engage a tutor or obtain other forms of academic enrichment to advance their child's achievement. According to a recent study, five major provider types of supplemental educational services are emerging: large for-profit corporations, smaller for-profit firms, school districts, nonprofit community-based organizations, and online companies—with large for-profit companies and school districts the most common.<sup>4</sup> The number of supplemental service providers increased from 1,451 reported by 44 states in October 2003 to 2,535 by the end of September 2004, with 51 of 52 states and jurisdictions reporting.

In 2004, the Department released *Early Implementation of Supplemental Educational Services under the No Child Left Behind Act*,<sup>5</sup> which reported on how well states were implementing this component of state accountability systems. SY 2002–03 was the first year

for states and districts to begin offering supplemental educational services to students from low-income families attending Title I schools that did not make adequate yearly progress after being in school improvement for a full year. The study examined first-year implementation of supplemental services through case studies of nine districts in six states. Key findings include the following:

- State administrators in the states that were reviewed had taken steps to implement supplemental services; nevertheless, the selection of service providers was slow and uneven.
- Districts reported significant challenges, including informing parents of eligible children about the option for supplemental services, entering into contracts with providers, and budgeting for supplemental services.
- Parents were pleased to have the opportunity for supplemental services; these same parents also reported satisfaction with their children's schools.

**Highly Qualified Teacher.** No Child Left Behind set SY 2005–06 as the deadline by which time all teachers are to be highly qualified, as defined in the statute. States were asked to provide baseline data for this requirement from SY 2002–03 by reporting the percentage of classes in the core academic subjects being taught by highly qualified teachers. Forty states were able to report these data; the other 12 states were not. Appendix A, pp. 182–84, displays the detailed state data as submitted to the Department. Data protocols for reporting SY 2002–03 highly qualified teacher data varied among the states: some states provided estimates, some partial data, and some the percentage of teachers who are highly qualified rather than the percentage of classes taught by such teachers. The Department expects SY 2003–04 data on highly qualified teachers to be more accurate and complete. Where lack of SY 2002–03 data caused state grants to be conditioned, states are intent on removing conditions by complying with reporting requirements for SY 2003–04. The Department has provided extensive guidance as well as individual state visits in 2004 to help states in their data collection

<sup>4</sup>The report is available at [http://www.aei.org/events/eventID.684,filter.all/event\\_detail.asp](http://www.aei.org/events/eventID.684,filter.all/event_detail.asp).

<sup>5</sup>The report is available at <http://www.ed.gov/ous/ppss/reports.html#title>.

efforts. SY 2003–04 data will be available in September 2005.

**Rural Districts’ Implementation of No Child Left Behind.** No Child Left Behind introduced significant changes to state, district, and school accountability for student performance and teacher qualifications. Some of the challenges that arose from these changes have proven to be more difficult for rural than for nonrural districts. In terms of meeting student proficiency requirements, rural districts were more likely than nonrural districts to report that a large enrollment of economically disadvantaged students created challenges. They also were more likely to report difficulties in offering competitive salaries to teachers, which limits their ability to recruit teachers, and they more frequently reported that school size and geographic isolation were challenges to implementing the law.<sup>6</sup>

To meet the challenges, rural districts reported using multiple funding sources, including the federal Rural Education Achievement Program. The Department has introduced new flexibilities that assist rural states with meeting student proficiency provisions and implementing teacher qualification requirements (see p. 55). We also established the Rural Education Task Force to coordinate and focus rural education efforts within the Department and awarded a research grant to establish a National Research Center on Rural Education Support. The center’s purpose is to conduct research that identifies which education practices are effective for increasing student achievement and improving the teaching and learning environment for rural schools.

**State Success in Meeting English Language Learners Requirements.** When applying for No Child Left Behind formula grant funds, states were required to submit detailed information regarding their English language proficiency standards, assessments, and accountability systems. In response, they provided a status update on standards, including definitions for *making progress* in English, for *proficient*, and for

*cohort*. States also provided English language proficiency baseline data for SY 2002–03, a list of assessments used to test limited English proficient students’ progress in English language proficiency, and annual measurable achievement targets. Department staff reviewed state submissions and approved the submissions of 12 states and granted conditional approval to the remaining 40 jurisdictions. A subsequent review raised the number of those jurisdictions with full approval to 44. The remaining 8 jurisdictions had an October 29, 2004, deadline for submitting any missing or additional information.<sup>7</sup>

Prior to No Child Left Behind, only a few states had English language proficiency standards, and many states were using multiple English language proficiency assessments that were not aligned with English language proficiency standards. No Child Left Behind requires that state English language proficiency standards be aligned with state academic content and achievement standards. For assistance with developing or revising English language proficiency standards and assessments that are integrated into the broader accountability system, 40 states joined one of the consortia funded by the Department’s Enhanced Assessment Grants. Some states have completed and adopted integrated English language proficiency standards, assessments, and accountability systems, and all 52 states and jurisdictions reported making significant progress.

**Monitoring Implementation of State Accountability Systems.** The Department’s Office of Elementary and Secondary Education instituted a process for monitoring state and district implementation of state accountability plans. Monitoring activities are organized into three broad areas—standards, assessment, and accountability; instructional support; and fiduciary responsibilities. The process uses standards and indicators to measure whether states are fulfilling their responsibilities under the act. During the monitoring process, the program office looks for evidence that assessments and accountability systems

<sup>6</sup> U.S. Government Accountability Office, *No Child Left Behind: Additional Assistance and Research on Effective Strategies Would Help Small Rural Districts* (GAO–04–909). This report is available at <http://www.gao.gov/cgi-bin/getrpt?GAO-04-909>.

<sup>7</sup> Office of English Language Acquisition program officers’ detailed reviews of state submissions are available in official state educational agency grantee files. The accountability sections of State Consolidated State Applications are available at <http://www.ed.gov/admins/lead/account/stateplans03/index.html>.

are aligned with each state’s academic standards; that the state is meeting the educational needs of low-achieving children, focusing on closing the achievement gap, and targeting federal resources to those local educational agencies and schools with the greatest needs; and that parents are provided opportunities to be involved in meaningful ways in the education of their children. Onsite monitoring is done on a three-year cycle, with approximately 18 states monitored per year. Within 30 business days, the Department’s monitoring team provides the state with a comprehensive report containing commendations, recommendations, findings, and required actions.<sup>8</sup>

**Performance Goals.** In assessing state progress in implementing accountability systems, the Department considers Consolidated State Performance Report submissions, report cards states post on their Web sites, studies by offices within the Department and by external groups, and the onsite monitoring reports compiled by the Department’s monitoring team. The combination of this information provides the Department with data we use to report on our state accountability implementation measure. As reported in the fiscal year (FY) 2003 Performance and Accountability Report, all states have approved accountability plans. FY 2004 data showed that more than one-fifth of states are two years ahead of No Child Left Behind requirements for implementing reading/language arts and mathematics assessments in each of grades three through eight and once in high school by SY 2005–06.<sup>9</sup>

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, p. 186, for detailed data.

Linking Funding to Accountability for Results (Objective 1.1)		
Performance Goals	Status	Year
States with fully implemented No Child Left Behind accountability systems (as required by SY 2005–06)	Exceeded	FY 2004

## States, Districts, and Schools Target Federal Funds to Local Needs

Although states are expected to meet rigorous requirements in implementing accountability systems, they also benefit from expanded flexibility in federal resource allocation. The Flexibility and Accountability sections of No Child Left Behind include provisions that allow states and local educational agencies the authority to transfer or consolidate federal funds as a means for targeting resources to activities that most effectively address local needs.

**State Flexibility.** The State-Flexibility Authority (State-Flex) permits states to make the best use of federal funds by consolidating certain formula (other than Title I) funds if doing so will help the state raise student achievement. Participating states are expected to prepare an annual performance report describing how they used consolidated funds to advance the education priorities of the state and districts. At the end of FY 2004, no states had State-Flex authority. The Government Accountability Office reported in *Flexibility Demonstration Programs: Education Needs to Better Target Program Information*<sup>10</sup> that state officials were disinclined to apply for State-Flex, citing insufficient benefits from the program especially when balanced against the time and effort required to complete the application. To encourage use of this flexibility provision, the Department published a notice in the *Federal Register* in March 2004 inviting states to apply for State-Flex at their convenience instead of setting a deadline for applications.

<sup>8</sup> GAO examined the factors that facilitated or impeded selected state and school districts’ implementation of state efforts to execute accountability plans and reviewed Department support for state efforts. See U.S. Government Accountability Office, *No Child Left Behind Act: Improvements Needed in Education’s Process for Tracking States’ Implementation of Key Provisions* (GAO–04–734). The report is available at <http://www.gao.gov/cgi-bin/getrpt?GAO-04-734>.

<sup>9</sup> This is a preliminary estimate; the Department has not yet reviewed and approved these state systems.

<sup>10</sup> U.S. Government Accountability Office, *Flexibility Demonstration Programs: Education Needs to Better Target Program Information* (GAO–03–691). The report is available at <http://www.gao.gov/cgi-bin/getrpt?GAO-03-691>.

**Local Flexibility.** Local school districts, through the Local-Flexibility Demonstration Program (Local-Flex), may consolidate formula grant funds under the following programs: Improving Teacher Quality State Grants, Educational Technology, Innovative Programs, and Safe and Drug-Free Schools. As of FY 2004, only the Seattle Public Schools had received the Local-Flex authority. As reported in the *Flexibility Demonstration Programs* report, district interviewees cited a lack of program awareness as their reason for not applying for Local-Flex. In response to limited numbers of applicants to the state and local flexibility authorities, the Department intensified our efforts to publicize the programs at conferences and in letters to nearly 200 of the largest districts and issued guidance on the application process.

**Transferability.** The Funding Transferability for State and Local Educational Agencies provision gives authority to states and districts to transfer up to 50 percent of the funds they receive by formula under certain programs to state and local activities most likely to improve student achievement. Approximately 12.5 percent of districts exercised the transferability authority in FY 2003, indicating that the program helps meet district flexibility needs, given that it had only been available for one year at the time of data collection. Confirmation of the needed flexibility was provided in the GAO report, which said that states and districts find transferability useful; and, because no application is required, it is not burdensome.

**Rural Flexibility.** Rural Education Achievement Program initiatives include the Alternative Uses of Funds Authority, a flexibility provision that allows eligible local educational agencies the authority to combine funding under certain federal programs to carry out local activities under other specified federal programs. Of the eligible applicants for this program, approximately 61 percent used the rural flexibility authority in FY 2003. These baseline data indicate that participation is at an acceptable level for a first-year program. FY 2004 data are pending.

**Feedback From Customers.** To assess whether the Department is listening to our customers’ voices and responding to their service needs, we conduct a variety

of customer satisfaction surveys. The Department surveys state education leaders, represented by chief state school officers; state directors of Title I, Adult Education, Career and Technical Education, and Special Education; and coordinators of Early Intervention under the Individuals with Disabilities Education Act, for a total of over 300 respondents to the questionnaire. In our 2003 survey, our most recent results, we exceeded our target of 65 percent satisfaction among chief state school officers. The aggregated satisfaction rate statistic for all of the groups of state leaders surveyed was 77 percent. FY 2004 data are pending as the Department revises the survey instrument and methodology and completes data collection for the year.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 186–88, for detailed data.

Flexibility and Local Control (Objective 1.2)		
Performance Goals	Status	Year
School districts using Flexibility provisions <ul style="list-style-type: none"> <li>• Local-Flex</li> <li>• Transferability</li> <li>• Rural Flexibility</li> </ul>	Established baseline	FY 2003
State-Flex provision <ul style="list-style-type: none"> <li>• States receiving State-Flex authority</li> <li>• States with State-Flex authority that make AYP</li> </ul>	Did not meet	FY 2004
Grantees satisfied with Department customer service	Exceeded	FY 2003

AYP = Adequate yearly progress

## Education Choices Empower Informed Parents

During FY 2004, Secretary Paige and other Department officials identified successful implementation of the Title I choice and supplemental educational services provisions as a key priority for the year. Reflecting that priority, the Secretary sent a “back to school” letter to the chief state school officers, reminding them of the importance of these provisions and offering the Department’s support and technical assistance in ensuring their proper implementation.

Following up on the Secretary's pledge, several offices intensified their efforts to respond to questions posed by state and local administrators, as well as supplemental educational services providers, on what is required, permitted, or prohibited under the law and regulations, and to provide advice on practices for meeting the requirements effectively.

The Department released an updated nonregulatory guidance package on the Title I public school choice requirements, following the release of updated guidance on supplemental educational services.

Department staff took technical assistance a step beyond the guidance packages by providing information on choice and supplemental services to a wide variety of audiences through conference calls, webcasts, and appearances at major education conferences. In December 2003, the Department and the C.S. Mott Foundation cohosted the first national meeting of state administrators on supplemental services and 21st Century Community Learning Centers. This symposium was designed to solidify the connections between supplemental services and after-school programs and to assist states in implementing both programs.

The Department, on a biweekly basis, convened the Choice and Supplemental Services Working Group, which identified compliance and other issues requiring resolution. The group prepared analyses of those issues for the Department's senior officers and disseminated resulting policy decisions to states and local educational agencies.

**D.C. Choice Incentive Program.** In 2004, the Department, in partnership with the District of Columbia mayor's office, launched the federally funded D.C. Choice Incentive Program, which offered approximately 2,000 low-income elementary and secondary students \$7,500 a year in tuition, fees, and transportation costs to attend private schools. The newly authorized \$14 million effort has two purposes: giving parents the opportunity to exercise greater choice in the education of their children, and providing an opportunity to test and evaluate a program of expanded choice in a low-performing school district. Students who attended public schools that had been identified for improvement or

corrective action had priority in receiving scholarships. Private school students were eligible to participate in the initiative if they currently attended D.C. private schools, resided in the District, and met the family income criteria (approximately \$34,000 or less for a family of four). When the application period ended, 2,700 D.C. students had applied for scholarships; 1,700 were deemed eligible; and 1,261 were selected by lottery to receive scholarships.

As the 2004–05 school year began, 1,022 of the 1,261 students selected to participate in the D.C. Choice Incentive Program enrolled in 53 private schools. The Department's National Center for Education Evaluation of the Institute of Education Sciences has awarded a contract to collect, analyze, and store data as part of a comprehensive evaluation of this initiative.

**Charter School Option.** Charter schools are public schools under contract or charter from a public agency to organizations that want to create alternatives within the public school system. They are free and open to all students. In 2004, the number of children attending charter schools stood at 698,000, an increase of 222,000 since 2000, and there were approximately 3,000 charter schools. Charter schools provide enhanced parental choice and are exempt from many statutory and regulatory requirements. In exchange for this increased flexibility, these schools are held more accountable for improving student academic achievement. Federal funds for charter school support, available through the Charter School Grants and Credit Enhancement for Charter School Facilities programs, increased by \$32 million in FY 2004.

The most recent (2003) National Assessment of Educational Progress (NAEP) mathematics and reading test results showed that achievement gaps between white and African American students and between white and Hispanic students were about the same in charter schools as in regular public schools.<sup>11</sup> Charter schools often serve the most economically disadvantaged families.

<sup>11</sup> *Charter School Achievement on the 2003 National Assessment of Educational Progress*, p. ii and iii, is available at <http://www.aft.org/pubs-reports/downloads/teachers/NAEPCharterSchoolReport.pdf>.

Secretary Paige, in commenting on the NAEP scores, reiterated that charter schools “provide an alternative to parents and students who have been poorly served by their previous schools. Poor instruction, unsafe conditions, a lack of proper attention—these are all factors in a parent’s decision to apply to a charter school.”<sup>12</sup> Charter schools strengthen public education by serving students whose needs are not being met in traditional public schools, whose personal interests cannot be satisfied in their former schools, and who might otherwise drop out of public schools. The equality of their NAEP scores to similarly situated students in traditional public schools, and their desirability—as explicitly evidenced by the increasing enrollment of charter school students—demonstrates their need and value.

The 2004 National Charter Schools Conference provided a forum for charter school practitioners, founders, authorizers, administrators, and staff to build networks for strengthening charter schools. The goal of the conference was to develop strategies for growing the charter school movement by expanding to the 10 states lacking a charter school law and for strengthening existing charter school laws. Increased participation in the conference signaled high interest in charter school issues: the 2004 conference attracted 2,480 participants; the first conference in 1996 had 800 attendees.

#### **Web Sites Inform Parents of Options and Services.**

The Department supported additional initiatives for providing parents information on diverse education services and education options. Grants were provided to fund the following sites:

- <http://www.Tutorsforkids.org> provides both Web-based and hands-on support to school districts on implementation of the supplemental educational services requirements and averages 2,750 hits per day.
- <http://www.SchoolResults.org> empowers parents, educators, and policy-makers to use No Child Left Behind data to make informed decisions and improve school results. For schools, districts, and

states across the nation, this Web site displays available data required to be publicly reported under No Child Left Behind. The site has received major private contributions as well.

- <http://www.GreatSchools.net> provides parents with new information on No Child Left Behind. As of July 2004, parents can search for schools in 30 states to find out if a school is in need of improvement and what year of improvement it is in. Parents can learn what providers are approved to serve schools in the state and which schools nearby are not in improvement.

#### **Community Alliances Disseminate Information.**

Several community action groups networked with parents to disseminate information on school choice.

Some examples of those projects follow:

- The Greater Educational Opportunities Foundation (GEO) worked with approximately 70 of the largest urban communities to create a network of 1,408 organizations targeted to receive information about supplemental educational services. The year-long pilot project intends to determine how much assistance is needed at the local level if parents are to understand and avail themselves of Title I supplemental services. The foundation is also conducting parent outreach in Gary, Indianapolis, Colorado Springs, and Denver. In Gary, GEO launched a billboard campaign to inform parents of the opportunities to enroll children in supplemental services. Foundation staff went door to door to inform parents in Colorado and Indiana whose children attend schools in need of improvement of their rights under No Child Left Behind.
- Black Alliance for Educational Outcomes held a media campaign using direct mail, print, television, radio, and other media to communicate parental options under No Child Left Behind to communities in Milwaukee, Philadelphia, and Detroit. The alliance made presentations about public school choice and supplemental services at venues in the three target cities, including at local

<sup>12</sup> See <http://www.ed.gov/news/pressreleases/2004/08/08172004.html>.

parent information resource centers, schools, and faith-based and community organizations.

- Hispanic Council for Reform and Educational Options (CREO) field organizers worked in Austin, Dallas, San Antonio, Miami, and Camden to train parents on their rights under No Child Left Behind. In each community, Project CREO alerted parents to deadlines for signing up for public school choice and supplemental services. Project CREO has urged parents to call school districts when adequate yearly progress results are not released in a timely fashion.

### **Guidebooks Give Parents Examples of What Works.**

In a major effort to reach all parents of public and private school children, the Department's Office of Innovation and Improvement initiated a new series of six guidebooks, *Innovations in Education*, to share the experience of school systems around the country—large and small; rural, urban, and community—that have put the tenets of No Child Left Behind to work successfully. Three of the six guidebooks have been published, and the remaining three are slated for late 2004 publication. Titles that are available are *Creating Strong District School Choice Programs*, *Creating Strong Supplemental Educational Services Programs*, and *Successful Charter Schools*.<sup>13</sup>

### **Information for Parents of English Language**

**Learners.** The Department's Office of English Language Acquisition, with guidance from its National Advisory Team on Parental Involvement, intensified efforts to meet the broad Department goal of providing information to parents by expanding its outreach to the parents of the nation's 4.1 million English language learners. Secretary Paige unveiled the *Declaration of Rights for the Parents of English Language Learners* at the Office of English Language Acquisition's summit in December 2003. Since then, the declaration, which outlines the 10 most important benefits new to No Child Left Behind, has been made available in Spanish and distributed to minority communities through various media, including a Web site presentation in English or

Spanish that talks viewers through their parental rights and permits them to print English and Spanish copies of the *Declaration of Rights for Parents of English Language Learners*. Additionally, to reach the greatest possible number of parents with information on their rights, this initiative worked closely with private and nonprofit organizations and faith-based groups.

The Hispanic Outreach Taskforce, the first faith-based minority outreach task force consisting of Hispanic faith-based leaders from across the country, launched its grassroots outreach effort in April 2004. The taskforce's purpose is to inform members of the Hispanic community of their rights and benefits under No Child Left Behind. The taskforce supports two Web sites that feature the *Declaration of Rights for Parents of English Language Learners*: <http://www.ed.gov/rights>, the English version, and <http://www.ed.gov/derechos>, the Spanish version. Since spring, the taskforce has reached audiences of 100 to 2,700 in 20 cities.

### **Information for Parents of Private School Students.**

To inform parents of private school students of the federal education benefits available to private school students and teachers, the Department published the booklet, *The No Child Left Behind Act of 2001 and Benefits to Private School Students and Teachers*. Since January 2004, 20,000 booklets have been distributed to private schools, local educational agencies, state educational agencies, and national private school organizations.

**Performance Goals.** In providing information and options for parents, we realized progress in meeting some objectives, and we exceeded our targets in others. Ample information to parents helped them choose the schools their children attend, permitting us to exceed the target we set for FY 2003. The 2003 data on parents choosing the school their children attend will remain our most current until the 2005 collection. Data on school choice, as measured by charter school attendance, showed an increase in 2004, allowing us to make progress on our objective. For children eligible to receive supplemental services, defined as those who attend a school in its second or subsequent year of school improvement, we opted to use 2003 data as a baseline.

<sup>13</sup>These publications are available online at <http://www.edpubs.org>, or toll free at 1-877-4EDPUBS.



Those baseline data will be available in 2005. Our current data about supplemental services show that states have increased the number of supplemental service providers significantly since the beginning of the fiscal year: in October 2003, 44 states reported 1,451 providers; by the end of September 2004, 51 states and jurisdictions reported 2,535 providers of supplemental services.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 188–90, for detailed data.

Information and Options for Parents (Objective 1.3)		
Performance Goals	Status	Year
K–12 students attending a school (public or private) their parents chose	Exceeded	FY 2003
Children attending charter schools	Made progress	FY 2004
Eligible children using ESEA Title I supplemental educational services	Pending	FY 2003- FY 2004

ESEA = Elementary and Secondary Education Act

## Evidence-based Interventions and Policies Improve Learning

Teachers are inundated with descriptions of education interventions guaranteed to fill their classrooms with high-performing students. Education policy-makers encounter a plethora of education cure-alls. In 2004, the Department published a new guide for education practitioners that will help them decide if an intervention is truly effective and if the evidence supporting the claim is credible. *Identifying and Implementing Educational Practices Supported by Rigorous Evidence*, a 19-page “tool” book, helps the education community select and use evidence that is rigorous and scientific in making education decisions.<sup>14</sup>

*Rigorous* and *scientific* are words that the Department is using to describe 10 new studies we have funded at \$15 million to evaluate the impact of technology on student

achievement in elementary and secondary education. The advent and ascent of technology in the last few decades brought with it expectations of impressive advances in student achievement. These expectations are not as yet fulfilled, as discoveries of effective applications of technology continue. Nine states won grant funds ranging from \$1.3 to \$1.9 million for three-year studies to evaluate how an education program uses technology to raise student achievement in one or more core academic subjects; to test and document the methods, practices, and instruments used to assess the impact of the technology on student achievement; and to share that information with other states.

State Research on Technology in the Classroom
Environmental and Spatial Technology Initiative
Using Technology to Support the Scaling Up of the Iowa Professional Development Model
The Impact of Teachers' Professional Development on the Mathematics Achievement of Low-Performing Rural Students in Technology-Rich Classrooms
Looking at North Carolina Educational Technology
Evaluation of Student and Parent Access Through Recycled Computers
The Tennessee EdTech Accountability Model
Texas Technology Immersion Pilot
Educational Development for Planning and Conducting Evaluations
Enhancing Education Through Technology Model School Project
A Study of the Effectiveness of Three Models of Implementing Educational Technology

Through requirements in grant applications, the Department helps to ensure that new research studies on education interventions and programs implemented by grantees reflect the best evidenced-based knowledge available. Applicants for Reading First and Early Reading First grants, for example, must demonstrate that the programs and practices they intend to implement are built on reliable evidence of what works.

The What Works Clearinghouse began its Web site publication of research findings in June 2004. Education practitioners and policy-makers can go to the site and answer their questions about what education interventions work by looking at the literature review posted on a particular subject. The site includes *topic*

<sup>14</sup>Available at <http://www.ed.gov/about/offices/list/ies.news.html>.

*reports* that summarize the entire research base in specific areas and *intervention reports* that analyze all the evidence of effectiveness for particular programs or practices. Evidence indicates that widespread interest in the reports caused increased activity on the What Works Clearinghouse Web site in 2004; usage of the Web site was more than double our target.

The Department's progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 190–91, for detailed data.

<b>Use of Scientifically Based Research Within Federal Education Programs (Objective 1.4)</b>		
<b>Performance Goals</b>	<b>Status</b>	<b>Year</b>
What Works Clearinghouse Web site hits	Exceeded	FY 2004

The Department does not identify specific programs or funding streams as supporting Goal 1, which directs and adds value to the other goals.

# Goal 2

*Reading is an act of liberation. It breaks the bonds of ignorance,  
frees the mind, enlarges our intellectual horizons,  
and enhances our personal growth.*

—Secretary Rod Paige

## GOAL 2: IMPROVE STUDENT ACHIEVEMENT

The Department's primary role is to ensure that every child in this country receives a quality education. Our most recent national markers of student achievement show there is much work to be done. Many elementary school children still lack proficiency in reading and mathematics, and many secondary students begin high school but do not finish. Children of high-poverty neighborhoods struggle to overcome the limits of low-performing schools. All children seeking knowledge and success look to education for improving their opportunities.

To improve education for all students, the Department continues to use the school reform tools provided in the No Child Left Behind Act of 2001. One of the major supports for reform is the \$12.3 billion provided to states and their school districts through Title I of the Elementary and Secondary Education Act of 1965.

No Child Left Behind specifically identifies early, evidence-based reading instruction as the education intervention with the greatest potential for improving student achievement. The billion-dollar Reading First Program has provided formula grant funds to all states in support of research-based reading programs for kindergarten through third grade.

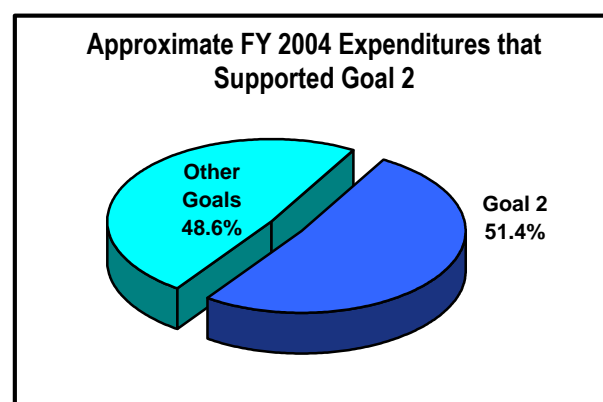
Although reading is the threshold to successful learning, No Child Left Behind also recognizes the importance of mathematics and science as crucial disciplines that must be mastered for lifelong success. The Congress funded the Mathematics and Science Partnership Program at \$149 million to allow for formula grant funds to all states.

The Improving Teacher Quality State Grant Program of No Child Left Behind expanded the focus on teacher quality from primarily science and mathematics teachers to teachers of all core academic subjects and required that they meet the law's definition of highly qualified by the end of school year (SY) 2005–06. The Department's efforts in providing technical assistance and guidance through the Teacher Assistance Corps (TAC), flexibility through various policy clarifications, and support and outreach through the TAC supported states in meeting high quality teacher requirements.

In 2004, President Bush set a new national goal for improving high school student achievement: every high school student graduates and is ready for the workplace or college.

In 2004, the Department added a new dimension to the Goal 2 agenda for student achievement: international education. Our newest objective is to improve our students' knowledge of world languages, regions, and international issues and to build international ties in the field of education.

### Department Expenditures



### Early Literacy Builds the Foundation for Academic Success

States unanimously endorsed the No Child Left Behind goal of all children reading on grade level by the end of third grade. All states identified early reading/language arts standards and aligned curricula and instruction to the standards. By the end of fiscal year (FY) 2003, 53 states and jurisdictions had submitted plans for research-based reading programs for kindergarten through third grade and, after peer-review and approval, received Reading First formula grants.

**Reading First.** To sustain improved student achievement in reading/language arts, the Department continues to offer technical assistance and funding for the implementation of Reading First, the single largest state formula grant program dedicated to helping states and local school districts establish high-quality, comprehensive reading instruction for all children in kindergarten through third grade. The Department has

contracted to provide technical assistance to local educational agencies that did not receive Reading First grants to replicate effective practices developed through Reading First grants. Reading First funds, distributed to states in FY 2003 and FY 2004, have been used to train 45,000 teachers in evidence-based reading instruction; districts that did not receive Reading First funds will have assistance in offering similar training opportunities to their teachers. Because the programs and practices that Reading First supports are based on solid scientific research, they have the potential over time to improve student reading achievement.

The Department awarded a contract to convene a National Literacy Panel charged with conducting a comprehensive, evidence-based review of the research literature on the development of literacy among language-minority children. The panel's 2004 report, due this fall, complements the work of the National Reading Panel and is intended to provide clear, evidence-based conclusions and recommendations for practitioners concerned with the education of language-minority children and youth on the relationship between first-language literacy and English literacy, literacy development, effective instruction, and assessment.<sup>1</sup>

The Department, in late 2004, will undertake the Reading First Impact Study to assess the impact of the Reading First Program on student reading achievement. The study, which will use a quasi-experimental design that compares Reading First and non-Reading First schools, will produce its first report in 2005.

**Early Childhood Education.** The Department continues to support the implementation and evaluation of other No Child Left Behind programs that complement the goals of Reading First—the Early Childhood Educator Professional Development Program and Early Reading First—by supporting local efforts to enhance the early language, literacy, and prereading development of preschool-aged children through strategies based on scientifically based reading research. Since 2001, 24 local Early Childhood Educator

Professional Development projects have been funded, and an additional 8 projects were added in 2004. To date, the Department has awarded two cycles of Early Reading First grants, funding 62 programs nationwide. The first cohort has been operating for 1.5 years, and the first performance reports will provide outcome data in spring 2005. The Department published performance measures to clarify expected outcomes and provided grantees with the technical assistance of an evaluation expert to improve the design and instrumentation for their local evaluations. The Department also fielded a team of early childhood education experts to visit 30 new grantees to observe how the grantees were using scientifically based research to inform their programs. The visits resulted in recommendations for future technical assistance, which will include the distribution of a CD-ROM and accompanying booklet that provide examples of scientifically based strategies for early reading in a preschool program.

**Performance Goals.** The Department set targets for student achievement based on the percentage of states that meet their state-determined student proficiency targets on third-grade standards-based reading assessments. No Child Left Behind requires that all states administer third-grade standards-based reading assessments by 2005–06. Until 2005–06, we base our progress on those states that have such assessments in place. For 2002–03, more than half the states had these assessments in place three years ahead of the required schedule. Based on data from 24 states with assessments, the Department met some but not all of our targets for this measure. We exceeded our target for the percentage of states that met their respective targets for students in the aggregate, as all states met their respective targets.

The Department also set targets for the percentage of states that met their respective targets for reading achievement of various subgroups of students. Although 20 of the 24 states that reported third-grade reading assessments in 2002–03 met their targets for some subgroups of students, most states struggled to meet targets for limited English proficient students and for students with disabilities. In 2001, the nation's public schools served 4.1 million limited English proficient

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<sup>1</sup> Additional information is available at <http://www.cal.org/natl-lit-panel/reports/>.

students, some in states with students representing more than 100 languages. Approximately eight states met their targets for students with disabilities, despite challenges inherent in testing this subgroup of students. Although some states met their targets for all subgroups of students, the Department did not meet national targets for the number of states meeting their targets for any of the subgroups: low income, African American, Hispanic, students with disabilities, and limited English proficient students.

No Child Left Behind requires that state targets for all students and for subgroups increase at least every three years through SY 2013–14, when 100 percent of all students within all subgroups are expected to achieve proficiency. This provision of the law sets the bar for state action; each state must find strategies that accelerate the pace of improved student achievement to make up for any failures to meet the yearly targets.

To measure student achievement, the Department uses both state assessment data and National Assessment of Educational Progress (NAEP) test results. NAEP fourth- and eighth-grade reading and mathematics tests are administered every other year and were given last in 2003. NAEP 2002–03 test results, which showed significant improvements in fourth-grade reading student achievement, were reported in our *FY 2003 Performance and Accountability Report*.

The Department's progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, p. 191, for detailed data.

Reading Achievement (Objective 2.1)		
Performance Goals	Status	Year
States meeting targets for third-grade reading achievement <ul style="list-style-type: none"> <li>All students</li> </ul>	Exceeded	FY 2003
States meeting targets for third-grade reading achievement <ul style="list-style-type: none"> <li>Low-income students</li> <li>African American students</li> <li>Hispanic students</li> <li>Students with disabilities</li> <li>Limited English proficient students</li> </ul>	Did not meet	FY 2003

## Mathematics and Science Proficiency Prepares Students for a Technological Society

No Child Left Behind requires that state science standards be in place by SY 2005–06 and that states report results on science assessments beginning no later than the 2007–08 school year. Assessments are required at least once in grades 3 through 5, 6 through 9, and 10 through 12. The science assessment deadline is welcomed by educators to complement assessments in reading and mathematics. In a 2004 survey of 1,000 kindergarten through fifth-grade teachers, the teachers, regardless of region of the country or type of school, reported that they are three times more likely to teach English (95 percent) and math (93 percent) every day than they are to teach science (35 percent) and social studies (33 percent) daily. Roughly one-third (29 percent) say they teach science twice a week or less.<sup>2</sup> Increasing accountability for achievement in science is likely to increase the level of science instruction.

No Child Left Behind makes special provisions for improving academic achievement of students in science and mathematics through the Mathematics and Science Partnerships Program. Funded at \$12.5 million in FY 2002, this program was increased in FY 2004 to more than \$149 million to bolster states' capacity to improve science and mathematics teaching. Partnership grant funds encourage institutions of higher education to assume greater responsibility for improving teacher education through lifelong learning; for bringing mathematics and science teachers together with scientists, mathematicians, and engineers to increase teachers' subject matter knowledge and improve their teaching skills through the use of sophisticated laboratory equipment and work space; and for developing more rigorous mathematics and science curricula aligned with challenging state and local academic content standards. The Department set baselines in 2004 for the number of secondary mathematics and science teachers in schools participating in Mathematics and Science Partnership

<sup>2</sup> Data are available at <http://www.bayerus.com>.

programs who become highly qualified upon completion and will measure increases in future years.

**Performance Goal.** The Department determines success in meeting its goal for improving students' mathematics and science performance in part by reporting on student scores on the eighth-grade NAEP tests. NAEP eighth-grade average mathematics scores were higher in 2003 than in 2000, 1996, and 1990; NAEP scores were reported in our *FY 2003 Performance and Accountability Report*. The next NAEP assessment of eighth-grade mathematics will be in 2005.

A second measure of achievement is state success in meeting middle school state assessment targets in mathematics. Similar to our targets in reading (see p. 46), our mathematics achievement targets are based on the percentage of states that meet their respective targets for mathematics achievement for students in the aggregate and for students in each subgroup. Student achievement on state mathematics assessments allowed all states to meet their targets for the aggregate of students; thus, the Department exceeded our national target of 87 percent. When states disaggregated data on mathematics assessments, however, subgroups of students did not perform as well as the aggregate of students. For the five subgroups of students the Department reports (African American, Hispanic, low income, students with disabilities, and those with limited English proficiency), a range of 5 to 38 states met their targets, depending on the specific subgroup and middle school grade that was tested. The Department did not meet our national target of 87 percent of states meeting their subgroup targets.

To improve middle school students' achievement in mathematics, especially the achievement of students in high-poverty schools, the Department's Mathematics and Science Partnership Program staff and Title I staff are creating a strategic plan for kindergarten through grade eight mathematics instruction. The plan calls for regional meetings among mathematics teachers and researchers that will result in a consensus on the status of mathematics instruction, an identification of research in the field, and recognition of best practices. The Title I community will be used to disperse information to states and schools. In addition, the Mathematics and Science

Partnerships Program continues to encourage grantees to target middle grades mathematics as the focus for partnership resources.

The Department's progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, p. 192, for detailed data.

Mathematics Achievement (Objective 2.2)		
Performance Goals	Status	Year
States meeting targets for middle school mathematics achievement • All students	Exceeded	FY 2003
States meeting targets for middle school mathematics achievement • Low-income students • African American students • Hispanic students • Students with disabilities • Limited English proficient students	Did not meet	FY 2003

## High Schools Prepare Graduates Ready for Work or College

President Bush's announcement in 2004 of a national goal that every high school student will graduate and be ready for the workplace or college was met with enthusiasm and promises of cooperation from all elements of the education community. The Council of the Great City Schools, the Council of Chief State School Officers, the National Association of Secondary School Principals, and the High School Alliance pledged to partner with the Department in high school reform. In a show of support, the National Governors Association will spend 2005 focused on generating ideas for improving high schools. The governors intend to find ways to avert "senioritis" and the host of other maladies that cause some high school students to drop out and others to perform poorly.

**High School Graduation Rates.** For our high school completion measure, the Department uses Bureau of the Census and Common Core of Data information to calculate the proportion of 18- through 24-year-olds who have left high school and earned a high school diploma



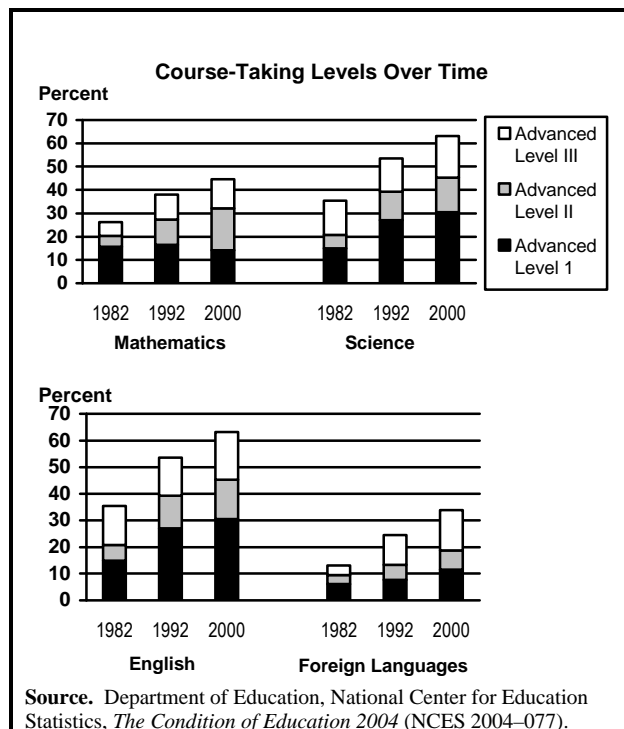
or the equivalent, including a General Education Development credential. From these calculations, we determined a 2002 rate of 86 percent.

Two research reports suggested different measures of accounting for dropouts that produced a more pessimistic view of the number of dropouts.<sup>3</sup> These research reports, and findings from other studies, have compelled the Department to find a solution to the disparate ways states report dropout and completion rates. In an attempt to understand the depth and breadth of this problem, the Department issued a federal grant in 2004 to the National Institute of Statistical Sciences to convene a national panel of experts that will make recommendations about which indicators are best suited for studying various issues related to completing and dropping out of high school. The nine-person group will attempt to bring much needed consistency to the methods that states use in producing critical indicators of school performance. The report this panel is producing will be completed late 2004. Results will be used to refine future reporting on our high school completion measure.

High school policy-makers want to know that graduation statistics are comparable, but their more challenging goal is to ensure that all students graduate. Secretary Paige has charged the Department's expert panel on this subject to "focus our efforts on helping students graduate from high school... and to look at the varying definitions, standards and tracking systems throughout the country to gain a better understanding of the problem so that we can tackle it head-on."

**High School Student Achievement Challenges.** When we ask how well prepared our high school students are on their way to graduation, we encounter good news and bad news. Data show, for example, that since the early 1980s, when states began to increase the number of required courses to receive a high school diploma, the percentage of high school graduates completing

advanced course work in core subjects (mathematics, science, English, and foreign language) has increased.<sup>4</sup>



Even with increasing participation in advanced course work, recent data collected by ACT from ACT-tested high school graduates support the conclusion that too few students are prepared to enter the workforce or postsecondary education without additional training or remediation when they graduate from high school.<sup>5</sup> The ACT data showed that "students who take the core recommended high school courses (four years of English and three years each of mathematics, science, and social studies) are more likely to be ready for college-level work than are students who do not take the core. But students who take rigorous courses beyond the recommended minimum number of core courses are even more likely to be ready for college. Students whose beyond-core coursework includes courses in advanced mathematics beyond Algebra II (such as Trigonometry), as well as Biology, Chemistry, and Physics, are likeliest

<sup>3</sup> The Urban Institute's report is available at <http://www.urban.org/Template.cfm?Section=ByTopic&NavMenuID=62&template=/;> *Locating the Dropout Crisis*, the report prepared by the Center for Social Organization of Schools, Johns Hopkins University, is available at <http://www.csos.jhu.edu/news.htm>.

<sup>4</sup> Department of Education, National Center for Education Statistics, *The Condition of Education 2004* (NCES 2004-077).

<sup>5</sup> The study is available at [http://www.act.org/path/policy/pdf/crisis\\_report.pdf](http://www.act.org/path/policy/pdf/crisis_report.pdf).

of all to be college ready.”<sup>6</sup> ACT observations apply to students at all levels of achievement, not just the high achievers. Another study shows that nearly one-third of college freshmen in 2002 were taking one remedial class.<sup>7</sup> As Secretary Paige observed: “Our high school system is not serving some kids well. Our wide and sometimes growing achievement gap confirms that we live with a two-tiered educational system. The vast majority of students left behind are disadvantaged or low-income. By the time they reach twelfth grade, only one in six African Americans and one in five Hispanics can read proficiently. Math scores are even worse: only three percent of African American and four percent of Hispanic students are testing at the proficient level.”<sup>8</sup>

**Department Initiatives.** The Department responded to research reports and the President’s call for high school reform by launching the 2004 Preparing America’s Future: High School Initiative. The Department’s Office of Vocational and Adult Education, charged with designing and implementing the initiative, hosted a leadership summit and unveiled three Department goals to the 700 state leaders in attendance:

- Equip state and local education leaders with current knowledge about high schools through special forums, print and electronic materials, and targeted technical assistance.
- Develop the expertise and structures within the Department of Education to provide effective technical assistance.
- Facilitate a national dialogue to raise awareness about the need for significant high school reform.

Seven regional high school summits were held during the year to help the 44 participating state teams create short- and long-term plans for strengthening high school outcomes. Summit evaluations reflected that high school reform is an important issue in 85 percent of states;

<sup>6</sup> Ibid.

<sup>7</sup> John Cloud, Who’s Ready for College? *Time* 160:16 (October 2002), 61–2.

<sup>8</sup> The speech is available at <http://www.ed.gov/news/speeches/2003/10/10082003.html>.

approximately 25 states indicated that they would replicate the regional summits to expand the dialogue around high school improvement at the state level.

### **Advanced Placement and International**

**Baccalaureate Programs.** The Advanced Placement Incentive Program and the Advanced Placement Test Fee Program are intended to increase access for low-income students to advanced-level classes offered through either the College Board’s Advanced Placement (AP) program or the International Baccalaureate (IB) program. The AP and IB programs are nationally recognized ways to immerse high school students in rigorous curricula as a means of increasing their achievement. The Department’s Incentive Program provides funds for AP or IB teacher training, for promoting online advanced-level course taking, and for developing pre-advanced-level courses. The Test Fee Program funds low-income students’ exam fees for either AP or IB exams. Fifteen of 30 AP Test Fee awards made to state educational agencies in 2003 paid for low-income students to take IB exams as well as AP exams. Approximately 550 teachers and 370,000 students are benefiting from the Advanced Placement Incentive grants awarded in FY 2002 and 2003; 11 additional awards were made in 2004.

The Department’s measure of student participation in rigorous coursework at the high school level is the number of Advanced Placement exams taken by low-income students annually. Since the program’s inception in 1998, the number of exams taken by these students has grown from 92,570 in 1999 to 166,649 in 2003.

**State Scholars Initiative.** The State Scholars Initiative is designed to increase the percentage of high school students who have the solid academic foundation to succeed in postsecondary education and in an increasingly dynamic labor market.

The Center for State Scholars was established in August 2002 through a cooperative agreement between the Texas Center for State Scholars and the Department’s Office of Vocational and Adult Education. The Department has awarded \$4.8 million to the center to assist states in establishing business and education partnerships that will encourage more students to

complete the rigorous course of academic study needed for success in postsecondary education and training.

To date, 12 states are receiving support under the initiative. The following examples illustrate what can be accomplished under the State Scholars program:

- In northeast Tennessee, the Appalachian Inter-Mountain Scholars Program has been operating for nearly 10 years. In 1994, only 11 percent of the high school students in three counties enrolled in the Scholars course of study. Last year, that percentage had tripled to 33 percent.
- In Arkansas, the Scholars course of study has been implemented in 140 school districts. Between 1990 and 2000, the percentage of Arkansas high school graduates completing higher-level courses in geometry rose from 60 percent to 88 percent, in chemistry from 33 percent to 66 percent, and in physics from 13 percent to 33 percent.
- In Oklahoma, during SY 2003–04, the initiative selected six pilot school districts to encourage 10,000 eighth graders in six counties to complete the Oklahoma Scholars Course of Study.

**College and Career Transitions Initiative.** The College and Career Transitions Initiative supports education and business and industry partnerships to establish career pathways that consist of a coherent sequence of rigorous academic and career courses that begin in high school and culminate with a postsecondary credential. To date, grants have been awarded to 15 model partnerships; all sites have developed pathways in one of five areas of occupational concentration: health sciences; information technology; education and training; science, technology, engineering, and mathematics; and law, public safety, and security. The new program, launched in 2002, is collecting performance data, which we will have available in 2005 to compare to the model partnership site baseline data.

**Report on Achievement of Secondary School Students with Disabilities.** *Changes Over Time in the Secondary*

*School Programs of Students with Disabilities,*<sup>9</sup> funded by the Department’s Office of Special Education Programs and published in 2004, describes a comparison between nationally representative samples of 15- to 17-year-olds receiving special education services in 1987 (cohort 1) and 2001 (cohort 2). The report noted that children with disabilities were making significant progress in meeting the goals of the Individuals with Disabilities Education Act. Furthermore, students with disabilities were demonstrating the following gains:

- Those students in cohort 2 were much more likely than their cohort 1 counterparts to be taking core academic courses, including mathematics, science, social studies, and foreign languages.
- Increasingly, those students who were taking academic courses were doing so in general education classes along with their nondisabled peers.
- Cohort 2 students were increasing likely to be attending schools that had policies of providing general education teachers who had students with disabilities in their classes with inservice training on the needs of such students, a classroom aide for the teacher or for the individual student with a disability, a smaller class, or special equipment or materials to increase the students’ chances of succeeding in those classes.

**Evaluation of Vocational Education.** Any discussion of high school reform efforts must include a discussion of the Department’s funding of vocational education. In 1917, the federal government began its support of vocational education with the passage of the Smith-Hughes Act. Currently, nearly half of all high school students and about one-third of college students are involved in vocational programs as a major part of their studies. Federal efforts to improve the quality and availability of vocational programs were articulated in 1998 in the Carl D. Perkins Vocational and Technical Education Act (Perkins III). States receiving these funds

<sup>9</sup> The report is available at [http://www.nlts2.org/reports/changestime\\_report.html](http://www.nlts2.org/reports/changestime_report.html).

allocated approximately 63 percent of Perkins funds to high school programs in 2003.

As policy-makers begin to consider further changes in law—in anticipation of reauthorization scheduled for 2005—they are examining vocational education as a field in transition, prompted by sweeping changes in federal, state, and local education and training priorities. To provide information that will enable new policy responsive to current conditions, the Congress mandated a National Assessment of Vocational Education. The assessment findings include the following:

- Vocational education has important short- and medium-term earning benefits for most students at both the secondary and postsecondary levels, and these benefits extend to those who are economically disadvantaged.
- Over the last decade of academic reforms, secondary students who participate in vocational programs have increased their academic course taking and achievement, making them better prepared for both college and careers than were their peers in the past. In fact, students who take both a strong academic curriculum and a vocational program of study—still only 13 percent of high school graduates—may have better outcomes than those who pursued one or the other.
- While positive change is certainly happening at the high school level, secondary vocational education itself is not likely to be a widely effective strategy for improving academic achievement or college attendance without substantial modifications to policy, curriculum, and teacher training. The current legislative approach of encouraging “integration” as a way to move secondary vocational education toward supporting academics has been slow to produce significant reforms.

The study also observed that in large part, the pace and path of improvement are hampered by a lack of clarity over the program’s fundamental purpose and goal. Perkins III offers a diffusive picture of federal priorities for vocational education improvement: academic achievement, technical skills, high school completion,

postsecondary enrollment and degree completion, and employment and earnings. Without a clearer focus for the federal investment—about five percent of total spending—around which to rally the commitment and efforts of vocational teachers, counselors, and administrators, ongoing program progress in any particular direction is less certain. The final National Assessment of Vocational Education report was designed to contribute to that discussion by providing the most up-to-date and comprehensive assessment of vocational education in the United States and of the effects of the Carl D. Perkins Vocational and Technical Education Act of 1998.<sup>10</sup>

**Department Proposal for Vocational Education.** The Perkins Act continues to be on the congressional agenda for reauthorization. The Administration has proposed a new Secondary and Technical Education State Grant Program that would extend the achievement and accountability goals of Title I of the Elementary and Secondary Act as reauthorized in No Child Left Behind by requiring states and school districts to focus more intensively on improving student outcomes. States would have to demonstrate increases in academic achievement and workplace preparedness. The Administration’s proposal, released in April 2004, would also require these programs to include four years of English and three years of mathematics and social sciences in the curriculum.

**Performance Goals.** In both high school reading and high school mathematics state assessments, the Department exceeded its targets for the percentage of states that met their targets for high school achievement of students in the aggregate. But we experienced a shortfall for subgroups of students: low income, African American, Hispanic, students with disabilities, and limited English proficient students. Although almost all states met their targets for students in the aggregate, disaggregated data showed that fewer than a third of states met their targets for subgroups. To address weak results in closing achievement gaps, the Department will increase funding and expand the Advanced Placement

<sup>10</sup>The report is available at <http://www.ed.gov/pubs/edpubs.html> and <http://www.ed.gov/rschstat/eval/sectech/nave/reports.html>.

programs for low-income schools and the State Scholars Program. We plan to begin a Striving Readers Initiative that will provide competitive grants to schools to give extra help to middle and high school students who fall behind in reading and a Mathematics and Science Teachers Incentive Program that will draw more professionals from the private sector to teach part time in our high schools. Finally, although we exceeded our targets for high school completion, the uncertainty over the variability of reported dropout and completion data means that our results should be interpreted with caution. The work of the national panel convened to advise policy on high school completion will inform our efforts to report and to increase graduation rates.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 193–96, for detailed data.

High School Achievement (Objective 2.3)		
Performance Goals	Status	Year
States meeting targets for high school reading assessments • All students	Exceeded	FY 2003
States meeting targets for high school reading assessments • Low-income students • African American students • Hispanic students • Students with disabilities • Limited English proficient students	Did not meet	FY 2003
States meeting targets for high school mathematics assessments • All students	Exceeded	FY 2003
States meeting targets for high school mathematics assessments • Low-income students • African American students • Hispanic students • Students with disabilities • Limited English proficient students	Did not meet	FY 2003
Advanced Placement participation • All students	Made progress	FY 2004

High School Achievement (Objective 2.3) (cont.)		
Performance Goals	Status	Year
Advanced Placement participation • African American students • Hispanic students	Made progress	FY 2004
High achievement on Advanced Placement exams • English • History • Calculus • Science	Made progress	FY 2004
High school completion by 18- to 24-year-olds • All	Exceeded	FY 2002
High school completion by 18- to 24-year-olds • African American • Hispanic	Exceeded	FY 2002

### Highly Qualified Teachers Affect Successful Student Learning

The early years of implementing the No Child Left Behind Act of 2001 focused on identifying baseline information on state standards, curricula, and assessments. As we move to the next difficult steps of improving our schools, our most important resource is the classroom teacher. To ensure that no child is left behind, every child must have a highly qualified teacher in his or her classroom.

**Highly Qualified Teachers.** No Child Left Behind includes a provision that all teachers of core subjects be highly qualified by the end of the 2005–06 school year and provides funding to help states and districts meet the requirement. The Government Accountability Office (GAO) surveyed states on their plans for implementing the highly qualified teacher provision and reported that states face two serious obstacles:<sup>11</sup>

- Lack of information needed to determine whether teachers in their schools meet the law’s criteria for highly qualified.

<sup>11</sup>The Government Accountability Office, *No Child Left Behind Act: More Information Would Help States Determine Which Teachers Are Highly Qualified* (GAO–03–631), available at <http://www.gao.gov/cgi-bin/getrpt?GAO-03-631>.

- Absence of data systems that could track teacher qualifications for each core subject they teach (reported by officials from seven of eight states visited).

Respondents to the GAO survey also commented on conditions that hinder states' and districts' ability to employ all highly qualified teachers, including teacher pay issues, teacher shortages, isolated locations, and little school support for new teachers.

In a second FY 2004 report, the Government Accountability Office provided information on how states are applying No Child Left Behind requirements to special education teachers.<sup>12</sup> During SY 2001–02, more than 400,000 special education teachers provided instructional services to approximately 6 million students with disabilities in the nation's schools. Under No Child Left Behind, all teachers, including special education teachers, who provide instruction in core academic subjects are generally required to meet the law's requirements. However, special education teachers who provide other types of instruction do not need to meet the law's requirements.

GAO noted that all states implemented the two No Child Left Behind requirements that teachers have a bachelor's degree and be certified to teach, and have required special education teachers to demonstrate competency in core academic subjects. To help move all special education teachers to compliance with the highly qualified teacher provisions of the law, GAO recommended that the Department provide additional assistance to states on strategies to meet the requirements of subject matter competency requirements for special education teachers, and that the two offices within the Department responsible for technical assistance coordinate efforts for a larger effect.

To support states in their efforts to ensure that all special education teachers are highly qualified by the end of the

2005–06 school year, the Department issued guidance in January 2004 on how to apply No Child Left Behind requirements to all teachers. In March 2004, new guidance provided additional flexibility on the implementation deadline and competency requirements for some special education teachers.<sup>13</sup> The Department continues to provide funding to states to improve the quality of their teaching force through Improving Teacher Quality State Grants and through Special Education State Improvement Grants.

In spite of the challenges states face in meeting the highly qualified teacher requirement, state reports indicate they are making progress toward having a highly qualified teacher in every core academic class. Forty states reported SY 2002–03 baseline data for teachers in the aggregate and in high- and low-poverty schools. The Department expects SY 2003–04 data, available in September 2005, will show that more states have the capacity to match individual classroom data with individual teacher qualification data, enabling states to report the percentage of classes taught by highly qualified teachers.

The Department responded to the GAO reports and to communications from the states by creating several initiatives intended to assist in the implementation of the highly qualified teacher requirement.

- The Teacher Assistance Corps visited every state in 2004 and provided guidance to local educational agencies on highly qualified teacher compliance, shared knowledge across states, and assisted in setting and meeting state goals.
- The Teacher-to-Teacher Initiative built on the work of the corps and provided the Department a means of communicating directly with teachers across the country to share education knowledge and also to learn the extent and quality of professional development provided to them. The initiative hosted teacher roundtables, a summer "research to practice summit," regional summer workshops, and an e-mail update mechanism for

<sup>12</sup>The Government Accountability Office, *Special Education: Additional Assistance and Better Coordination Needed among Education Offices to Help States Meet the NCLBA Teacher Requirements* (GAO–04–659), available at <http://www.gao.gov/cgi-bin/getrpt?GAO-04-659>.

<sup>13</sup>The guidance is available at <http://www.ed.gov/policy/elsec/guid/secletter/040331.html>.

apprising teachers of the latest policy, research, and developments.<sup>14</sup>

- The National Center for Alternative Certification, through a toll-free call center and a major interactive Web site, provided information to individuals interested in becoming teachers through alternative pathways to teacher certification. The comprehensive clearinghouse Web site averages 8,000 hits a day, with growth each month.<sup>15</sup>
- *No Child Left Behind: A Toolkit for Teachers*, became available online;<sup>16</sup> it includes a general overview of No Child Left Behind, as well as practical information on loan forgiveness, tax credits, and Web resources.

The Department, on two occasions in 2004, issued nonregulatory guidance announcing opportunities for flexibility in meeting highly qualified teacher requirements. There are three areas of flexibility:

- Teachers teaching multiple subjects in eligible small rural districts and who are highly qualified in one subject area have additional time to become highly qualified in the additional subjects they teach.
- Veteran teachers of multiple core academic subjects may demonstrate subject matter competency through a multiple subject High, Objective, Uniform State Standard of Evaluation (HOUSSE).
- For science teachers, the Department's guidance allows states the flexibility to use individual state certification standards to determine requirements for meeting subject-matter competency, rather than automatically requiring competency in each science subject.

**Annual Report on Teacher Quality (2004).** *Meeting the Highly Qualified Teachers Challenge: The Secretary's Third Annual Report on Teacher Quality* provided a comprehensive report on the status of teacher quality across the country in 2004. The report includes an overview of state successes and challenges in implementing the No Child Left Behind highly qualified teacher requirement.

States have made progress in meeting the challenge by raising academic standards in certification requirements, implementing criteria for assessing teacher preparation program performance, and supporting alternative routes to certification. Some states have been less successful in raising the minimum passing scores for most state academic content assessments and reducing the numbers and distribution of teachers on waivers. Each state's work is detailed in data tables that are attached as appendices to the report.<sup>17</sup>

**Federal Grants for Teacher Quality.** Improving Teacher Quality State Grants (authorized under No Child Left Behind) and Teacher Quality Enhancement Grants (authorized under the Higher Education Act Amendments of 1998) share the goal of highly qualified teachers in all classrooms by providing formula and discretionary grants, respectively.

**Teacher Quality State Grants.** No Child Left Behind mandates and defines *highly qualified*, and funds the mandate primarily through Improving Teacher Quality State Grants. These grants provide money for supporting a wide array of activities, which must be grounded in scientifically based research. Teacher Quality funds make resources available to districts to recruit, hire, and induct teachers, and to improve teachers' knowledge of the academic subjects they teach so that they can become highly qualified.

During the first year of the implementation of No Child Left Behind, the Department collected baseline data from districts around the country to determine how districts reported spending federal Teacher Quality funds in 2002–03. Ninety-three percent of all school districts

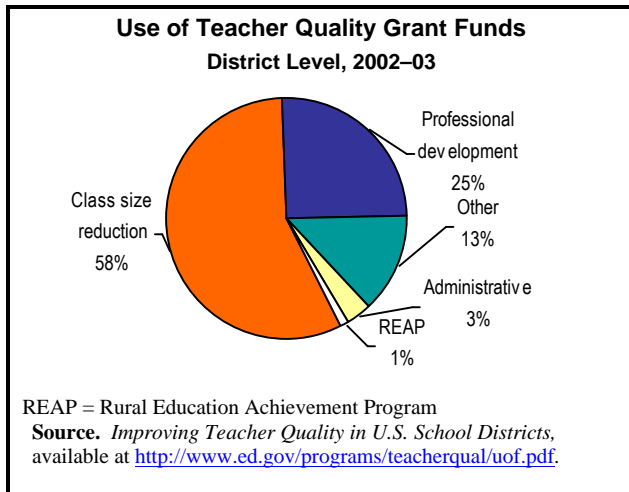
<sup>14</sup>Information about the initiative is available at <http://www.teacherquality.us>.

<sup>15</sup>The site is available at <http://www.teach-now.org>.

<sup>16</sup>The publication is available at <http://www.ed.gov/teachers/nclbguide/nclb-teachers-toolkit.pdf>.

<sup>17</sup>The publication is available at <http://www.title2.org>.

reported they received Teacher Quality grants, with high-poverty and large districts receiving the greatest share as required by law. Districts reported spending the majority of grant funds for teacher salaries to reduce class size and for professional development for teachers. Subject areas receiving the largest proportions of professional development funds were reading/English, 39 percent; mathematics, 25 percent; science, 14 percent; history, 8 percent; and technology, 7 percent.



**Teacher Quality Enhancement Grants.** The Higher Education Act Amendments of 1998 authorize Teacher Quality Enhancement Grants to states and partnerships. The grant program, funded at \$88.9 million in 2004, supports reform activities, improvements to teacher education, and teacher recruitment grants for high-need school districts. The first cohort of grantees submitted final 2004 performance reports after five years of federally funded activity.

Some of the benefits that accrued from these partnership grants are represented in the Milwaukee Partnership Academy, An Urban P-16 Council for Quality Teaching and Learning. The Milwaukee program was designed to develop a comprehensive prototype for preparing future teachers of kindergarten through grade eight to succeed in urban, high-need schools and to improve the education of all children through better preparation, recruitment, and retention of teachers for urban schools. The Milwaukee Partnership Academy has evolved into a system-to-system reform model that focuses on the entire Milwaukee Public School System and has expanded to include prekindergarten through grade 12 teachers and

faculty. As a result of this project, the University of Wisconsin-Milwaukee was able to focus on and initiate reform in teacher education and field experience, recruitment for urban schools, alternative certification, and school-based induction support. The Milwaukee Partnership Academy Governance Council included broad-based community involvement.

The partnership grants program also contributed to a remarkable outcome for the Texas A&M University System, which in 1999 was experiencing declines in teacher production, especially in high-need areas. At the same time, Texas public schools grew by more than 400,000 students. Faced with such explosive growth and declining supply of certified teachers, the Board of Regents unanimously passed a resolution establishing the Regents' Initiative for Excellence in Education.<sup>18</sup> The initiative was designed to counter the declining pool of quality teachers and improve A&M systemwide productivity to better meet the needs of its public school constituents. After five years of funding, the A&M system is on its way to meeting those ambitious goals. The system has increased the production of teachers by 41 percent, increased its minority teacher production, and increased teacher production in high-need fields such as bilingual/English as a second language (ESL), special education, foreign language, secondary math, and secondary science.

**Evaluation of Teacher Quality Enhancement Grant Program.** In 2004, the Department published *Partnerships for Reform: Changing Teacher Preparation through the Title II HEA Partnership Program*, an interim report on its evaluation of the Teacher Quality Enhancement Grant Program's Partnership Grants for Improving Teacher Preparation. The evaluation found that the grants improved teacher preparation programs by increasing communication between universities and schools and by facilitating a closer match between teacher preparation, curriculum, and school needs. The 25 partnership project directors, when questioned about the sustainability of reform strategies put in place through the partnership grants,

<sup>18</sup>Information on the initiative is available at <http://www.partnerships.tamu.edu>.



indicated that most activities were “very likely” to continue beyond the life of the grant. If the partners institutionalize reforms as planned, additional educators will have the opportunity to join the 14,000 preservice teaching students and more than 13,000 teachers and instructional specialists the report identifies as currently involved in partnership activities.<sup>19</sup>

million was available specifically for improving the teaching of English language learners.

- Troops-to-Teachers, Teaching American History, Mathematics and Science Partnerships, and Transition to Teaching also made federal funds available to grantees for addressing teacher quality.

Reform Strategies Likely To Continue
Professional development schools
Support programs for beginning teachers
Cross-department working arrangements
Cross-department responsibility for teacher preparation
New techniques for assessing students in teacher preparation programs
New instructional strategies developed as part of the grant
New course sequences developed as part of the grant
Support for faculty involvement in schools and school districts
Data sharing about the recruitment of new teachers

Source. Title II Partnership Evaluation Baseline Project Directors Survey.

**Additional Federal Funding for Teacher Quality.**

Additional FY 2004 resources of federal funding to improve quality teaching include the following:

- Title I grants to local educational agencies provided approximately \$605.2 million for professional development (an amount that represents the five percent of Title I funds that recipient districts must spend on professional development activities).
- Educational Technology State Grants Program contributed \$173 million to high-quality professional development in the integration of technology into curricula and instruction.
- English Language Acquisition State Grants Program makes five percent of each state’s total grant award available for the professional development of its teachers. In addition, \$39

**Performance Goals.** The Department adopted a new measure in 2004 for judging our success in implementing the highly qualified teacher requirement of No Child Left Behind: the number of core academic classes in the country taught by highly qualified teachers. Data for SY 2003–04 are pending; however, we have trend data for SY 2002–03. States reported highly qualified teacher data in many ways: as best estimates, as percentages of highly qualified teachers rather than classes taught by highly qualified teachers, and as a subset of certification data. Because of these variations, the Department did not aggregate the data. However, the data show that of the 42 states reporting, approximately half had highly qualified teachers teaching in at least 90 percent of their classes. Seven of the 42 had 50 percent or fewer of their classes taught by highly qualified teachers. See appendix A, p. 182–83, for a more complete display of state data.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 196–98, for detailed data.

Teacher and Principal Quality (Objective 2.4)		
Performance Goal	Status	Year
Core academic classes taught by <i>highly qualified</i> * teachers	Pending	FY 2004

\*As defined in section 9302 of the Elementary and Secondary Education Act.

**Student Knowledge of World Languages and International Issues Improves Global Understanding**

The Department’s fourth year celebration of International Education Week commenced with a videoconference among students and education ministry representatives from Egypt, Mexico, South Africa, and

<sup>19</sup>Information is available at <http://www.ed.gov/about/offices/list/ous/ppss/index.html>.

the United States. Participants conversed about the positive role of the Internet in making international connections possible and about the importance of learning about other countries and cultures. In other events of the busy week, Secretary Paige and Irish Minister of Education Dempsey renewed a Memorandum of Understanding on Education that emphasizes mutual cooperation and collaboration on special education. Secretary Paige also addressed more than 5,000 foreign-language teachers, challenging them to make foreign-language instruction a part of every child's education.<sup>20</sup>

In cooperation with the State Department, the Department of Education took a leadership role in the activities of the Asia Pacific Economic Cooperative's Education Network. The Department's activities in 2004 included initiating an e-Learning strategic plan that featured recommendations to improve students' and teachers' access to the Internet, teachers' capacity to use technology, and the availability of innovative educational content on the Internet. The Department also led efforts to create an agenda for the Summit on Education Reform, which focused on research-based education initiatives. We also helped launch the Knowledge Bank of Education Policy and Practice to allow for better access to policies and promising practices of other educators in the Pacific region.<sup>21</sup> Through its activities, the Department encouraged the cooperative's membership to become knowledgeable about current research, integrate research with policy recommendations, and share challenges and successes across the organization.

**Performance Goals.** Success in meeting the Department's newest objective, international education, is measured by the percentage of public secondary students enrolled in foreign-language courses and the number of postsecondary students studying abroad. Data sources for both measures have existed for some time and provided trend data that we used as baselines for

setting our targets. We were, however, unable to collect data on secondary student enrollment in foreign-language classes for 2004 because these data are collected on an average of every four years. The Department is pursuing other data sources that would allow us to collect these data on an annual basis. Trend data for postsecondary students studying abroad show an increasing number of students taking advantage of international education opportunities. The number of students rose from 143,590 in 2000 to 160,920 in 2002. Data for 2004 are pending.

The Department's progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, p. 184, for detailed data.

International Education (Objective 2.5)		
Performance Goals	Status	Year
Public secondary school students in foreign-language courses	Not collected	FY 2004
U.S. postsecondary students studying abroad	Pending	FY 2004

<sup>20</sup>The Secretary's address is available at <http://www.ed.gov/about/offices/list/our/international/iew2003/edlite-index.html>.

<sup>21</sup>Information on the Asian Pacific Economic Cooperative is available at <http://www.apecknowledgebank.org>.

## Programs Supporting Goal 2

Seventy-seven of our grant programs most directly support Goal 2. These programs are listed below. In the table we provide both FY 2004 appropriations and FY 2004 expenditures for each of these programs. We also provide an overview of the results of each program on its program performance measures. Program performance reports are available on the Web at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

Program Name	Appropriations <sup>†</sup>	Expenditures <sup>‡</sup>	Program Performance Results								
			FY 2004			FY 2003			FY 2002		
			Percent Met	Percent Not Met	Percent No Data	Percent Met	Percent Not Met	Percent No Data	Percent Met	Percent Not Met	Percent No Data
APEB: American Printing House for the Blind	17	19	0	0	100	100	0	0	100	0	0
CRA: Training and Advisory Services	8	7	0	0	100	0	0	100	50	50	0
ERDDI: Comprehensive Regional Assistance Centers	28	26	50	0	50	67	33	0	100	0	0
ERDDI: Eisenhower Regional Mathematics and Science Education Consortia	15	15	0	0	100	100	0	0	43	14	43
ESEA: 21st Century Community Learning Centers	1,003	1,042	0	0	100	38	62	0	38	62	0
ESEA: Advanced Credentialing	19	11	0	0	100						
ESEA: Advanced Placement	25	23	0	0	100	100	0	0	100	0	0
ESEA: Alaska Native Education Equity	34	36	100	0	0						
ESEA: Arts in Education	37	33									
ESEA: Charter Schools Grants	221	179	100	0	0	0	100	0	0	100	0
ESEA: Civic Education: Cooperative Education Exchange	12	11									
ESEA: Comprehensive School Reform	234	309	0	0	100	0	0	100	0	0	100
ESEA: Credit Enhancement for Charter School Facilities	38	22	0	0	100		///		/// (not funded)		
ESEA: Dropout Prevention Programs	5	11									
ESEA: Early Childhood Educator Professional Development	15	12	0	0	100					///	
ESEA: Early Reading First	96	33	0	0	100		///			///	
ESEA: Education for Native Hawaiians	34	30	0	0	100						
ESEA: Educational Technology State Grants	693	594	0	0	100	0	0	100		///	
ESEA: Eisenhower National Clearinghouse for Mathematics and Science Education	5	5	0	0	100	100	0	0	100	0	0
ESEA: English Language Acquisition	694	646	20	0	80	30	0	70	0	0	100
ESEA: Even Start	250	251	0	0	100	0	0	100			
ESEA: Excellence in Economic Education	2	0						/// (not funded)		/// (not funded)	
ESEA: Foreign Language Assistance	17	14									
ESEA: Fund for the Improvement of Education Programs of National Significance	287	231							67	23	0
ESEA: Impact Aid Basic Support Payments	1,072	1,086	50	0	50	100	0	0	50	50	0
ESEA: Impact Aid Payments for Children with Disabilities	51	52									
ESEA: Impact Aid Construction	46	30	0	100	0	0	100	0	0	100	0
ESEA: Impact Aid Facilities Maintenance	8	11									
ESEA: Impact Aid Payments for Federal Property	63	63									
ESEA: Improving Teacher Quality State Grants	2,933	2,398	0	0	100	100	0	0		///	
ESEA: Indian Education Grants to Local Educational Agencies	102	93	0	0	100	0	0	100	0	33	67
ESEA: Javits Gifted and Talented Education	11	8									
ESEA: Literacy Through School Libraries	21	13	0	0	100					///	
ESEA: Magnet Schools Assistance	111	105	0	0	100	0	0	100			
ESEA: Mathematics and Science Partnerships	151	23	0	0	100		/// (program reconfigured)				
ESEA: Migrant State Agency Program	399	392	0	0	100	0	0	100	0	0	100
ESEA: National Writing Project	18	17	0	0	100						

<sup>†</sup> Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

<sup>‡</sup> Expenditures occur when recipients draw down funds to cover actual outlays. FY 2004 expenditures may include funds from prior years' appropriations. Expenditures for each program include the program's proportional share of administrative expenditures.

■ A shaded cell denotes that the program did not have targets for the specified year.

/// Denotes programs not yet implemented (Programs are often implemented near the end of the year they are first funded.)

APEB = Act to Promote the Education of the Blind

ESEA = Elementary and Secondary Education Act

CRA = Civil Rights Act

ERDDI = Educational Research, Development, Dissemination and Improvement Act

**Programs Supporting Goal 2 (Cont'd)**

Program Name	Appropriations <sup>†</sup>	Expenditures <sup>‡</sup>	Program Performance Results								
			Percent of Targets Met, Not Met, Without Data								
			FY 2004			FY 2003			FY 2002		
FY 2004 \$ in millions	FY 2004 \$ in millions		% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Neglected and Delinquent State Agency Program	49	50	0	0	100	75	0	25			
ESEA: Parental Assistance Information Centers	44	42	0	0	100	0	0	100			
ESEA: Reading First State Grants	1,026	628				11	0	89			///
ESEA: Reading Is Fundamental/Inexpensive Book Distribution	25	26	0	0	100	100	0	0			
ESEA: Ready to Teach	15	12	0	0	100						
ESEA: Ready-to-Learn Television	23	23	0	0	100	0	0	100			
ESEA: Regional Technology in Education Consortia	10	11									
ESEA: Rural Education	169	158									
ESEA: School Leadership	13	10	0	0	100						
ESEA: Smaller Learning Communities	177	70	0	0	100	0	100	0			
ESEA: Special Programs for Indian Children	21	18	0	0	100						
ESEA: Star Schools Program (FIE)	21	30	50	50	0	50	50	0	100	0	0
ESEA: State Assessments	393	333	0	0	100	0	0	100			///
ESEA: State Grants for Innovative Programs	298	359	0	0	100	100	0	0			
ESEA: Teaching of Traditional American History	122	97	0	0	100	0	0	100			
ESEA: Title I Grants to Local Educational Agencies	12,348	10,848	25	0	75	83	0	17	67	0	33
ESEA: Transition to Teaching	48	36	50	25	25	50	0	50			
ESEA: Troops-to-Teachers	15	20	0	50	50	100	0	0			
ESEA: Voluntary Public School Choice	27	8	0	0	100	100	0	0			
ESEA: Women's Educational Equity	3	2									
ESRA: National Assessment	97	41	(off year for collection)			0	100	0	(off year for collection)		
ESRA: National Assessment Governing Board	6	4									
ESRA: Regional Educational Laboratories	68	68	0	0	100	100	0	0	100	0	0
HEA: High School Equivalency Program	20	23	0	0	100	100	0	0			
HEA: State Grants for Incarcerated Youth Offenders	20	16	0	0	100	0	0	100	0	0	100
HEA: Teacher Quality Enhancement	93	81	0	0	100	0	0	100			
IDEA: Special Education Grants for Infants and Families	453	422	25	0	75	33	0	67	50	0	50
IDEA: Special Education Grants to States	10,083	8,673	20	0	80	13	63	25	0	71	29
IDEA: Special Education Parent Information Centers	28	27	0	0	100	50	0	50	50	0	50
IDEA: Special Education Personnel Preparation	97	81	0	0	100	0	33	67	33	33	33
IDEA: Special Education Preschool Grants	389	379	0	100	0	0	100	0	100	0	0
IDEA: Special Education State Improvement	52	41	0	0	100	33	0	67	67	0	33
IDEA: Special Education Technical Assistance and Dissemination	57	51	0	0	100	0	25	75	25	25	50
IDEA: Special Education Technology and Media Services	41	38	0	0	100	0	40	60	0	40	60
MVHAA: Education for Homeless Children and Youths	60	47	0	0	100	67	0	33			
VTEA: Occupational and Employment Information	9	8	50	50	0						
VTEA: Tech-Prep Demonstration	5	0									
VTEA: Vocational Education National Programs	18	20	0	0	100						
VTEA: Tech-Prep Education State Grants	107	118	0	0	100	14	86	0	29	71	0
VTEA: Vocational Education State Grants	1,204	1,161									
<b>Total</b>	<b>36,529</b>	<b>*31,930</b>									

<sup>†</sup> Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

<sup>‡</sup> Expenditures occur when recipients draw down funds to cover actual outlays. FY 2004 expenditures may include funds from prior years' appropriations. Expenditures for each program include the program's proportional share of administrative expenditures.

\* Additionally, expenditures of \$758 million met prior years' obligations for Goal 2 programs that were not funded for FY 2004.

█ A shaded cell denotes that the program did not have targets for the specified year.

/// Denotes programs not yet implemented (Programs are often implemented near the end of the year they are first funded.)

ESEA = Elementary and Secondary Education Act

IDEA = Individuals with Disabilities Education Act

ESRA = Education Sciences Reform Act

MVHAA = McKinney-Vento Homeless Assistance Act

FIE = Fund for the Improvement of Education

VTEA = Vocational and Technical Education Act

HEA = Higher Education Act

## PART Analysis for Goal 2 Programs

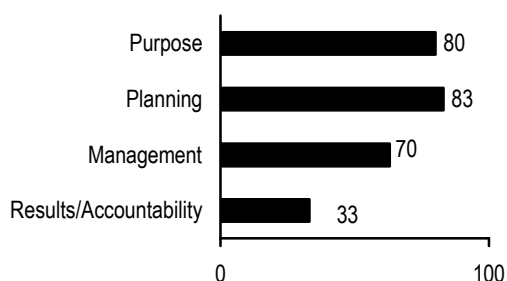
The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget as a standardized process for determining program effectiveness in a consistent way across agencies. Over a five-year period, most government programs will be evaluated under this process. Results of PART reviews are used by agencies as one component of justifying their budget requests. Following are summaries of PART reviews that were conducted in conjunction with preparing the Department's FY 2004 budget request and subsequent updated reviews of those programs.<sup>22</sup>

### Program: Comprehensive School Reform

**Year of Rating:** For FY 2004 Budget

**Rating:** Adequate

**Program Type:** Block/Formula Grants

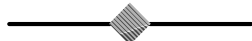


#### Recommendation:

1. Redirect this funding to Title I and close out this program in order to reduce program duplication and administrative burden.

#### Response:

1. The President's 2004 and 2005 budgets proposed to eliminate this program.

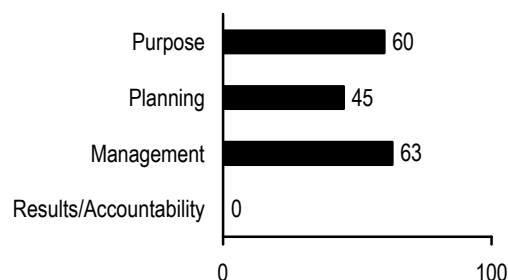


### Program: Even Start

**Year of Rating:** For FY 2004 Budget

**Rating:** Ineffective

**Program Type:** Block/Formula Grants

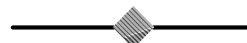


#### Recommendation:

1. Obtain sufficient funds to continue awards to current grantees and redirect funds to Early Reading First to support model preschool programs to teach prereading skills.

#### Response:

1. The action was proposed in the President's 2004 budget. The President's 2005 budget proposed to eliminate all funding for the program.

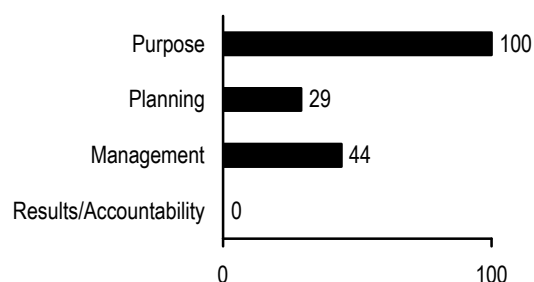


### Program: IDEA Grants for Infants and Families

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Block/Formula Grants



#### Recommendations:

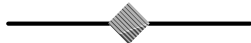
1. Work with the Congress on the upcoming IDEA reauthorization to increase the act's focus on results, increase state accountability for child outcomes, and reduce unnecessary regulatory and administrative burden.

<sup>22</sup>Information about the PART process is available at <http://www.whitehouse.gov/omb/part/>. Information on Department PARTs is available at [http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap\\_cd\\_rom/part.pdf](http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf) and <http://www.whitehouse.gov/omb/budget/fy2005/pma/education.pdf>.

2. Establish long-term outcome-oriented objectives, and develop a strategy to collect annual performance data in a timely manner.

**Response:**

1. The Department has worked with the Congress. The Congress has not completed action on the reauthorization of the IDEA.
2. The Department has embarked on a multifaceted approach to addressing the PART findings, including implementation of a plan to promote the development of state systems for collecting data on child outcomes that would allow the Department to obtain meaningful performance data for this program.

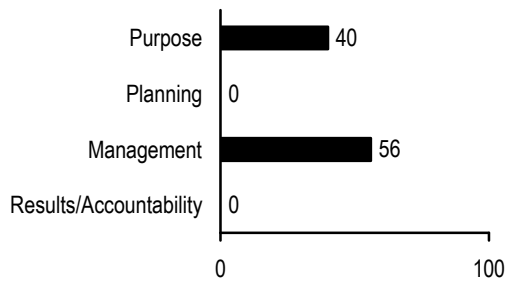


**Program: IDEA Preschool Grants**

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Block/Formular Grants



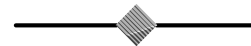
**Recommendations:**

1. Maintain federal funding at last year’s level until the Administration has had a chance to work with the Congress on the IDEA reauthorization and on determining how best to serve preschool children with disabilities under the act.
2. Develop long-term performance goals, and annual goals for performance, for preschool children with disabilities.
3. Improve collaboration with other federal programs.

**Response:**

1. The President has proposed to maintain funding for this program at the prior year’s level since 2003 and provided technical assistance to the Congress regarding the IDEA reauthorization. However, the Congress has not completed action on the reauthorization.

2. The Department reviewed and revised the performance measures for the program and has begun to implement a multifaceted plan to obtain outcomes data.
3. The Department is working with relevant partners such as the Head Start, Maternal and Child Health, and Child Care Bureaus and the National Institute on Child Health and Development to coordinate the development of child and family outcome measures.

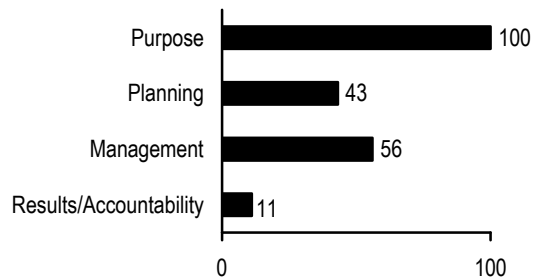


**Program: IDEA Grants to States**

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Block/Formular Grants



**Recommendations:**

1. Provide a \$1 billion increase for this program to help states and schools meet their responsibilities under the IDEA and try to demonstrate the program is achieving real results.
2. Work with the Congress on the IDEA reauthorization to increase the act’s focus on accountability and results, and reduce unnecessary regulatory and administrative burdens.
3. Collect timely NAEP data for students with disabilities that meet the same standards as other NAEP data.
4. Improve collaboration with other federal programs.

**Response:**

1. The President requested an increase of \$1 billion in the budget requests for FY 2004 and 2005.
2. The Department worked with the Congress on the reauthorization of the IDEA. The Congress has not completed action on the reauthorization of the IDEA.

3. Timely NAEP data for students with disabilities that meet the same standards as other NAEP data are now collected.
4. The Office of Special Education and Rehabilitative Services is continuing to work to improve collaboration with other federal programs.

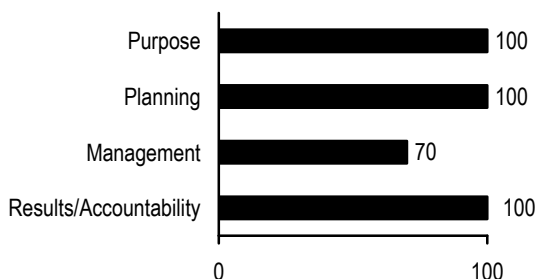


**Program: National Assessment**

**Year of Rating:** For FY 2004 Budget (Initial)  
For FY 2005 Budget (Revised)

**Rating:** Effective

**Program Type:** Research and Development

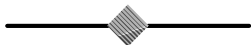


**Recommendations:**

1. The 2002 PART assessment found a weakness in long-term performance measurement for NCES.
2. The Department needs to improve the timeliness of NCES products and services.

**Response:**

1. The Department has established long-term performance measures for the program.
2. The Department is examining the timeliness of NCES products and services, including National Assessment products and services. NAEP 2003 reading and mathematics reports were released eight months after the completion of data collection, two months later than the six-month reporting target, but in less than half the time of previous NAEP reports.

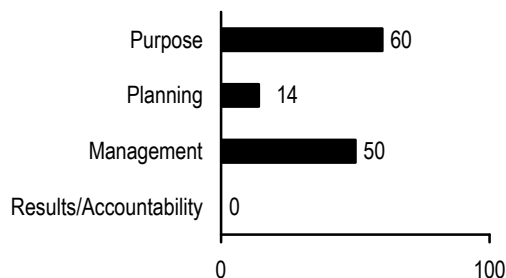


**Program: Occupational and Employment Information**

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Competitive Grants



**Recommendation:**

1. The 2004 budget proposes to terminate the program so that federal resources can be used to support other education priorities.

**Response:**

1. This action was proposed in the President’s 2004 budget. The 2005 budget and the Administration’s “blueprint” for reauthorization of vocational education programs also proposed program termination.

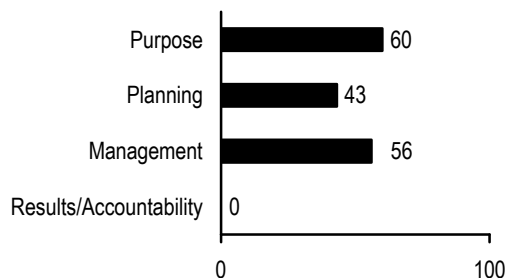


**Program: Tech-Prep Education State Grants**

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Block/Formula Grants



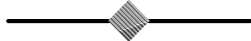
**Recommendation:**

1. The 2004 budget proposes to terminate the program so that federal resources can be redirected to

programs with a proven track record for effectiveness.

**Response:**

1. This action was proposed in the President’s 2004 budget. Also, the 2005 budget and the Administration’s “blueprint” for reauthorization of vocational education programs proposed program termination. Under that proposal, Tech-Prep programs could be funded with formula grant funds if state and local agencies choose to allocate their resources for that purpose.

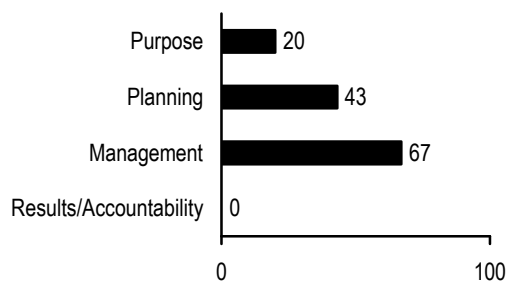


**Program: Vocational Education State Grants**

**Year of Rating:** For FY 2004 Budget

**Rating:** Ineffective

**Program Type:** Block/Formula Grants



**Recommendations:**

1. Grantee funding will be contingent on a rigorous assessment that student outcomes are being achieved.
2. Grantees will have the flexibility to focus program funds in a manner that best serves students in a given locality.
3. States will have the option to redirect high school funds from this program into their programs under Title I of the Elementary and Secondary Education Act of 1965 to maximize flexibility.

4. The program will correct all outstanding data collection problems and adopt new “common” performance measures that will allow better assessment of how the program is achieving student outcomes and enable comparisons with other programs serving similar objectives. The Department will set short- and long-term targets based on the common measures and develop strategies for collecting the necessary data to institute common measures.

**Response:**

1. The Administration’s reauthorization strategy for vocational education programs, outlined for the first time in the President’s 2004 budget, proposes to establish a strong state accountability framework for career and technical education to ensure that federal funds are used for activities and services for which there is evidence of positive student outcomes. Congressional action to reauthorize the program is pending.
2. Under the Administration’s reauthorization proposal, states will have considerable flexibility in how they develop and operate their statewide system of partnerships, while being held accountable for improving student outcomes. Local partnerships will be able to spend federal funds on a wide variety of activities that contribute to building effective career and technical education pathways and meet the ambitious performance goals of the program.
3. The Congress has taken no action on this proposal, which assumed that under the reauthorization, states would distribute funds by formula. The proposal was dropped in the Administration’s reauthorization blueprint, which proposes to target funding through state competitive grants.
4. The Administration’s blueprint for reauthorization of the program proposes statutory changes to correct data collection problems and permit the adoption of new common performance measures. The Departments of Education and Labor are specifying final definitions for common measures. Annual targets have been established; long-term targets are contingent upon reauthorization.



# Goal 3

*Education is the best means to teach our children values and good character. ... It is the key to a good economy and a prosperous future that is shared by all Americans.*

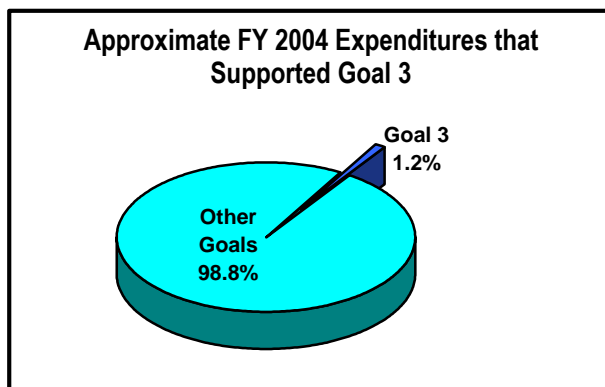
—Secretary Rod Paige

## GOAL 3. DEVELOP SAFE SCHOOLS AND STRONG CHARACTER

As an essential part of every American community, schools strive to provide every student with an environment that supports learning and social development. As Deputy Under Secretary for Safe and Drug-Free Schools Deborah Price says, “For kids to learn in the classroom, they must feel safe and have a sense of well-being; if there is bullying, drug use, and an absence of a commitment to character, kids don’t learn.” The ambitious universal student achievement and strong character goals of No Child Left Behind cannot be met without orderly and supportive learning environments.

To ensure safe and drug-free learning environments, the Department invests in policies, practices, and programs that address student safety, health, and character. This comprehensive approach to improving and maintaining school safety helps educators to prevent or manage risk factors that endanger student well-being and chances for success. In fiscal year (FY) 2004, the Department partnered with law enforcement, health, and education officials to effectively target federal resources to policies and practices that help educators improve or maintain school safety and a variety of student health behaviors.

### Department Expenditures

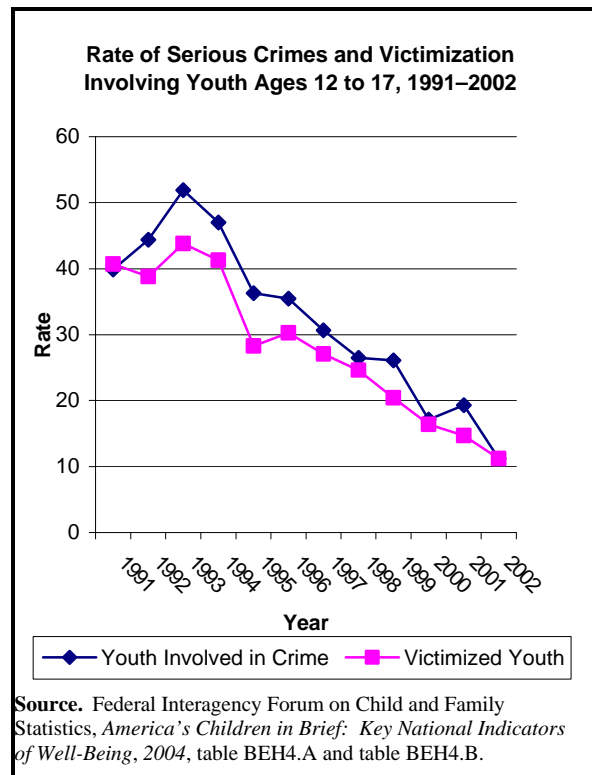


### A Safe School Environment and Healthy Students Are Vital for Student Achievement

Safe and drug-free learning environments provide nurturing settings that allow students to focus on learning. Though teachers and students have a tremendous impact on the quality of the learning

environment, external events and societal conditions may introduce risk factors that can negatively affect the academic, mental, and physical development of students.

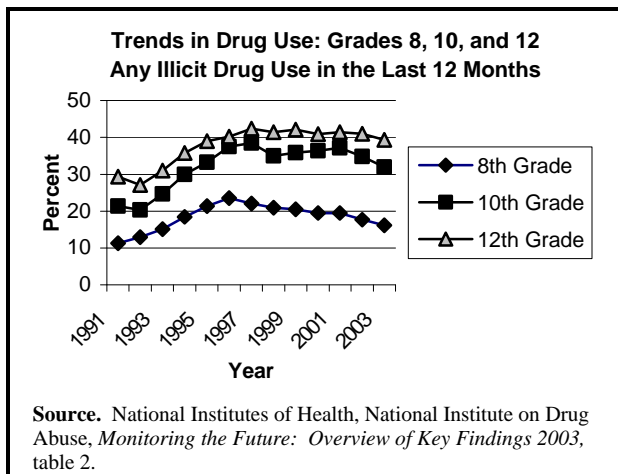
To give every student a chance at success in school, communities and schools must work together to promote environments that are conducive to learning and healthy development. Exposure to violence and drugs at or away from school can put students at risk of failure resulting from low class attendance and perceptions of their peers’ approval of drug use and violence. Crises such as natural disasters and accidents can distract educators and students from school duties. To help school and community officials maintain a safe learning environment for students, the Department focused its FY 2004 resources on programs to strengthen crisis planning and response, and the prevention of student violence and drug use.



**Reducing Youth Drug Use and Violence.** Drug and alcohol abuse can have a devastating impact on students, communities, and learning environments. The Department is committed to reducing the disruptive influences of substance abuse on school and college

campuses through its safe and drug-free schools programs. The programs encourage students to adopt positive anti-drug norms and responsible decision-making skills through a comprehensive approach to prevention that addresses all aspects of school safety and substance abuse prevention. In FY 2004, the Department worked with program grantees to prevent substance abuse and violence among elementary and secondary school and college students.

The Safe and Drug-Free Schools and Communities State Grants Program is the Department’s largest program for preventing drug use and violence. In FY 2004, the Department provided over \$440 million in grants to 50 states, the District of Columbia, Puerto Rico, and the territories. The states distribute funds to local educational agencies based on their enrollment and their proportion children in poverty.<sup>1</sup> The program also provides funds to governors to support community-based drug and violence prevention activities. Funded recipients implement programs that best meet local needs and emphasize the use of scientifically proven strategies for reducing youth drug use and violence.



<sup>1</sup> States distribute 60 percent of Safe and Drug-Free Schools and Communities State Grants Program funds based on each local educational agency’s relative share of ESEA Title I (Part A) funding and the remaining 40 percent based on enrollment. Title I funding is distributed based on each local educational agency’s poverty rate, which allows states to target Title I and Safe and Drug-Free Schools State Grant Program resources to districts with the greatest funding needs.

Examples of grantee programs in FY 2004 include the following:

- To remedy student drug and alcohol problems, the Adams County School District in Colorado implemented a community assessment and referral program and provided referral assistance to district staff. The district achieved a 67 percent reduction in suspensions for drug and alcohol abuse.
- In Mandan, N.D., the Mary Stark Elementary School partnered with the North Dakota State University to build protective factors to prevent school failure, substance abuse, and other risky behaviors. The factors targeted family functioning, social connectedness, child behavior, and parental involvement with school. An evaluation revealed a 40 percent increase in prosocial behavior scores and a 63 percent increase in parent-school involvement.

Through the Safe Schools/Healthy Students Initiative, the Department provides local educational agencies with grants to implement programs focused on drug and violence prevention, mental health, early childhood development, and other protective factors. Grantees work collaboratively with community stakeholders to connect schools with communities and to provide safe and healthy settings for at-risk children. Several grantees reported in FY 2004 that they demonstrated a positive impact on at-risk students participating in programs funded by the Safe Schools/Healthy Students Initiative.

One example of the positive impact of the Safe Schools/Healthy Students Initiative on at-risk children is the Covington Independent Public School District project in Kentucky, which is using the grant to implement its Across Ages Mentoring Program. During FY 2004, preliminary data indicate that the program is having a positive impact on student discipline, grades, and attendance. Participating students’ disciplinary referrals have decreased faster than those of classmates not in the program. In addition, grades and attendance have improved.

Alcohol abuse can negatively affect student achievement and health. To implement innovative and effective

alcohol abuse reduction programs in secondary schools, the Department provides financial assistance through Grants to Reduce Alcohol Abuse. Grantees must implement one or more proven strategies for reducing underage alcohol use.

The Denver Public School System used funds from Grants to Reduce Alcohol Abuse to affect attitudes on drug use. During the course of the grant, fewer participating students held positive views of alcohol consumption. A pre- and posttest comparison shows statistically significant improvements in student attitudes toward smoking, drinking, and drugs. In the pretest, 10.2 percent of the 107 participants agreed that “kids who drink alcohol have more friends,” while 4.6 percent believed it at posttest. Significant improvements also occurred in drug refusal skills. In the pretest, 63.9 percent of students would say “no” when offered beer, wine, or liquor; in the posttest, 88.9 percent of students would say “no.”

The Grants to Prevent High-Risk Drinking<sup>2</sup> or Violent Behavior Among College Students Program provides funds for developing, enhancing, and evaluating campus-based prevention programs and strategies. Grantees work to reduce high-risk drinking by encouraging students to choose safe and healthy social environments and by raising awareness of perceived peer alcohol consumption rates among students, which are often higher than actual consumption rates.

In FY 2004, the University of California at Berkeley implemented a project that improved student perception of peer drinking and increased the number of hours of alcohol-free activities. During the two-year grant period, participating students’ perceptions of the amount of peer drinking decreased. After the project, students perceived that 70 percent of males and 51 percent of females drank at least once a week, a 19 percent reduction in the perception of male drinking and a 27 percent reduction

for females. Alcohol-free hours of activity during welcome and orientation weeks increased by 125 percent between 2002 and 2003 from 20 to 45 total hours. Researchers and practitioners have found that orientation week is a traditional period of excessive alcohol consumption, especially among new students who perceive high peer-drinking levels.

The Department’s Demonstration Grants for Student Drug Testing provide funding for drug testing programs and evaluations of testing effectiveness. Through testing, school and health officials can help prevent drug use and identify students using drugs so that they can be referred for treatment. Testing provides a positive anti-drug norm for students and a legitimate reason among peers not to take drugs. Secretary Paige stated, “drug prevention programs confer a considerable amount of power on all students who participate—the power to say no.”<sup>3</sup> In FY 2004, eight grantees refined mechanisms for participant identification, test result accuracy, and referral to treatment. The Department expects that this work will yield data and information in FY 2005, when student testing begins.

**Crisis Planning and Response.** In communities affected by natural disasters and major accidents, school officials must work in concert with health providers and law enforcement officials to help families in crisis. Given the unique history, culture, and location of each community, schools may have varying risks of experiencing different types of crises. To help schools manage crises, the Department provides funding and technical assistance to school districts for vigorous crisis response preparedness and for immediate response to schools adversely affected by an emergency.

Emergency Response and Crisis Management grants provide funding to local educational agencies for improving school emergency response and crisis management plans. Crisis plans are customized for each community and school to effectively meet students’ needs. In FY 2004, 134 grantees used Department

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<sup>2</sup> The Department defines high-risk drinking as one or more of the following: binge drinking (five or more drinks at one occasion), underage drinking, drinking while driving, and drinking while impaired by other causes, such as prescription medication. See <http://www.ed.gov/legislation/FedRegister/finrule/2000-2/040600d.pdf>.

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<sup>3</sup> U.S. Department of Education press release, October 30, 2003. Available at <http://www.ed.gov/news/speeches/2003/10/10302003.html>.

funding to develop or revise crisis plans in nearly 12,000 schools.

One example of an Emergency Response and Crisis Management grantee is the Santa Rosa County School District in Milton, Fla. Santa Rosa used FY 2004 grant funding to conduct a full-scale crisis simulation drill to help assess districtwide preparedness and ability to respond to a crisis. The drill involved multiple hazards and was coordinated with 22 different community agencies and over 600 participants. The drill helped the district identify weaknesses in the crisis plan's communication strategies, especially between staff and first responders. To address communication issues, Santa Rosa improved its critical communication protocol to include an eight-layer communication plan that uses low- and high-tech devices that range from whistles and bullhorns to cellular phones and a secure Web site to provide timely information to first responders.

The Department's Project School Emergency Response to Violence (Project SERV) provides immediate funds to schools that have experienced a significant crisis or emergency. The funds help local educational agencies restore learning environments disrupted by a violent or traumatic event, or help with undue financial hardship caused by the emergency.

In FY 2004, Project SERV funds helped educators at Rocori High School in Cold Spring, Minn., respond to a school shooting in which two students were killed. The murders were witnessed by a significant number of students and staff at the school. The district used Project SERV funds for counseling support and programs to help students, teachers, and parents with the recovery process.

**Performance Goals.** To measure safe and drug-free school programs' effectiveness, the Department measures student victimization and drug use and availability on school property. Though far too many students continue to be victimized at or away from school, data show that the rates of student victimization and drug use at schools continued to decline in recent

years.<sup>4</sup> The Department met its 2002 goals for reducing the number of violent crimes and serious violent crimes that students aged 12–18 experienced at school. Between 2001 and 2002, the rate of serious violent crime that students aged 12–18 experienced decreased by half. The data signal an overall positive trend in crime rates over the last decade. The Department expects to have 2003 violent crime and serious violent crime data in November 2005, and data for 2004 in November 2006.

To measure youth substance abuse, the Department uses two measures for marijuana, cigarette, and alcohol consumption—use by youth aged 12–17 in the past 30 days and use by high school students on school property in the past 30 days.

In the aggregate, we made progress toward meeting our performance goal for reducing the 30-day prevalence of substance abuse among youth ages 12–17. Though the Department did not meet its 2003 target for cigarette and marijuana abuse reduction among youth ages 12–17, the decline from 2002 to 2003 shows that we made progress. For alcohol abuse, the most recent data from 2003 show a slight increase over 2002 data; thus, we did not meet our target.

Measures of substance use by high school students on school property show more encouraging results. In the aggregate, we met our performance goal for reducing substance abuse on school property. The FY 2003 data show results that are better than our targets for reducing the 30-day prevalence of marijuana use and cigarette smoking on school property. Due to large reductions in on-campus student-reported smoking, the Department did better than our target by 43 percent. Because alcohol consumption showed a slight increase in FY 2003, we did not meet that target. Data for use on school property are collected biennially in odd-numbered years.

The Department's progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 199–200, for detailed data.

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<sup>4</sup> U.S. Departments of Education and Justice, *Indicators of School Crime and Safety*, 2003. Available at <http://nces.ed.gov/pubs2004/2004004.pdf>.

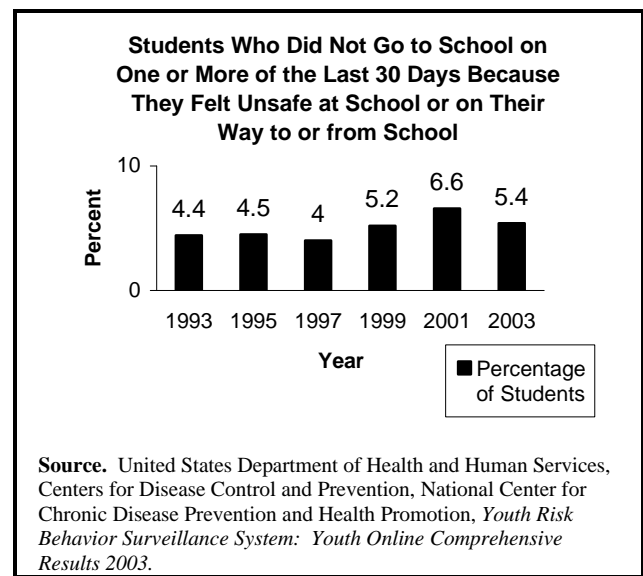
Safe and Drug-Free Schools (Objective 3.1)		
Performance Goals	Status	Year
Crimes experienced at school by students ages 12–18 • Violent crimes • Serious violent crimes	Did better than	FY 2002
Youth ages 12–17 using the following substances in the past 30 days • Alcohol • Tobacco (cigarettes) • Marijuana	Made progress	FY 2003
High school students using the following substances on school property in the previous 30 days • Alcohol • Cigarettes • Marijuana	Met	FY 2003
High school students offered, sold, or given an illegal drug on school property in the previous 12 months	Did better than	FY 2003

### Strong Character and Good Citizenship Improve the Learning Environment

Schools play a major role in the physical, mental, and social development of students. Within the learning environment, students make critical choices that can build or erode strong character. Character and citizenship education is essential for the future success of students because it teaches the values of respect, service, and regard for democratic principles such as tolerance and civic participation. According to President Bush, “The future success of our Nation depends on our children’s ability to understand the difference between right and wrong and to have the strength of character to make the right choices.” In addition to helping individual students, successful character and citizenship education helps to build a healthy school culture. Within these healthy learning environments, teachers and students uphold a high standard of conduct that encourages students to make responsible decisions and participate in school activities. To help schools enhance a healthy school climate, the Department provides financial assistance for mentoring and for character and citizenship education programs.

**Mentoring and Character Education.** The Department’s Mentoring Program provides grants to support the academic and social needs of at-risk children. Many students lack positive role models and have low class attendance rates because of instability at home or dangerous conditions at or on the way to school. Through the relationship with a mentor, students are exposed to successful and caring adults who help with schoolwork and life challenges.

The Building Futures mentoring program of the Urban Services YMCA in San Francisco annually provides mentors to 125 at-risk youth. Among the goals of the program are helping students to improve academic performance and interpersonal relationships, and reducing truancy and delinquency. Based on preliminary data, the program is making progress in improving grades and behavior. Seventy percent of participating students showed academic and behavioral improvement in school. More than 80 percent showed a decrease in antisocial behavior, which likely contributed to increases in academic achievement and a sharp decrease in the percentage of students referred to law enforcement officials for delinquency or criminal behavior.



Partnerships in Character Education grants support the design and integration of character education values and programs in classroom instruction. Grantees promote strong values that include the emotional, intellectual, and moral qualities of a person or group, and the

demonstration of these virtues in prosocial behavior. Students are challenged to develop moral reasoning, problem-solving, and interpersonal skills to improve character development and behavior.

Through a Partnerships in Character Education grant, the Orange County Department of Education in Orange County, Calif., opened an Institute for Character Education. The institute builds the relational skills of youth and their parents through core character elements such as integrity, respect, and citizenship. Preliminary data indicate a high level of character element awareness among students participating in institute experiments. Eighty-five percent of fifth-, seventh-, and ninth-grade teachers agree that participants “respect others, even if he or she disagrees with them.” Other data also indicate high levels of cooperation among participating students. Ninety-two percent of seventh-grade teachers and 94 percent of ninth-grade teachers say that students “cooperate in work and play situations.”

**Promoting Good Citizenship and Civic Participation.**

We the People: Project Citizen is a curricular program for middle school students that promotes competent and responsible participation in local and state government. The program teaches young people to monitor and influence public policy and to develop an understanding of the democratic process when participating in activities that involve decision-making, policy development, and conflict resolution. In the process, students develop support for democratic values and principles, tolerance, and feelings of political efficacy.

**Performance Goals.** To measure the effectiveness of Department programs in promoting strong character and

citizenship, the Department measures student attitudes toward certain negative behaviors and participation in community service or volunteer work. The most recent data available for student attitudes toward negative behavior show mixed results. The Department exceeded our 2003 target for the percentage of 12th-grade students who dislike making a teacher angry, but we did not meet our 2003 target for 12th-grade students who think that most students dislike cheating or our 2003 target for 14- to 18-year-olds who believe cheating occurs by half or most students. Because of changes in data tabulation between 2002 and 2003 actual data, results on beliefs about cheating may not be comparable. Data for FY 2004 are pending.

The Department did not collect data for 12th-grade student participation in community service or volunteer work for FY 2004. Since there are no reliable data for this measure, the Department plans to discontinue it.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 200–01, for detailed data.

Character and Citizenship (Objective 3.2)		
Performance Goals	Status	Year
Twelfth-graders who participate in community service or volunteer work	Not collected	FY 2004
Twelfth-graders who dislike certain behaviors <ul style="list-style-type: none"> <li>• Students making teachers angry</li> <li>• Classmates cheating on a test</li> </ul>	Met	FY 2003
14- to 18-year-olds who believe cheating occurs by half or most students	Did not meet	FY 2003



## Programs Supporting Goal 3

Eleven of our grant programs most directly support Goal 3. These programs are listed below. In the table we provide both FY 2004 appropriations and FY 2004 expenditures for each of these programs. We also provide an overview of the results of each program on its program performance measures. Program performance reports are available on the Web at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

Program Name	Appropriations <sup>†</sup> FY 2004 \$ in millions	Expenditures <sup>‡</sup> FY 2004 \$ in millions	Program Performance Results Percent of Targets Met, Not Met, Without Data								
			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Alcohol Abuse Reduction	30	23				0	0	100			
ESEA: Character Education	25	23	0	0	100	100	0	0			
ESEA: Civic Education: We the People	17	18							0	0	100
ESEA: Close-Up Fellowships	2	2	0	0	100						
ESEA: Elementary and Secondary School Counseling	35	34				0	0	100			
ESEA: Exchanges with Historic Whaling and Trading Partners	9	8	0	0	100						
ESEA: Project SERV	0	0.2									
ESEA: Mentoring Program	51	18									
ESEA: Safe and Drug-Free Schools and Communities Other National Programs	159	68	0	0	100	100	0	0	100	0	0
ESEA: Physical Education Program	72	58				0	0	100			
ESEA: Safe and Drug-Free Schools and Communities State Grants	444	442				17	83	0	20	0	80
<b>Total</b>	<b>844</b>	<b>* 693</b>									

<sup>†</sup> Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

<sup>‡</sup> Expenditures occur when recipients *draw down* funds to cover actual outlays. FY 2004 expenditures may include funds from prior years' appropriations. Expenditures for each program include the program's proportional share of administrative expenditures.

\* Additionally, expenditures of \$63 million met prior years' obligations for Goal 3 programs that were not funded for FY 2004.

■ haded cell denotes that the program did not have targets for the specified year.

ESEA = Elementary and Secondary Education Act

## PART Analysis for Goal 3 Programs

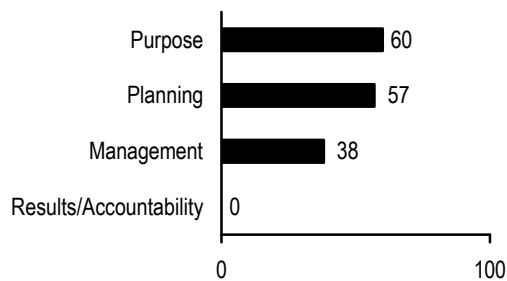
The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget as a standardized process for determining program effectiveness in a consistent way across agencies. Over a five-year period, most government programs will be evaluated under this process. Results of PART reviews are used by agencies as one component of justifying their budget requests. Following are summaries of PART reviews that were conducted in conjunction with preparing the Department’s FY 2004 budget request and subsequent updated reviews of those programs.<sup>5</sup>

### Program: Safe and Drug-Free Schools State Grants

**Year of Rating:** For FY 2004 Budget

**Rating:** Ineffective

**Program Type:** Block/Formula Grants



### Recommendations:

1. Make a modest reduction in funding and tie future funding to the demonstration of results.
2. Develop a new strategy for measuring program performance that helps improve local programming decisions and is of equal use to state, local, and federal administrators.
3. Study ways to redesign the program to better distribute funds and support high-quality, research-based strategies at the local level.

### Response:

1. This action was proposed in the President’s 2004 budget, and the Congress reduced funding by \$28 million.
2. A new strategy will assess whether the state grants program is making an investment toward positive outcomes by tracking (1) national survey data on the prevalence of youth drug use and violence, and (2) data on the extent to which recipients of grant funds are implementing research-based practices. In addition, Safe and Drug-Free Schools and Communities funds are supporting data management improvement grants and related technical assistance to states to develop, enhance, or expand the capacity of states and local educational agencies to collect, analyze, and use data to improve program management.
3. The Department is supporting an evaluation of research-based practices to inform measurement of (1) the percentage of drug and violence prevention programs and practices supported with Safe and Drug-Free Schools and Communities State Grant funds that are research-based, and (2) percentage of local educational agency research-based drug and violence prevention programs and practices funded by those grants that are implemented with fidelity to the research on which they are based.

<sup>5</sup> Information about the PART process is available at <http://www.whitehouse.gov/omb/part/>. Information on Department PARTs is available at [http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap\\_cd\\_rom/part.pdf](http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf) and <http://www.whitehouse.gov/omb/budget/fy2005/pma/education.pdf>.

# Goal 4

*The most effective resource we have for improving American schools is scientifically valid knowledge about which strategies work and which don't work.*

—Secretary Rod Paige

## GOAL 4: TRANSFORM EDUCATION INTO AN EVIDENCE-BASED FIELD

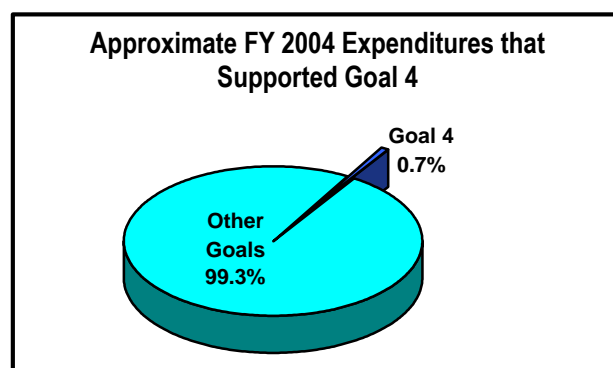
To improve education for all children, educators need to have an understanding of which practices and policies are effective for improving student achievement and which are not. Providing solutions to the education problems in our nation can only be achieved with trustworthy information on the effectiveness of teaching and learning methods. In response to this need, the Department of Education has committed to improving the quality and relevance of the research we fund and conduct.

The No Child Left Behind Act grounds education improvement in the application of scientifically based research, defined as “rigorous, systematic, and objective procedures to obtain reliable and valid knowledge relevant to education activities and programs.”<sup>1</sup> Implicit in the legislation is the assumption that obtaining positive education impacts requires research, and the type of research methods matters. The history of other fields that have become grounded in science shows a progression from decision-making based on precedent to decision-making based on evidence derived from systematic protocols for collecting and analyzing data. Further, in other fields, rapid technological and functional advances have followed the shift to evidence-based decision-making. The Department has made it a strategic priority to bring about just such a change in education.

The Department of Education conducts research across a wide variety of education research topics and funds specialized projects in special education, rehabilitation, and disability research. The Institute of Education Sciences, the Department’s primary research arm, reflects our commitment to advance the field of education research, supporting evidence-based education through high standards for research methods and the development and dissemination of research designed to ultimately inform and improve teacher instruction and student achievement. In the Department’s Office of Special Education and Rehabilitative Services, there are two research divisions: the Office of Special Education Program’s Research to Practice Division focuses on

research, demonstrations, and technical assistance and dissemination for students with disabilities; the National Institute on Disability and Rehabilitation Research maintains a comprehensive program of research and development related to the rehabilitation of individuals with disabilities. Together these three entities advance research in the field to improve teaching and learning in schools and to increase access for individuals with disabilities.

### Department Expenditures



### High Research Standards Result in Rigorous Studies

As we hold students, teachers, and schools accountable for their performance, we are also committed to providing them with reliable evidence about educational effectiveness. Education fads will come and go, but the Department of Education encourages practitioners and decision-makers to make decisions based on the best available evidence. The first step in this process has been the impressive gains in the past year that the Department has made to fund studies based upon rigorous and scientifically based research standards.

Improving the quality of research begins with establishing more rigorous standards for the quality of the projects supported by the Department. The Department communicates these standards to researchers by releasing funding announcements with detailed methodological requirements. To ensure that these standards are met, the Department convenes scientific peer review panels of experienced researchers to evaluate the technical merit of research proposals and funds only

<sup>1</sup> Public Law 107-110, No Child Left Behind Act of 2001, section 9101.

applications that meet the high standards for research quality.

**Performance Goals.** To determine whether newly funded education research and evaluation efforts are of high quality, each year an external panel of distinguished scientists appraises a randomly selected sample of newly funded grant proposals. Based on preliminary FY 2004 data, the portion of education research deemed to be of high quality increased by 20 percentage points since 2001, even though we did not meet our target for fiscal year (FY) 2004. Final FY 2004 data will be available in December 2004.

The Department also assesses the quality of our supported research by annually tracking the proportion of funded proposals that employ experimental methods to answer causal questions. As the “gold standard” for research on the effectiveness of programs, randomized control trials provide the most rigorous tests of what works in education. In FY 2004, a large percentage of Department research projects met high methodological standards: more than 90 percent of the education research projects evaluated to date that address causal questions did so using randomized experimental designs. FY 2004 data from special education projects will be available in December 2004.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 202–03, for detailed data.

Quality of Research (Objective 4.1)		
Performance Goals	Status	Year
New IES and OSEP research and evaluation efforts that are deemed to be of high quality <ul style="list-style-type: none"> <li>• Projects</li> <li>• Publications</li> </ul>	Did not meet	FY 2004
New IES and OSEP efforts addressing causal questions that employ randomized experimental designs <ul style="list-style-type: none"> <li>• Projects</li> <li>• Publications</li> </ul>	Exceeded	FY 2004

IES = Institute of Education Sciences  
 OSEP = Office of Special Education Programs  
**Note.** There were no publications to report so the status reflects only an assessment of projects.

In the long term, improving the quality of education research requires a new generation of researchers who are trained to conduct rigorous studies and evaluation. Currently the capacity of the education research community to conduct rigorous research is limited. To create a scientific workforce capable of high-quality education research, the Department has established predoctoral and postdoctoral training programs to develop a cadre of young investigators with the skills to conduct the type of research needed to provide solutions to the challenges in education facing our country.

### Relevant Research Findings Inform Education Practice and Policy

According to Grover J. Whitehurst, Director of the Institute of Education Sciences, “The current nationwide emphasis on ensuring that all students and schools achieve at high levels has increased the demand for sound evidence regarding ‘what works’ in education.”<sup>2</sup> The Department’s commitment to the production and dissemination of relevant research findings provides the basis for improving education practices for all students and improving access and rehabilitation techniques for those with disabilities.

To increase the relevance of our education research and evaluation activities, the Department emphasizes research designed to evaluate the effectiveness of education programs and practices in the field. To this end, the Department has established focused research programs in reading, mathematics, and science education; teacher quality; education finance, leadership, and management; and special education. Education practitioners and decision-makers have indicated a need for research to answer critical questions in these specific areas, and the Department continues the development and evaluation of research to improve and inform theory and practice.

**Review and Dissemination Activities.** Many evaluations purport to show the effectiveness of an education intervention, but their design and methods do not provide the basis for assessing impact. By reviewing

<sup>2</sup>Department of Education, July 2004 ED Results Agenda.

studies and evaluations for their scientific rigor, the Department’s What Works Clearinghouse<sup>3</sup> analyzes the quality of education studies and evaluations to determine whether they provide reliable evidence on the impact of an intervention on student learning. To carry out its work, the clearinghouse developed rigorous standards for reviewing intervention studies, which are now widely regarded as scientifically valid for assessing research on the impact of interventions in education and other fields.

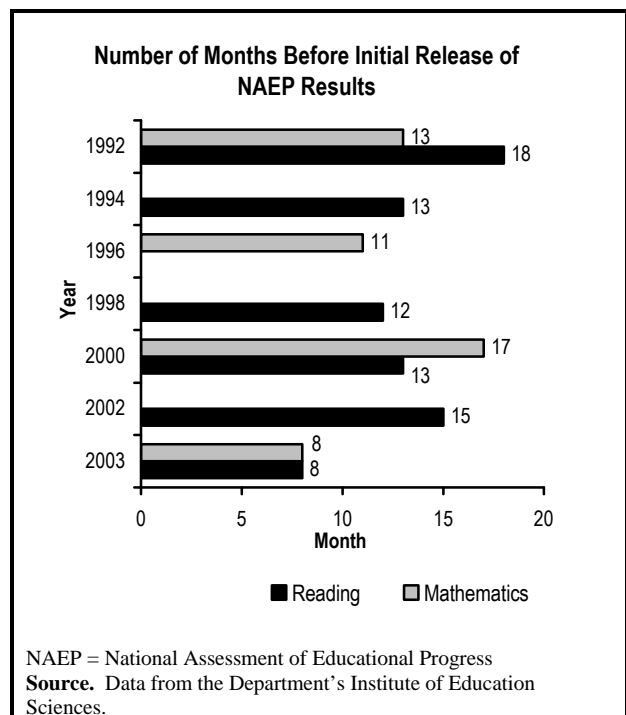
The clearinghouse prepares individual study reports for all studies meeting its standards. These reports provide education decision-makers with information on the quality of research on the impact of an intervention; the type of intervention evaluated; characteristics of the students, teachers, and schools involved in the evaluation; the outcome measures that were assessed; and the results of the evaluation (i.e., was the intervention effective or not). In June, the clearinghouse released initial study reports in two topic areas—peer-assisted learning and middle school mathematics curricula. Work is underway to evaluate the research in the following areas: beginning reading; elementary school math curricula; character education; English language learning; adult literacy; dropout prevention; and prevention of delinquent, disorderly, and violent behavior.

Another improvement in making quality education research available to the public came in FY 2004 when the Department awarded a major contract to develop and operate the new database system for the Education Resources Information Center (ERIC).<sup>4</sup> ERIC will be linked to the resources of the What Works Clearinghouse and other sources of up-to-date information and research about education. The new ERIC uses the latest technology to provide access to its documents and journal articles. Users will find fast and effective search results in this well-established directory of education research.

**Improvements in Statistical Reports.** The Department’s National Center for Education Statistics is

responsible for informing the nation on the condition of education in our country. *The Condition of Education 2004*<sup>5</sup> was submitted to the Congress and the public on June 1, 2004, to enhance understanding of the current status of education in the United States. The Department also produced other key reports, including *Projections of Education Statistics to 2013* and *Indicators of School Crime and Safety: 2003*, and the results of over 35 studies.

A major accomplishment in statistical reporting this year was the improvement in the timeliness of the release of the congressionally mandated National Assessment of Educational Progress (NAEP) results. During FY 2004, NAEP data for assessments conducted in spring 2003 were released just eight months following data collection, the shortest data lag in the history of the assessment. The 2003 NAEP national and state assessments in reading and mathematics for fourth and eighth grades were of particular importance this year because they provided baseline data to support the assessment’s new role in state accountability systems, and, for the first time in the history of the program, they represented all states.



<sup>3</sup> Available at <http://www.whatworks.ed.gov>.

<sup>4</sup> Available at <http://www.eric.ed.gov>.

<sup>5</sup> Available at <http://nces.ed.gov/pubs2004/2004077.pdf>.

**Research on Disability and Rehabilitation.** Through the National Institute on Disability and Rehabilitation Research, the Department provides leadership and support for a comprehensive program related to the rehabilitation of individuals with disabilities. The Department’s ongoing efforts maximize the full inclusion, social integration, employment, and independent living of individuals of all ages with disabilities. Accomplishments in technological advancements over this past year include the following:

- The development of 35 state and local “visit-ability” programs that incorporate an affordable, sustainable, and inclusive design approach for integrating basic accessibility features into all newly built homes.<sup>6</sup>
- The publication of a book on universal design that has been disseminated nationwide and has been adopted by the New York City Department of Design and Construction as the official guide for all architects working for the city.<sup>7</sup>
- The implementation of accessible information kiosks at the new World War II Memorial in Washington, D.C., and by the U.S. Postal Service to allow individuals with all types of abilities to access needed public information with ease.<sup>8</sup>
- The development and validation of a new more valid and reliable outcome measure of walking function in individuals with spinal cord injury, the Walking Index for Spinal Cord Injury (WISCI).<sup>9</sup>

**Performance Goals.** To track the relevance of our research investments, each year the Department submits a randomly selected sample of newly funded projects to an external panel of experienced practitioners, including superintendents, directors of special education, directors of research and evaluation at the district and state levels, and chief state school officers. The panel evaluates the relevance of the proposed research to education practice. Since FY 2001, the percentage of newly funded proposals that were of high relevance has doubled; by FY 2003, over half of the projects sampled were rated as highly relevant. While this increase did not meet the target set for FY 2003, the Department is continuing efforts to improve the usefulness of our research for education practitioners and decision-makers. We are refining our Requests for Applications to specify the types of questions and projects that are needed by people in the field and providing more guidance to the scientific review panels so that they better understand those needs. FY 2004 data will be available in January 2005.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, p. 203, for detailed data.

Relevance of Research (Objective 4.2)		
Performance Goal	Status	Year
New research projects of high relevance to educational practice	Did not meet	FY 2003

<sup>6</sup> Rehabilitation Engineering Research Center (RERC) on Universal Design at the State University of New York at Buffalo, School of Architecture and Planning, Edward Steinfeld, Arch. D., principal investigator.

<sup>7</sup> Ibid.

<sup>8</sup> Rehabilitation Engineering Research Center on Information Technology Access at the Trace Center, University of Wisconsin, Gregg Vanderheiden, Ph.D., principal investigator.

<sup>9</sup> Spinal Cord Injury Model System Project, Thomas Jefferson University, John F. Ditunno Jr., M.D., principal investigator.



## Programs Supporting Goal 4

Six of our grant programs most directly support Goal 4. These programs are listed below. In the table we provide both FY 2004 appropriations and FY 2004 expenditures for each of these programs. We also provide an overview of the results of each program on its program performance measures. Program performance reports are available on the Web at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

Program Name	Appropriations <sup>†</sup>	Expenditures <sup>‡</sup>	Program Performance Results								
			Percent of Targets Met, Not Met, Without Data								
			FY 2004			FY 2003			FY 2002		
FY 2004 \$ in millions	FY 2004 \$ in millions		% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Indian Education National Activities	5	5									
ESEA: Title I Evaluation	11	15									
ESRA: Research, Development and Dissemination	181	126	60	20	20	100	0	0	100	0	0
ESRA: Statistics	119	109	43	57	0	0	0	100			
IDEA: Special Education Research and Innovation	83	86	0	0	100	0	0	100	0	13	88
RA: National Institute on Disability and Rehabilitation Research	119	126	0	0	100	43	29	29	50	50	0
<b>Total</b>	<b>518</b>	<b>467</b>									

<sup>†</sup> Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

<sup>‡</sup> Expenditures occur when recipients *draw down* funds to cover actual outlays. FY 2004 expenditures may include funds from prior years' appropriations. Expenditures for each program include the program's proportional share of administrative expenditures.

■ A shaded cell denotes that the program did not have targets for the specified year.

ESEA = Elementary and Secondary Education Act

ESRA = Education Sciences Reform Act

IDEA = Individuals with Disabilities Education Act

RA = Rehabilitation Act

## PART Analysis for Goal 4 Programs

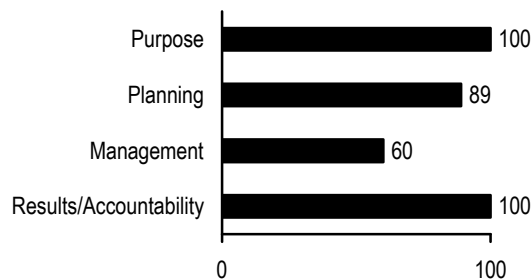
The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget as a standardized process for determining program effectiveness in a consistent way across agencies. Over a five-year period, all programs will be evaluated under this process. Results of PART reviews are used by agencies as one component of justifying their budget requests. Following are summaries of PART reviews that were conducted in conjunction with preparing the Department's FY 2004 budget request and subsequent updated reviews of those programs.<sup>10</sup>

**Program:** Statistics

**Year of Rating:** For FY 2004 Budget (Initial)  
For FY 2005 Budget (Revised)

**Rating:** Effective

**Program Type:** Research and Development



### Recommendations:

1. The 2002 PART assessment found a weakness in long-term performance measurement for NCES.
2. The Department of Education needs to improve the timeliness of NCES products and services.

### Response:

1. The Department of Education has established long-term performance measures for the program.
2. The Department of Education is examining the timeliness of NCES products and services, including National Assessment products and services.

<sup>10</sup>Information about the PART process is available at: <http://www.whitehouse.gov/omb/part/>. Information on Department PARTs is available at: [http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap\\_cd\\_rom/part.pdf](http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf) and <http://www.whitehouse.gov/omb/budget/fy2005/pma/education.pdf>.

# Goal 5

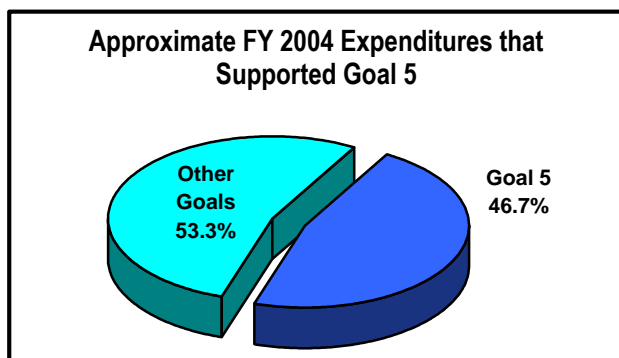
*The 21st century is now a service economy dependent on technology, innovation, information and technical skills. We need what are called "knowledge workers." And knowledge workers must be well educated.*

—Secretary Rod Paige

## GOAL 5. ENHANCE THE QUALITY OF AND ACCESS TO POSTSECONDARY AND ADULT EDUCATION

As part of the mission to transform education in this nation, the Department of Education provides over \$20 billion in annual grants for postsecondary and adult education. Our purpose is to help ensure that all Americans pursuing baccalaureate or higher degrees, adult literacy, or advanced vocational programs can readily access high-quality instruction. The Department also manages a student loan portfolio of nearly a third of a trillion dollars to provide financial assistance to millions of students. Our intent is that no individual be denied the opportunity to reach his or her intellectual potential because of socioeconomic challenges or physical disabilities. The following sections describe the Department's efforts toward helping Americans access quality postsecondary and adult education.

### Department Expenditures



### A Postsecondary Degree Opens Doors

According to 2003 estimates from the Bureau of the Census, the median annual income of Americans aged 25 or older with a bachelor's degree is more than 60 percent higher than that of their peers who pursued no further education after receiving a high school diploma. For Americans seeking to provide greater opportunities for themselves and their families, the message is clear: successfully completing a postsecondary education program is essential.

During fiscal year (FY) 2004, the Department funded several programs to prepare students from low-income

families for postsecondary education. The most widespread efforts involve the TRIO grant programs, instituted nearly 40 years ago. Through various component programs that stress rigorous academic preparation for college, plus counseling related to academic and financial assistance options, TRIO primarily targets secondary school students from low-income families with no history of attending college (two-thirds of program participants must fulfill both criteria) and helps them prepare for postsecondary education.

Changes in TRIO's Upward Bound Program have helped 3,500 additional students to receive services in 2004 without increasing program funding. A recent study revealed a sizable increase in attendance and course completion at four-year colleges among the portion of Upward Bound participants who did not expect to continue education beyond high school when they entered the program.<sup>1</sup> However, the same study found no overall impact on the college-going rate of Upward Bound participants compared with nonparticipants of similar demographic profiles, which suggests that many Upward Bound participants were likely to attend college anyway. In response to this study and a Program Assessment Rating Tool evaluation, grantees are now targeting more program dollars to students unlikely to attend college without intervention.

The first government-sponsored national evaluation of the TRIO Talent Search Program in more than 20 years examined the high school graduation and college enrollment outcomes reported by Talent Search projects.<sup>2</sup> Recently released data from the evaluation indicated that 71 percent of graduating high school seniors in Talent

<sup>1</sup> Policy and Program Studies Service/Mathematica Policy Research, *The Impacts of Regular Upward Bound: Results from the Third Follow-Up Data Collection* (Washington, DC, 2004). Available at <http://www.ed.gov/rschstat/eval/highered/upward/upward-3rd-report.pdf>.

<sup>2</sup> Policy and Program Studies Service/Mathematica Policy Research, *Implementation of the Talent Search Program, Past and Present: Final Report from Phase I of the National Evaluation* (Washington, DC, 2004). Available at <http://www.ed.gov/rschstat/eval/highered/talentsearch/toc.pdf>.

Search in school year (SY) 1998–99 reported enrolling in a postsecondary institution. Individual projects demonstrated varying degrees of success in meeting their goals. For example, in SY 1998–99, 87 percent of projects met their goal for secondary school graduation, while 53 percent met their goal for postsecondary admissions. This evaluation builds upon previously limited understanding of Talent Search’s impact and effectiveness. Newly created program performance measures will track college enrollment rates of all program participants.

Partly in response to these findings, TRIO is actively employing the Educational Credit Management Corporation Foundation’s *Realizing the College Dream* curriculum guide to help increase postsecondary access and completion among low-income and first-generation college students. About 800 TRIO grantees are using this curriculum in Upward Bound and Talent Search programs.

The Gaining Early Awareness and Readiness of Undergraduate Programs (GEAR UP) initiative targets entire classes of students in schools serving lower socioeconomic populations. Starting with the seventh grade, GEAR UP offers hundreds of students at each participating school a focused six-year approach to postsecondary preparation. GEAR UP performance indicator data reflect the program’s progress in preparing more low-income students to enter and complete postsecondary education. During SY 2002–03, the proportion of participating seventh graders who passed pre-algebra increased from 18 to 22 percent, and 98 percent of participants were promoted to the eighth grade. Students’ and parents’ knowledge of postsecondary education options, preparation, and financing, key components of GEAR UP, also increased beyond established targets. GEAR UP is showing promise that the first set of program graduates in 2005 will study at the postsecondary level in higher numbers than nonparticipating peers of similar socioeconomic background.

The ability of students with disabilities to access postsecondary education must also be improved. A study conducted by the Department’s Office of Special

Education Programs showed that among a nationally representative sample of 15- to 17-year-olds receiving special education services in 2001, approximately one-third of youth with disabilities have attended postsecondary institutions since high school, a lower rate than that of their peers. Furthermore, youth with disabilities in postsecondary settings are more likely to be enrolled in two-year community colleges than in baccalaureate institutions. We must build on this research to help facilitate their access into postsecondary education in greater numbers.

**Performance Goals.** Lack of timely enrollment data makes performance measurement difficult. The most recent data, which are for 2001, showed that the gaps between white and African American students and between white and Hispanic students in immediate enrollment of high school graduates into postsecondary institutions had declined from that of the previous year. However, the rate of immediate enrollment had fallen from the previous year across all subgroups, and the gap between high-income and low-income students had widened sharply. Current Population Survey data due in late November are expected to update information for the 2001–02 academic year.

More encouraging are the graduation rates from four-year institutions, which increased overall and for major race and ethnicity subgroups from 2000 to 2003. Gaps in graduation rates between whites and African Americans and between whites and Hispanics both decreased.

For two-year degree-granting institutions over the same three-year period, although graduation rates decreased overall, gaps between whites and African Americans and between whites and Hispanics both decreased significantly.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 204–05, for detailed data.

College Access and Completion (Objective 5.1)		
Performance Goals	Status	Year
High school graduates ages 16 to 24 years enrolled in college the October following graduation • Overall	Pending	FY 2002 through FY 2004
High school graduates ages 16 to 24 years enrolled in college the October following graduation • White • Black • White-Black Gap • Hispanic • White-Hispanic Gap • Low Income • High Income • Income Gap	Pending	FY 2002 through FY 2004
Graduation from four-year institutions within six years • Overall	Exceeded	FY 2003
Graduation from four-year institutions within six years • White • Black • White-Black Gap • Hispanic • White-Hispanic Gap	Met	FY 2003
Program completion from two-year institutions within three years • Overall	Made progress	FY 2003
Program completion from two-year institutions within three years • White • Black • White-Black Gap • Hispanic • White-Hispanic Gap	Met	FY 2003

One major facet of ensuring institutional quality involves the activities of “diploma mills” that issue diplomas that are not supported by appropriate academic rigor to fee-paying customers, as noted by a recent Government Accountability Office (GAO) report.<sup>3</sup> To ensure that the public and employers are not misled by credentials that are purchased rather than earned through rigorous academic activity, the Department has created a master list of accredited postsecondary institutions. This list will be made available to assist individuals who verify credentials as part of the hiring process.

We ensure institutional quality in other matters as well. The Accreditation and State Liaison staff oversaw the practices of 73 accrediting agencies in all facets of postsecondary education, ensuring quality of four-year, two-year, and proprietary institutions throughout the country.

In addition, as mentioned in the Goal 2 discussion on teacher quality, Department accountability experts oversaw higher education institutions to maintain rigor in teacher preparation programs.

The Department’s Office of Postsecondary Education has developed the e-Monitoring System to receive timely and accurate information about grantee performance and the financial status of grant awards. This system enables efficient tracking of grantee progress and improved documentation of project monitoring activities, and the system flexibly accommodates the unique monitoring requirements of any grant program. See appendix B for more information.

## Institutional Accountability Leads to Quality Higher Education

America’s institutions of higher education have long been considered to be among the world’s best. The high quality of American postsecondary education is essential to our nation maintaining a leadership role in research and development, as well as in economic competitiveness. Raising the standard of excellence in education requires improving performance at the postsecondary level in concert with improvement at the elementary and secondary levels.

**Performance Goals.** We received satisfactory accountability reports on the quality of teacher preparation programs from a sufficient number of states and territories to meet our target for the year.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, p. 206, for detailed data.

<sup>3</sup> GAO-04-1096T, available at <http://www.gao.gov/new.items/d041096t.pdf>.

Accountability of Postsecondary Institutions (Objective 5.2)		
Performance Goals	Status	Year
HEA Title II reports submitted by states and territories with all data, using required definitions	Did not meet	FY 2003

HEA = Higher Education Act; Title II addresses teacher preparation programs.

## Financial Aid Enables College Access and Completion

College attendance and completion depends on rigorous preparation, but it also requires money. The persistent 30 percent gap between the proportion of low-income and high-income students matriculating into postsecondary education reflects this reality.

The Department has taken great strides to reduce the cost barriers to postsecondary instruction through our Pell Grant Program, Federal Direct Student Loan Program, and Federal Family Education Loan Program. Cohort default rates are at a historic low of 5.2 percent, and interest rates for borrowers dropped to all-time lows in FY 2004.

The effectiveness of these programs in providing aid to economically needy students is evidenced by recent data showing that the net price of attending four-year institutions for dependent students in the lowest quartile of family income, after accounting for both grants and loans received, fell significantly between 1990 and 2000.<sup>4</sup> The annual federal student financial assistance distributed via grants, loans, and work-study employment has increased from \$47 billion to \$69 billion in just three years, with the total number of recipients increasing by nearly 20 percent to 9.6 million in the same time span. One in six working adults is currently repaying student loans, and 50 million Americans applied for student financial assistance at least once in the last eight years. The challenge is to persuade more individuals to grasp the opportunity provided.

<sup>4</sup> U.S. Department of Education, National Center for Education Statistics, *Paying for College: Changes Between 1990 and 2000 for Full-Time Dependent Undergraduates* (NCES 2004-075), table 7, p. 28. Available at <http://nces.ed.gov/pubs2004/2004075.pdf>.

Two major trends are occurring with regard to student financial assistance. The first is the dramatic increase in the number of electronic Web submissions of the Free Application for Federal Student Aid, which increased from 59 percent of total applications for the 2003-04 academic year to 75 percent for the 2004-05 academic year. Electronic applications are usually processed by the Department in less than 24 hours, enabling millions of prospective postsecondary students and the schools and colleges they plan to attend to receive eligibility information more rapidly and efficiently.

The second major trend is the rush to consolidate existing loans among borrowers in repayment status. As with the historic lows in home mortgage rates in FY 2004, similar trends in student loan rates resulted in a tremendous increase in borrowers' refinancing multiple loans by consolidating them into a single loan, potentially leading to significant reductions in student borrowing costs. Concurrent with this rise in loan consolidations is the growing number of financial entities specializing in this field.

During FY 2004, the Government Accountability Office has looked at various aspects of the Department's management of loan programs. GAO found that lower interest rates and higher loan volume have increased federal consolidation loan costs.<sup>5</sup> GAO determined that consolidation loans constituted 48 percent of federal student loan dollars originated in FY 2003, and total consolidation volume rose sevenfold to \$41 billion between 1998 and 2003. The Department is assessing the comparative advantages of consolidation loans for both borrowers and the government based on this and other GAO studies.<sup>6</sup>

In examining the extent to which higher education institutions participated in the Federal Direct Student Loan Program, GAO found that the volume of federal student loans provided through the program had decreased from 34 to 28 percent in the three years

<sup>5</sup> GAO-04-568T, available at <http://www.gao.gov/new.items/d04568t.pdf>.

<sup>6</sup> GAO-04-101 and GAO-04-843, available at <http://www.gao.gov/new.items/d04101.pdf> and <http://www.gao.gov/new.items/d04843.pdf>.



leading to 2002.<sup>7</sup> More schools were leaving the program than entering it. Schools leaving the program mentioned difficulties fulfilling program requirements and higher loan origination fees than those required by Federal Family Education Loan Program lenders.

In another report, GAO found that the Department substantially addressed GAO’s 2001 recommendations related to cash flow data, loan consolidations, and interest rate re-estimates.<sup>8</sup> However, the report recommended that the Department identify assumptions in the cash flow model and develop a method to assess loan performance estimates thoroughly over time. Department officials have begun implementing these recommendations. As FY 2004 ends, the Department’s student financial assistance programs are instituting an activity-based costing system to further reduce the costs of program administration.

Not all programs are achieving their full potential in assisting America’s students. A recent analysis determined that the Perkins Loan Program has proven duplicative of other broader financial aid efforts and does not target monies effectively to the neediest students. More optimistically, a similar analysis cited independent corroborating evidence that the effectiveness of federal support for college work-study programs is promising, but program measures for the Federal Work-Study Program needed to be improved to demonstrate results.

However, the overall picture is good. Combined with positive trends in reducing borrower costs and increasing numbers of graduates across various racial and ethnic categories, the federal student financial assistance programs are well poised to deliver increasingly effective assistance to educational aspirants.

**Performance Goals.** America’s postsecondary institutions increased tuition by an average of nearly seven percent in FY 2003, well above the existing inflation rate and Department targets. Some of this increase may be attributed to the recent economic

recession that resulted in reduced support of public postsecondary education institutions in many states.

The Department plans to discontinue the current measurement of borrower indebtedness because commercial bankers are using an alternative method to ascertain acceptable levels of debt.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 206–07, for detailed data.

Funding Postsecondary Education (Objective 5.3)		
Performance Goals	Status	Year
Average national increases in college tuition	Did not meet	FY 2003
Borrower indebtedness for federal student loans	Not collected	FY 2004

### Minority-Serving Institutions Use Federal Resources to Help Fulfill Academic Promise

Institutions of higher education that have historically served African Americans, Hispanics, and Native Americans often encounter the challenges of inadequate infrastructure in providing a quality education to their students. President Bush has worked with these institutions to ensure that their needs are addressed by means of three White House initiatives housed at the Department of Education.

The White House Initiative on Historically Black Colleges and Universities has provided leadership on meeting the needs of its member institutions, and additional financial support is assisting their efforts. Federal aid to help strengthen the quality of their academic programs and administration is on pace to meet President Bush’s goal of 30 percent additional annual funding for these institutions by 2005.

A recent study of Historically Black Colleges and Universities (HBCUs) indicated that a higher proportion of first-time undergraduates receive financial aid at HBCUs than at postsecondary institutions taken as a

<sup>7</sup> GAO-04-107, available at <http://www.gao.gov/new.items/d04107.pdf>.

<sup>8</sup> GAO-04-567R, available at <http://www.gao.gov/new.items/d04567r.pdf>.

whole.<sup>9</sup> These institutions thus demonstrate their commitment to assisting financially needy students, and therefore the Department's efforts to strengthen HBCUs helps increase access to postsecondary education.

The White House Initiative on Educational Excellence for Hispanic Americans moved to implement the six recommendations of the 2003 President's Advisory Commission on Educational Excellence for Hispanic Americans to close the achievement gap between Latino students and their peers:

- Setting new and high expectations for Hispanic American children.
- Supporting No Child Left Behind.
- Reinforcing and expanding a high-quality teaching profession.
- Developing a federal research agenda to identify the needs of Hispanic American students.
- Creating pathways to college graduation.
- Creating increased federal accountability and coordination.

A partnership of corporations and Hispanic-serving organizations began establishing strategies for meeting these goals. The partners worked with six pilot cities to reinforce expectations for educational excellence, academic attainment, parental involvement and awareness, academic preparation, mentorship, engagement of the business community, accountability, and college enrollment. Over the past year, more than 3,500 students, parents, educators, education administrators, and community and business leaders attended the six pilot-city events, during which more than 70,000 bilingual publications from the Department and the White House Initiative were distributed.

The White House Initiative on Tribal Colleges and Universities and the Department's Office of Indian Education have channeled federal resources to provide support for tribal colleges. Approximately \$50.3 million

in federal funds were provided in FY 2003, a six percent increase over the previous year, mostly to enhance training and technical assistance and to supplement administrative infrastructure for the improvement of student services at 34 tribal postsecondary institutions.

In all of these areas, the Department's Institutional Development Programs (Titles III and V of the Higher Education Act) provided resources to assist with program improvement efforts. A shining example is Bronx Community College, a Hispanic-Serving Institution in New York City. With 53 percent first-generation college students and 46 percent of student households with incomes below \$15,000, the challenges faced by a relatively new campus president five years ago were daunting. With the assistance of Title V grants to redesign curriculum, establish a center for teaching excellence, and collaborate with the City University of New York on increasing baccalaureate degree attainment, Bronx Community College has seen promising results. Four-year graduation rates have risen by six percentage points in three years, and nearly five in six students who transfer to the City University remain in baccalaureate education for more than one year.

However, more can be done to improve the service capacity of minority-serving institutions. A recent GAO study<sup>10</sup> found that the Department has not fully implemented the comprehensive monitoring plan for Title III and Title V institutions, and the Department's ability to provide targeted technical assistance was limited. Efforts are being made to ensure that our monitoring and technical assistance plans are carried out and targeted to at-risk grantees. The combination of institutional development funding, consistent White House support, and the dedication of these institutions provides momentum for ongoing improvement.

**Performance Goals.** The measures related to positive fiscal balances and increased technological capacity show mixed results. FY 2003 data on positive fiscal balances at postsecondary institutions primarily serving minorities, which became available during FY 2004,

<sup>9</sup> U.S. Department of Education, National Center for Education Statistics, *Historically Black Colleges and Universities, 1976 to 2001* (NCES 2004-062), p. 6. Available at <http://nces.ed.gov/pubs2004/2004062.pdf>.

<sup>10</sup> GAO-04-961, available at <http://www.gao.gov/new.items/d04961.pdf>.

demonstrate progress but remain short of the Department’s goal. FY 2003 data on increased technological capacity at the same institutions became available during FY 2004 and will be used as a baseline.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 207–08, for detailed data.

HBCUs, HSIs, and TCUs (Objective 5.4)		
Performance Goals	Status	Year
HBCUs, HSIs, and TCUs with a positive fiscal balance	Made progress	FY 2003
HBCUs, HSIs, and TCUs with evidence of increased technological capacity	Established baseline	FY 2003

HBCUs = Historically Black Colleges and Universities  
 HSIs = Hispanic-Serving Institutions  
 TCUs = Tribal Colleges and Universities

## Literacy and Employment Skills Help Adults Surmount Barriers

A vast number of Americans delay postsecondary education, including technical degree programs, until well into adulthood. Still others who face vocational challenges due to a disability may need specialized training and vocational rehabilitation services to facilitate economic sufficiency. Other adults can benefit from improved literacy skills to see their way to a brighter future. At the Department of Education, we concentrate our investment in vocational preparation and adult literacy on helping individuals who are seeking to improve their lives through further education.

As key developers of employment skills, community colleges serve over 11 million adult learners annually, providing students a bridge to further education and promising careers, as well as providing a skilled workforce for business and community leaders. Rapid technological and economic changes and the growing diversity of student interests present important challenges to community colleges. The Department’s Office of Vocational and Adult Education produced and disseminated to all community colleges the research-based handbook, *The Labor Market-Responsive Community College*, which identifies key strategies and

practices for responding more effectively to local economic and workforce development needs. The handbook is based on extensive field research at community colleges that demonstrate entrepreneurial responsiveness. Practical examples in the handbook help college administrators to forge effective partnerships with employers, community leaders, and policy-makers. As demonstrated by this publication, our role is to champion best learning practices that lead to better employment outcomes.

Vocational rehabilitation programs are a major Department focus in achieving successful employment outcomes for individuals with disabilities. In FY 2003, the State Vocational Rehabilitation (VR) Program assisted about 220,000 individuals with disabilities to obtain an employment outcome. About 94 percent of the individuals who obtained an employment outcome obtained competitive employment,<sup>11</sup> exceeding the performance target. In addition, the percentage of individuals obtaining competitive employment who are individuals with “significant disabilities” (as defined in the Rehabilitation Act of 1973) has increased annually, growing from about 78 percent in FY 1997 to 90 percent in FY 2003. These results are significant and validate that individuals with significant disabilities are achieving high-quality, competitive employment outcomes consistent with their skills and interests.

Late in FY 2003, the Department’s Rehabilitation Services Administration awarded five model projects to demonstrate the effect of a specific literacy intervention on improving literacy skills and employment and earnings of targeted adult participants in the Vocational Rehabilitation Services Program. These five-year projects, in combination with an external evaluation, must also demonstrate how VR offices can effectively integrate literacy services into their service delivery systems and can best provide literacy services and instruction to a targeted group of VR consumers. Project

<sup>11</sup>Competitive employment is defined under the State VR program as work in the competitive labor market that is performed on a full-time or part-time basis in an integrated setting, and for which an individual is compensated at or above the minimum wage, but not less than the customary wage and level of benefits paid by the employer for the same or similar work performed by individuals who are not disabled.

participants are being randomly selected for experimental and control groups.

The Department has placed a special emphasis on improving adult literacy in the past year. Given the rapid advances in science and technology evident in nearly every industry, community, neighborhood, and family in America, national survey data show that many adults do not have the requisite skills in reading, writing, oral communication, problem solving, and mathematics that are needed to secure and maintain good jobs and carry out their responsibilities as parents and citizens. For many adults, adult education and literacy programs are their best hope of overcoming these challenges. Several initiatives to improve literacy skills of specialized populations are ongoing.

Community Partnerships for Adult Learning (C-PAL), a Department initiative, fosters successful community partnerships in support of adult education by disseminating the successes of innovative community solutions. Communities have built successful partnerships and strategies among local businesses, labor organizations, public school systems, libraries, faith-based and community-based organizations, literacy service providers, volunteer organizations, and colleges to respond to the differing learning requirements of adults. The project's Web site<sup>12</sup> includes partnership profiles and resources for adult education providers interested in creating, sustaining, or improving partnerships. A toolbox provides how-to information for adult education instructors and administrators, and the Web site offers links to research, reports and journals, curriculum materials, and information on assessment, workforce development, and program evaluation.

To date, the field of adult basic education has not benefited from the use of evidence-based practice. To address this problem, the Department's Office of Vocational and Adult Education launched a pilot program in FY 2004 in a limited number of states committed to the improvement of reading instruction for intermediate-level adults. The **STudent Achievement in Reading (STAR)** pilot is an effort to translate the

<sup>12</sup>The site can be accessed at <http://www.c-pal.net>.

research-based principles of the federal Partnership for Reading initiative into usable classroom practices and to infuse those practices into classrooms and instructional settings. States work with the Department to assemble a statewide project team, receive national training, collect important program performance data, roll out innovative research-based reading programs, and evaluate the impact on adult readers at the intermediate level. The STAR pilot also provides funds to local projects within the states that enable instructors in adult literacy to receive professional development training. Based on the training and the help provided by an expert national technical assistance team, the pilot projects will help states learn from the local application of research-based methods toward improvement of their adult literacy efforts. Pilot participants will also benefit from access to research-based training materials and a reading toolkit with resources for improving intermediate-level adult reading instruction.

**Performance Goals.** The Department established a new measure for employment effective FY 2004, and results are not yet available.

The Department's progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 208–09, for detailed data.

Literacy and Employment of American Adults (Objective 5.5)		
Performance Goal	Status	Year
Employed persons served by state VR agencies who obtain competitive employment	Pending	FY 2004

VR=Vocational rehabilitation

## Students Benefit from Institutions' Capacity to Teach World Languages and Explore International Issues

American postsecondary institutions play a unique role in providing advanced understanding of the world. These campuses welcome citizens from nearly every nation on earth to study advanced theory and practice in numerous academic disciplines. These institutions also

provide American students the opportunity to think strategically about the world around them.

The Department’s Office of Postsecondary Education supports efforts of higher education institutions to open the minds of their students to the changing world. One of the most important initiatives in this regard is the publication and distribution of instructional materials on less commonly taught languages directed by the International Education and Foreign Language Studies Program. These efforts, which predate the Department by nearly a generation, have funded the development of basic instructional material for 225 world languages, most of which would not likely be studied on college campuses without these materials being available. The language program has anticipated the need for strategic language study in recent years, developing texts in many important European and Central Asian tongues.

The Department’s Fund for the Improvement of Postsecondary Education (FIPSE) also directs funds strategically to improve international understanding and idea exchange in a wide array of academic disciplines and geographic partnerships. The program is poised to publish the first edition of a planned annual spotlight catalog of the various institutions and disciplines benefiting from FIPSE funding. The catalog will highlight the fund’s international programs from 1995 to 2004, showcasing some 1,400 academic institutions in more than 29 countries at which thousands of American students studied such subjects as engineering, biotechnology, veterinary sciences, social sciences, and arts and humanities.

Through these efforts, American students have access to increased opportunities to interact intellectually with other nations and cultures while simultaneously developing their academic talents. Admittedly, the task of performance measurement is difficult because many of the programs are engaged in research and

development, testing proposed learning strategies that, if proven effective, might be successfully replicated by independent means on other campuses.

More work is necessary to convey the effectiveness of these programs to the general public. However, program performance measures are being improved to better gauge future effectiveness.

**Performance Goals.** As international programs are a new Department objective for postsecondary education in FY 2004, we developed new measures related to foreign language programs and will use FY 2004 data to establish baselines. We await FY 2004 data on the successful permanent establishment of international postsecondary consortia projects.

The Department’s progress on our performance goals for this objective is summarized in the table below. See p. 27 for methodology and appendix A, pp. 209–10, for detailed data.

Capacity of U.S. Postsecondary Education Institutions to Teach World Languages, Area Studies, and International Studies (Objective 5.6)		
Performance Goals	Status	Year
International postsecondary consortia projects institutionalized after the grant period	Pending	FY 2004
Foreign-language course offerings by Title VI institutions	Established baseline	FY 2004
Outcomes of Title VI funding at postsecondary institutions <ul style="list-style-type: none"> <li>• Graduates employed in higher education, government service, and national security</li> <li>• Comprehensive instructional resources produced at IHEs</li> <li>• K–12 teachers trained through Title VI and Fulbright-Hays programs</li> </ul>	Pending	FY 2004

IHEs = Institutions of higher education

## Programs Supporting Goal 5

Sixty-four of our loan and grant programs most directly support Goal 5. These programs are listed below. In the table we provide both FY 2004 appropriations and FY 2004 expenditures for each of these programs. We also provide an overview of the results of each program on its program performance measures. Program performance reports are available on the Web at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

Program Name	Appropriations <sup>†</sup> FY 2004 \$ in millions	Expenditures <sup>‡</sup> FY 2004 \$ in millions	Program Performance Results Percent of Targets Met, Not Met, Without Data								
			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
AEFLA: Adult Education National Leadership Activities	14	11	0	0	100	50	50	0			
AEFLA: Adult Education State Grants	582	572	0	0	100	60	40	0	60	40	0
AEFLA: National Institute for Literacy	7	6	0	0	100						
ATA: Assistive Technology Act	27	51	0	0	100	0	100	0	0	100	0
DOEAA: GPRA Data/HEA Program Evaluation	1	1									
EDA: Gallaudet University	101	98	14	21	64	42	58	0	42	58	0
EDA: National Technical Institute for the Deaf	54	53	10	20	70	60	30	10	60	40	0
ESEA: Community Technology Centers	12	29	0	0	100	0	0	100			
HEA: AID Developing Hispanic-Serving Institutions	97	87									
HEA: AID Minority Science and Engineering Improvement	11	7									
HEA: AID Strengthening Alaska Native and Native Hawaiian Serving Institutions	11	9									
HEA: AID Strengthening Historically Black Colleges and Universities	226	205	0	0	100	0	0	100	100	0	0
HEA: AID Strengthening Historically Black Graduate Institutions	54	51									
HEA: AID Strengthening Institutions	84	73									
HEA: AID Strengthening Tribally Controlled Colleges and Universities	24	18									
HEA: B.J. Stupak Olympic Scholarships	1	1									
HEA: Byrd Honors Scholarships	42	38	0	0	100	0	0	100	100	0	0
HEA: Child Care Access Means Parents In School	17	17	0	0	100	0	100	0			
HEA: College Assistance Migrant Program	17	16	0	0	100						
HEA: Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities	7	7									
HEA: Fund for the Improvement of Postsecondary Education	164	182	0	0	100	50	50	0	100	0	0
HEA: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	302	287	0	0	100	86	14	0			
HEA: Graduate Assistance in Areas of National Need (GAANN)	32	25	83	0	17	83	0	17	67	33	0
HEA: Historically Black College and University (HBCU) Capital Financing—Federal Administration	0.2	0									
HEA: Interest Subsidy Grants	2	2									
HEA: International Education and Foreign Language Studies Domestic Programs	95	87	0	0	100	60	40	0	60	40	0
HEA: International Education and Foreign Language Studies Institute for International Public Policy	2	2	100	0	0	100	0	0	100	0	0
HEA: Javits Fellowships	11	10	0	0	100	100	0	0			

<sup>†</sup> Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

<sup>‡</sup> Expenditures occur when recipients *draw down* funds to cover actual outlays. FY 2004 expenditures may include funds from prior years' appropriations.

■ A shaded cell denotes that the program did not have targets for the specified year.

AEFLA = Adult Education and Family Literacy Act

ATA = Assistive Technology Act

DOEAA = Department of Education Appropriations Act

HEA = Higher Education Act

EDA = Education of the Deaf Act

GPRA = Government Performance and Results Act

ESEA = Elementary and Secondary Education Act

AID = Aid for Institutional Development

**Programs Supporting Goal 5 (Cont'd)**

Program Name	Appropriations <sup>†</sup>	Expenditures <sup>‡</sup>	Program Performance Results								
			Percent of Targets Met, Not Met, Without Data								
			FY 2004			FY 2003			FY 2002		
	FY 2004 \$ in millions	FY 2004 \$ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
HEA: Postsecondary Education Facilities Loans programs	-27	-6									
HEA: SFA Federal Direct Student Loans	2,827	-105									
HEA: SFA Federal Family Education Loan Program & Liquidating	5,993	8,732									
HEA: SFA Federal Pell Grants	12,088	12,716									
HEA: SFA Federal Perkins Loans	181	162									
HEA: SFA Federal Supplemental Educational Opportunity Grants	779	738	0	0	100	20	0	80	100	0	0
HEA: SFA Federal Work-Study	1,014	978									
HEA: SFA Leveraging Educational Assistance Partnerships	68	64									
HEA/DOEA: Student Aid Administration	717	785	0	0	100	0	0	100			
HEA: TRIO Educational Opportunity Centers	50		0	0	100						
HEA: TRIO McNair Postbaccalaureate Achievement	43		0	0	100	0	0	100	100	0	0
HEA: TRIO Student Support Services	269		0	0	100	0	0	100	50	0	50
HEA: TRIO Talent Search	148		0	0	100						
HEA: TRIO Upward Bound	320		0	0	100	0	0	100	0	0	100
HEA: TRIO Other	21										
HEA: Underground Railroad Program	2	3	0	100	0						
HKNCA: Helen Keller National Center for Deaf-Blind Youths and Adults	9	8	0	0	100				71	29	0
MECEA: International Education and Foreign Language Studies Overseas Programs	17	13									
NLA: Literacy Programs for Prisoners	5	5									
RA: Client Assistance State Grants	13	12	0	0	100	100	0	0	100	0	0
RA: Independent Living Centers		67									
RA: Independent Living State Grants	101	21	0	0	100	33	67	0	80	20	0
RA: Independent Living Services for Older Blind Individuals	33	28	0	0	100	100	0	0	100	0	0
RA: Migrant and Seasonal Farmworkers	3	2	0	0	100						
RA: Projects with Industry	23	20	0	0	100	33	67	0	100	0	0
RA: Protection and Advocacy of Individual Rights	17	16	0	0	100						
RA: Supported Employment State Grants	38	34	0	0	100	100	0	0	100	0	0
RA: Vocational Rehabilitation Demonstration and Training Programs	27	20	0	0	100	60	40	0	40	60	0
RA: Vocational Rehabilitation Evaluation	1	1									
RA: Vocational Rehabilitation Grants for Indians	32	25	0	0	100	100	0	0	100	0	0
RA: Vocational Rehabilitation Program Improvement	1	0									
RA: Vocational Rehabilitation Recreational Programs	3	2	0	0	100						
RA: Vocational Rehabilitation State Grants	2,584	2,287	0	0	100	50	50	0	67	33	0
RA: Vocational Rehabilitation Training	44	37	0	0	100	0	14	86	71	29	0
USC: Howard University	239	238	0	0	100	67	33	0	75	25	0
VTEA: Tribally Controlled Postsecondary Vocational and Technical Institutions	7	8	0	100	0	100	0	0	100	0	0
<b>Total</b>	<b>29,687</b>	<b>* 29,724</b>									

<sup>†</sup> Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

<sup>‡</sup> Expenditures occur when recipients *draw down* funds to cover actual outlays. FY 2004 expenditures may include funds from prior years' appropriations.

\* Additionally, expenditures of \$16 million met prior years' obligations for Goal 5 programs that were not funded for FY 2004.

■ A shaded cell denotes that the program did not have targets for the specified year.

HEA = Higher Education Act

SFA = Student Financial Assistance programs

MECEA = Mutual Educational and Cultural Exchange Act of 1961

RA = Rehabilitation Act

VTEA = Vocational and Technical Education Act

DEOA = Department of Education Organization Act

HKNCA = Helen Keller National Center Act

NLA = National Literacy Act

USC = United States Code

## PART Analysis for Goal 5 Programs

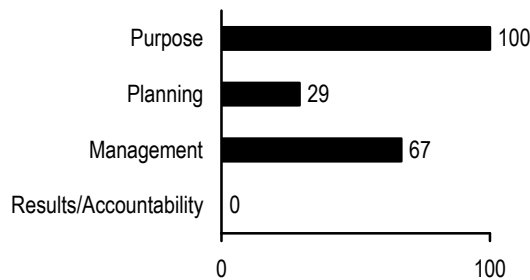
The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget as a standardized process for determining program effectiveness in a consistent way across agencies. Over a five-year period, most government programs will be evaluated under this process. Results of PART reviews are used by agencies as one component of justifying their budget requests. Following are summaries of PART reviews that were conducted in conjunction with preparing the Department's FY 2004 budget request and subsequent updated reviews of those programs.<sup>13</sup>

### Program: Adult Education State Grants

**Year of rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Block/Formula Grants



### Recommendations:

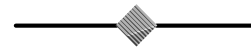
1. Implement reforms to the program, including increased grantee accountability, improved performance reporting, and a clear focus on improving participants' reading, math, literacy, and numeracy skills.
2. Adopt common performance measures with similar federal programs, including a new measure to gauge cost-effectiveness. Set short- and long-term targets based on the common measures. Develop strategy

<sup>13</sup>Information about the PART process is available at <http://www.whitehouse.gov/omb/part/>. Information on Department PARTs is available at [http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap\\_cd\\_rom/part.pdf](http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf) and <http://www.whitehouse.gov/omb/budget/fy2005/pma/education.pdf>.

for collecting necessary data to institute common measures.

### Response:

1. The administration's blueprint for reauthorization of adult education programs proposed reforms in the recommended areas. Reauthorization legislation passed by the House and Senate includes elements of the blueprint that will increase the accountability of states and local programs for results and focus the program more directly on participant outcomes.
2. The Department adopted the common performance measures created through the administration's common measures initiative and set annual targets based on final definitions for common measures established by the Departments of Education and Labor. Under current law, the Department does not have the authority to require states to report data for the common measure related to increase in earnings. Long-term targets are yet to be set.

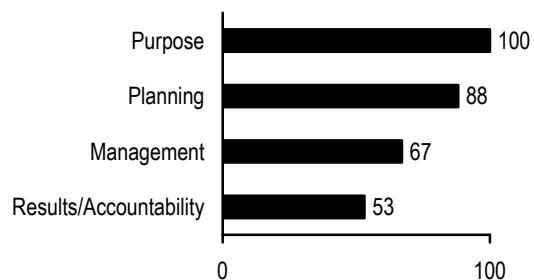


### Program: Federal Pell Grants

**Year of Rating:** For FY 2004 Budget (Initial)  
For FY 2005 Budget (Revised)

**Rating:** Adequate

**Program Type:** Block/Formula Grants



### Recommendations:

1. Reduce overawards in the Pell Grant Program.
2. Improve targeting in the eligibility formula toward the neediest students.

### Response:

1. This legislation was proposed in 2002, and the Department, Treasury, and OMB continue working with congressional authorizing committees to develop a final bill.



- The Department has met extensively with congressional staff to build support for improved targeting as part of the Higher Education Act reauthorization.

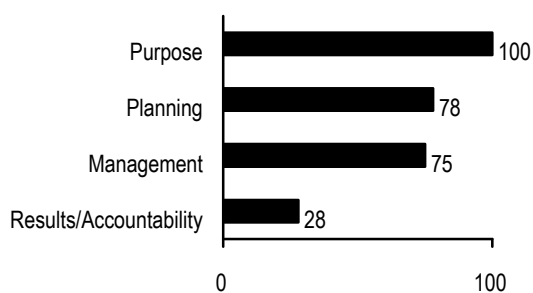


**Program: Student Aid Administration**

**Year of Rating:** For FY 2004 Budget (Initial)  
For FY 2005 Budget (Revised)

**Rating:** Adequate

**Program Type:** Capital Assets



**Recommendations:**

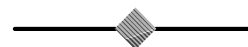
- Develop a unit-cost framework and meaningful efficiency targets.
- Implement a new data strategy that yields more timely and accurate financial and program data.
- Better integrate data into decision-making, including the development of a more comprehensive approach to eliminating program fraud and error.
- Improve contract oversight and performance management.
- Maintain progress on system integration efforts.

**Response:**

- The Department's student aid unit cost methodology has been redesigned to address GAO concerns and Department needs. A final review of methodology and calculations is ongoing by Department offices and program staff; baseline unit costs for FY 2002 and FY 2003 should be available in late 2004.
- The Department is in the process of implementing an extensive new data strategy with a focus on streamlined system structure and common data definitions.
- Department senior and program management use various reports to make better-informed decisions. The effectiveness of these reports was a major factor

in moving the Department from red to green on the Financial Performance initiative on the *President's Management Agenda*.

- The Department has reorganized the student aid acquisition operation, hiring staff with expertise in acquisition planning and contract performance monitoring; qualitative and quantitative contract support has also been obtained as needed.
- Implementation of the Common Servicing for Borrowers system, which integrates services previously provided under three separate contracts, is well under way. Efforts to integrate systems for aid application, origination, and disbursement are actively under development.

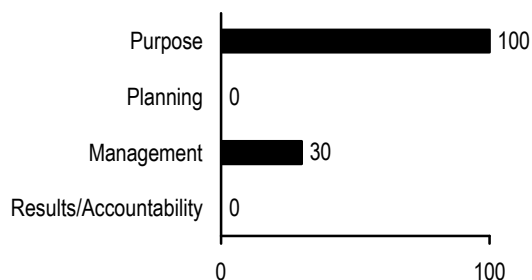


**Program: Tribally Controlled Postsecondary Vocational and Technical Institutions**

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Competitive Grants



**Recommendations:**

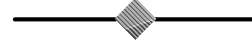
- Seek legislative program reforms that include increased grantee accountability, improved performance reporting, and a clear focus on strengthening the academic and technical skills of postsecondary Indian students.
- Explore whether efficiencies can be gained by combining this program with other programs serving similar objectives.
- Adopt common performance measures with similar programs, including a new measure to gauge cost-effectiveness. Set short- and long-term targets based on the common measures and develop strategy for collecting necessary data to institute these common measures.

**Response:**

1. This reauthorization strategy was proposed in the President's 2004 and 2005 budgets.
2. The administration's strategy includes a proposal that this program be reauthorized as part of the Higher Education Act. By administering similar programs together the Department can pursue management and programmatic efficiencies.
3. The Department will adopt appropriate common performance measures with similar programs and develop short- and long-term performance targets when the program is reauthorized.

Additionally, the Department is exploring regulatory options to follow reauthorization.

3. Recent student persistence rates exceeded both the short- and long-term performance targets. Data on college completion will be included in the FY 2006 budget request.



**Program: TRIO Upward Bound**

**Year of Rating:** For FY 2004 Budget

**Rating:** Ineffective

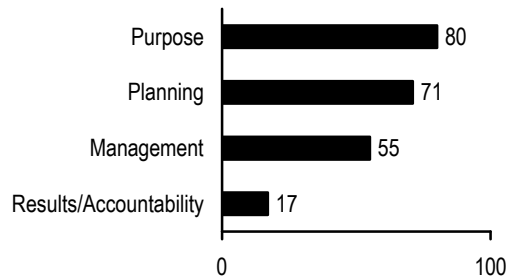
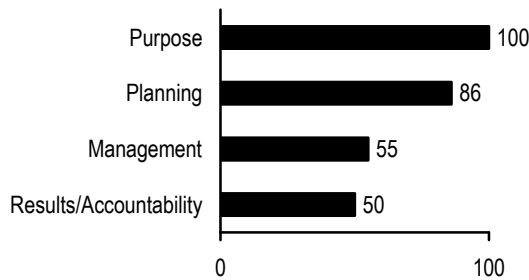
**Program Type:** Competitive Grants

**Program: TRIO Student Support Services**

**Year of Rating:** For FY 2004 Budget

**Rating:** Results Not Demonstrated

**Program Type:** Competitive Grants



**Recommendations:**

1. Closely monitor new SSS annual program goals and make better use of project performance report data to improve the program.
2. Explore policies that would reduce statutory and regulatory barriers faced by qualified first-time grantees in order to encourage their participation in the program.
3. Collect and establish second-year data for performance measures.

**Recommendations:**

1. Complete an anticipated rulemaking process in the upcoming year to increase the proportion of high-risk students served by Upward Bound grantees.
2. Provide technical assistance to new applicants and current grantees on high-risk participants.
3. Explore policies that would encourage more qualified first-time grantees to participate in the program.
4. Closely monitor new Upward Bound annual program goals and make better use of project performance report data to improve the program.

**Response:**

1. Projects are now required to measure performance goals by cohort and are not able to renegotiate the goals stated in applications.
2. The Department increased the number of reviews and audits of prior experience data and stopped awarding points for partial performance.

**Response:**

1. The Department expanded and strengthened its Expansion Initiative to serve a greater proportion of high-risk students and plans to conduct a rigorous evaluation beginning in 2006. Additionally, the Department continues to assess appropriate regulatory actions following reauthorization.
2. The Department provides guidance on serving high-risk participants in all technical assistance workshops.
3. The Department increased the number of reviews and audits of prior experience data and stopped

awarding points for partial performance. Additionally, the Department is exploring regulatory options to follow reauthorization.

- Projects are now required to provide services at an average cost of no more than \$5,000 per student, and the new Expansion Initiative requires participating students to have high-risk factors.

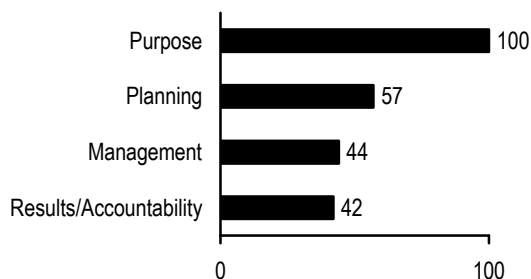


**Program: Vocational Rehabilitation State Grants**

**Year of Rating:** For FY 2004 Budget

**Rating:** Adequate

**Program Type:** Block/Formula Grants



**Recommendations:**

- In the upcoming reauthorization, work with the Congress to align federal funding with performance, and hold all states accountable for their performance. The administration will revisit whether funding for this program should be reclassified as discretionary.
- Establish specific performance targets in the out years and collect the necessary data to support new

measures. Also, consider whether any additional measures are appropriate for this program.

- Take significant steps to improve program management using existing outcome data and make these data available to the public in a more timely manner.

**Response:**

- The reauthorization of Title IV of the Workforce Investment Act of 1998 passed the House on May 8, 2003; the revisions made no significant changes to the program. The Senate version of the bill passed on November 14, 2003; it made no changes that would affect the mandatory classification of the program. However, it did include the administration’s proposal to authorize incentive grants to state VR agencies based on performance.
- Annual measures were revised to address wide variation across states. The Department also conducted a study to examine the variables related to state VR agency performance. The Department is also working to assist states to collect the necessary data to implement the Job Training Common Measures.
- By automating data submission and improving the data editing process, the Department has achieved a six-month improvement over previous years in making our data available. The Department is also posting previous year state performance on the program’s standards and indicators on our Web site. Detailed data tables and outcome reports have been developed for use by both program staff and state VR agencies to manage the program.



# Goal 6

*People are the only source of a sustainable competitive advantage.*

—Under Secretary Ted McPherson

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## GOAL 6. ESTABLISH MANAGEMENT EXCELLENCE

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The Department of Education is focused on operating effectively to make the best possible use of taxpayer resources. To do so, the Department uses Goal 6 of the Department's *Strategic Plan* (Establishing Management Excellence), the *Blueprint for Management Excellence*, and the *President's Management Agenda* to direct its management priorities. All three documents focus on the importance of improving the strategic leadership of the Department's human capital, including using competitive sourcing to improve our processes and ensure that the right people are doing the job, developing and maintaining financial integrity, managing information technology to improve service for our customers, integrating budget and performance by linking funding decisions to results, reducing fraud and error in the federal student aid programs, and leveraging faith-based and community organizations to increase the effectiveness of Department programs.

### Sound Financial Management Ensures Effective Use of Resources

Over the last several years, the Department of Education has significantly improved its financial management accountability. This achievement is evidenced by the Department's "clean opinions" on the audits of its fiscal year (FY) 2002, 2003, and 2004 financial statements (the Department had received a clean opinion only once before, in 1997).

These clean financial statement opinions acknowledge the Department's ability to provide accurate, reliable, and timely financial information that is useful for assessing performance and allocating resources. The Office of the Chief Financial Officer has developed the *Executive Fast Facts Information Summary* report designed to provide summary information for managers to use in implementing plans and measuring performance. *Executive Fast Facts* provides a monthly comprehensive overview of financial and program performance and is used as a tool throughout the Department to measure effectiveness and efficiency of program operations and assist managers in making management decisions. The Office of Federal Student Aid has created a similar management report—the

*Federal Student Aid Executive Dashboard*—that is specific to its operations. The *Executive Dashboard* provides current data on student aid applications, program disbursements, default collections, program performance measures, and system performance. It is provided to all managers weekly and is used at weekly senior officers meetings to track progress and determine if specific actions are required to address identified issues.

In recognition of its improved financial management accountability, the Department received the *Treasury & Risk Management's* FY 2004 Alexander Hamilton Award for using technology to ensure the effective and timely management of cash assets. The Department was cited for its unprecedented transformation of its cash reconciliation process. By implementing an automated reconciliation tool, the Department was able to improve the number of cash transactions that could be reconciled from 30 percent in FY 2000 to 99 percent in FY 2004. The Department is now able to reconcile 96 percent of its cash transactions within 30 days. These improvements led to the development of numerous analyses and charts, as well as data mining applications. Most important, these improvements enabled the Department to provide timely funding to our customers more effectively.

### Strategic Management of Human Capital Supports Programs

The first step to achieving management excellence is to articulate clearly the results to be achieved. Senior officers and managers have and continue to take steps to ensure that Department employees have clearly articulated performance expectations tied to the overarching goals of the organization. Emphasis is placed on specifying how individuals can contribute to the successful performance of programs they manage. As a result, Department employees have the information to understand what is expected of them and for what they will be held accountable.

When results and expectations are clearly established at all levels of an organization, it allows the personnel to align their career development and skills training with

the expectations. It is critical that the organization invest effectively in training and development that supports its goals. Our employees can expect that their training and development opportunities will be based on the Department's needs. For example, issuing and overseeing grants is one of the Department's key lines of business; as such, the Department has taken significant steps to articulate clearly expectations for awarding and monitoring grants and has begun to develop training programs that allow grant program managers to become certified in grants monitoring and fiscal accountability.

In addition, the Department has also identified certain business activities and opened them to a competitive process among Department employees and the private sector to determine the best approach for completing the work. One such competition resulted in awarding the business activity to Department employees who presented a solution that restructured the payment processing functions by leveraging a proven information technology solution that centralizes and streamlines a costly and outdated manual process.

## **Information Technology Improves Services for Customers and Partners**

The people of the Department of Education are investing in technology solutions. All of the Department's grant announcements are posted on the governmentwide Grants.gov Web site. Grants.gov allows organizations to electronically find competitive grant opportunities from all federal grant-making agencies and is the single access point for over 900 grant programs offered by the 26 federal grant-making agencies. The Department has already identified 50 grant programs that during FY 2005 will post grant announcements and receive grant applications on Grants.gov.

During FY 2004, approximately 77 percent of all Department discretionary grant competitions used an online grant application (compared to 5 percent in FY 2000). In addition, both the Office of Postsecondary Education and the Institute of Education Sciences have converted virtually their entire discretionary grant portfolios to use online processes. During FY 2004,

100 percent of the Institute of Education Sciences' and 97 percent of the Office of Postsecondary Education's discretionary grant applications used an online application; 100 percent of the Institute of Education Sciences' and 81 percent of the Office of Postsecondary Education's grant programs conducted the peer review process using an online system (this action resulted in significant logistical savings because reviewers did not have to travel to a central location to review and score grant applications). The Office of Postsecondary Education also developed a desktop application for managing their grant oversight/monitoring efforts.

The Department of Education is also investing in the Performance-Based Data Management Initiative, a multiyear effort to consolidate the collection of education information from states, districts, and schools in a way that improves data quality and reduces paperwork burden for all the national education partners. The system being developed under the Performance-Based Data Management Initiative will be a database repository that users can query to satisfy their information needs. The system will have analysis and reporting tools that allow users to obtain organized and formatted information about the status and progress of education in the states, districts, and schools. Specifically, it will allow program managers to structure monitoring consistent with performance information, and local educators will be able to use federal outcome data to inform local decision-making. The system is expected to be fully operational in FY 2005.

## **Effective Management of Student Financial Assistance Programs Reduces Risk**

The Department of Education operates the Office of Federal Student Aid, which oversees over \$320 billion in loans and grants funding education for more than 13 million customers annually. In 1998, in an effort to simplify the delivery of federal student aid, improve customer service, and reduce costs, the Office of Federal Student Aid became one of the first federal performance-based organizations. To reduce risk and become a performance and results-oriented organization, the office



has used information technology to simplify and improve business processes and to manage cost. To achieve these results, the Office of Federal Student Aid has transformed the aid process from paper to electronic and implemented e-business solutions for postsecondary schools and financial institutions participating in the federal student aid programs.

One example of the success realized by the Office of Federal Student Aid is the 81 percent customer satisfaction rating of the student aid application process, on par with the highest rated products within the American Customer Satisfaction Index's E-commerce Index. This level of customer satisfaction is a direct result of increasing the percentage of electronic applications to 80 percent of all applicants (compared to 32 percent four years ago) and providing a response to online applications in fewer than 24 hours. Another example is that the Customer Satisfaction Index Scores for Direct Loan Servicing are better than those for such service companies as Wachovia Bank and Wal-Mart.

In managing and delivering federal student aid to college students throughout the country, the Office of Federal Student Aid has produced excellent customer satisfaction scores while managing an increased workload with improved productivity. The Office of Federal Student Aid also accomplished the following:

- Created \$1 billion of potential savings over the next 10 years by combining the functions of five separate systems into a single system that handles the Department of Education's direct loan servicing functions, loan consolidation processes, and collection activities for \$102.4 billion in outstanding student loans.
- Increased the efficiency of Direct Loan consolidations, which has resulted in a reduction of the related federal costs from \$111 per consolidation in FY 2001 to \$66 per consolidation in FY 2004.

These results show that the Department of Education is wisely managing resources in the delivery of federal student aid. They also help explain why long-term trends are showing that more Americans are attending

and completing college and why underrepresented groups are participating in larger numbers.

The Government Accountability Office (GAO), in its recent report, *Office of Federal Student Aid: Better Strategic and Human Capital Planning Would Help Sustain Management Progress*—GAO-04-922, has also recognized the significant progress the Office of Federal Student Aid has made in resolving financial integrity and management issues and sustaining improvements in the student financial assistance programs. To sustain that progress, GAO recommended that the Office of Federal Student Aid issue guidance for performing comprehensive compliance reviews, include measures and goals in its five-year performance plan and reports, revise its succession plan, evaluate human capital initiatives, and clarify the criteria for awarding bonuses. The Office of Federal Student Aid will address the report recommendations by, in part, continuing to demonstrate its strong commitment and senior-level leadership support for addressing issues and risks, ensuring proper capacity in terms of staff and resources, and developing comprehensive action plans along with appropriate monitoring and validation procedures. These actions will ensure that the Office of Federal Student Aid sustains the meaningful progress it has made in improving financial integrity and management.

## Program Performance Informs Department Budget Decisions

The Department uses its budget formulation process to establish its principal annual operating plan. The annual operating plan refines the Department's priorities, activities, and policy direction for the year based on the overarching vision established in the *Strategic Plan*. This year, the Department increased its focus on strengthening the integration of budget and performance. We examined all of the program performance measures to ensure that the most appropriate measures are in place and that there are processes to collect the data associated with the measures.

The Department's FY 2005 budget proposal focuses new investments on programs with a demonstrated record of success in improving education outcomes and those that

have been fundamentally reformed by the No Child Left Behind Act. The Department used findings from the governmentwide Program Assessment Rating Tool (PART) to redirect funds from ineffective programs to more effective activities, as well as to identify reforms to help address program weaknesses. In February 2004, the Department reported the findings of 15 PART assessments conducted in conjunction with the formulation of the President's FY 2005 budget. The Department had sufficient performance information to demonstrate the effectiveness of one-third of these assessed programs. Because effectiveness was demonstrated for the multi-billion-dollar Pell Grant Program and other large grant programs, 52 percent of reviewed program dollars demonstrated effectiveness. In February 2005, the Department will release the results of another 27 PART assessments. Following the third round of PART assessments, the Department will begin to measure the extent to which programs are rated "results not demonstrated" for more than two years, consistent with the goals of the *President's Management Agenda*. To increase the amount of performance information available and to demonstrate results for programs initially rated results not demonstrated, the Department is improving the measurement, data collection, and evaluation of targeted programs.

## Participation of Faith-Based and Community Organizations Expands Opportunities

Since FY 2001, the Department has doubled the participation of faith-based and community organizations in targeted discretionary grant programs, thereby demonstrating that barriers have been removed and that the playing field is more level. Since January 2003, the Department has increased from 11 to 159 the number of faith-based and community organizations approved to provide tutoring and other supplemental academic enrichment services under the No Child Left Behind Act, which increases the supply of providers so that more students receive tutoring services.

In support of the Faith-Based and Community Organizations Initiative, the Office of Vocational and

Adult Education within the Department of Education has launched the Community Partnerships for Adult Learning Project. The goal of this project is to learn from the successes of innovative community solutions and share these findings with others. The findings from the project so far are demonstrating that locally developed innovations, particularly those that involve cooperation between education programs and community and faith-based organizations, can effectively meet human needs.

## Management Excellence Results in Recognition

The President's Quality Award Program is designed to recognize organizations that have documented high-performance management systems and approaches that address the objectives of the *President's Management Agenda*. The Department has submitted an FY 2004 application based on the significant achievements made in the area of financial performance. However, the Department's achievements in financial performance have already been recognized by several other accomplishments and awards:

- The Department of Education was the first cabinet-level agency and one of only five agencies to receive a green status score for financial performance under the *President's Management Agenda*.
- The Department of Education was the FY 2004 recipient of the *Treasury & Risk Management's* Alexander Hamilton Award for using technology to ensure the effective and timely management of cash assets.
- The Department's Director of Financial Management Operations, Terry Bowie, was the FY 2004 recipient of the Association of Government Accountants Achievement of the Year Award for his leadership and outstanding achievement in developing, implementing, and improving financial management in the federal government.

- The Department's Deputy Chief Financial Officer, Mark Carney, was the FY 2003 recipient of the Donald L. Scantlebury Memorial Award for Distinguished Leadership in Financial Management Improvement for his outstanding and continuous leadership in financial management that has resulted in significant economies, efficiencies, and improvements in the federal government.
- The Department of Education was the FY 2003 recipient of the Certificate in Excellence in Accountability Reporting awarded by the Association of Government Accountants for a clearly articulated, comprehensive, and integrated report on the financial and performance status of the agency.

<b>Goal 6: Establish Management Excellence Status of President's Management Agenda Initiatives</b>		
Initiatives	FY 2004	FY 2003
Financial Performance	Green	Red
Human Capital	Yellow	Yellow
Competitive Sourcing	Yellow	Yellow
E-Government	Yellow	Yellow
Student Financial Assistance Programs	Yellow	Yellow
Budget and Performance Integration	Yellow	Red
Faith-Based and Community Organizations	Yellow	Yellow

## Performance Measure Summary

The Department has established the management results it seeks in Goal 6 of the *Strategic Plan*. Because Goal 6 aligns so closely with the *President's Management Agenda*, the Department has chosen to report our status on meeting our targets for Goal 6 in terms of our status on meeting the goals of the *President's Management Agenda*.<sup>1</sup>

As a result of more effective operations, the Department of Education is one of only three cabinet-level agencies to have improved all of its status scores since the inception of the *President's Management Agenda* in FY 2002. In addition, the Department is one of only three cabinet-level agencies to have achieved a green status score on financial performance. The Department's *Strategic Plan* and the *President's Management Agenda* will continue to guide the Department's management improvement efforts.

<sup>1</sup> Details on the specific performance measures established for Goal 6 can be found in appendix A, pp. 210–223, of this document.



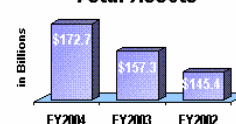
# Financial Details

## Financial Summary

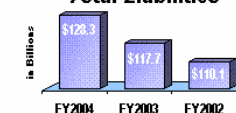
(Dollars in Millions)

At End of Year	% Change 2004 / 2003	FY2004	FY2003	FY2002
<b>Condensed Balance Sheet Data</b>				
Fund Balance with Treasury	+ 15%	\$ 66,371	\$ 57,908	\$ 52,116
Credit Program Receivables	+ 7%	104,966	97,965	91,706
Accounts Receivable	- 15%	155	183	264
Other	- 7%	1,117	1,202	1,280
<b>Total Assets</b>	<b>+ 10%</b>	<b>\$ 172,609</b>	<b>\$ 157,258</b>	<b>\$ 145,367</b>
Treasury Debt for Loan Programs	+ 5%	\$ 96,649	\$ 92,018	\$ 89,782
Other Intragovernmental Liabilities	- 27%	6,051	8,249	6,089
Liabilities for Loan Guarantees	+ 51%	23,329	15,432	11,679
Other Liabilities	+ 6%	2,246	2,124	2,534
<b>Total Liabilities</b>	<b>+ 9%</b>	<b>128,275</b>	<b>117,823</b>	<b>110,084</b>
Unexpended Appropriations	+ 8%	47,285	43,931	39,121
Cumulative Results of Operations	- 34%	(2,951)	(4,497)	(3,838)
<b>Total Net Position</b>	<b>+ 12%</b>	<b>44,334</b>	<b>39,435</b>	<b>35,283</b>
<b>Total Liabilities and Net Position</b>	<b>+ 10%</b>	<b>\$ 172,609</b>	<b>\$ 157,258</b>	<b>\$ 145,367</b>
<b>Full-Time Equivalents</b>				
Office of Postsecondary Education	+ 1%	229.0	227.0	227.7
Office of Federal Student Aid	- 3%	1,068.0	1,095.4	1,155.5
Office of Elementary & Secondary Education	- 20%	178.0	222.2	257.2
Office of English Language Acquisition	- 3%	44.0	45.4	47.1
Office of Special Ed & Rehab Services	- 0%	355.0	356.4	362.0
Office of Vocational & Adult Education	+ 2%	118.0	116.2	118.0
Institute of Education Sciences	- 28%	171.0	238.8	294.6
Office of Innovation and Improvement	+ 46%	88.0	60.3	-
Office of Safe and Drug-Free Schools	+ 49%	49.0	32.8	-
National Assessment Governing Board	- 11%	11.0	12.4	13.0
National Institute for Literacy	+ 3%	15.0	14.5	14.7
<i>Subtotal</i>	<b>- 4%</b>	<b>2,326.0</b>	<b>2,421.4</b>	<b>2,489.8</b>
Administrative	+ 1%	1,110.0	1,104.5	1,076.5
Office for Civil Rights	- 3%	655.0	672.2	698.1
Office of Inspector General	- 5%	268.0	280.9	275.9
<b>Total</b>	<b>- 3%</b>	<b>4,359.0</b>	<b>4,479.0</b>	<b>4,540.3</b>

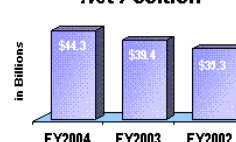
**Total Assets**



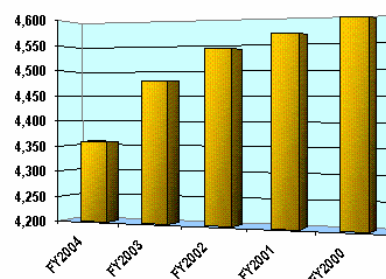
**Total Liabilities**



**Net Position**



**Full-Time Equivalents**



For the Year	% Change 2004 / 2003	FY2004	FY2003	FY2002
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**Statement of Net Cost**

Total Cost	+ 7%	\$ 70,187	\$ 65,327	\$ 55,923
Earned Revenue	+ 1%	(6,564)	(6,523)	(6,157)
<b>Total Net Cost of Operations</b>	<b>+ 8%</b>	<b>\$ 63,623</b>	<b>\$ 58,804</b>	<b>\$ 49,766</b>

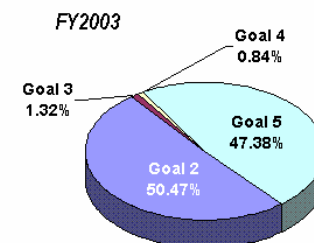
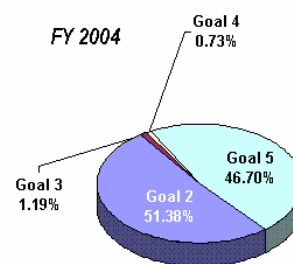
**Net Cost by Strategic Goal<sup>1</sup>**

Goal 2 Improve Student Achievement	+ 10%	\$ 32,687	\$ 29,679	N/A
Goal 3 Develop Safe Schools and Strong Character	- 3%	756	776	N/A
Goal 4 Transform Education into Evidenced-Based Field	- 5%	467	491	N/A
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	+ 7%	29,712	27,858	N/A
<b>Total</b>	<b>+ 8%</b>	<b>\$ 63,622</b>	<b>\$ 58,804</b>	<b>\$ -</b>

**Net Cost Percentages by Strategic Goal<sup>1</sup>**

Goal 2 Improve Student Achievement	+ 2%	51.38%	50.47%	N/A
Goal 3 Develop Safe Schools and Strong Character	- 10%	1.19%	1.32%	N/A
Goal 4 Transform Education into Evidenced-Based Field	- 13%	0.73%	0.84%	N/A
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	- 1%	46.70%	47.38%	N/A

**Net Cost by Strategic Goal**



<sup>1</sup> The Department's Strategic Goals were developed in fiscal year 2002. Net costs by Strategic Goal were not readily available at that time.

## FROM THE CHIEF FINANCIAL OFFICER

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The *Performance and Accountability Report* for fiscal year (FY) 2004 presents, to the Administration and the public, the status of the Department of Education's program performance and fiscal operations. This document is the principal report produced by the Department delineating our improvements and progress for this year.

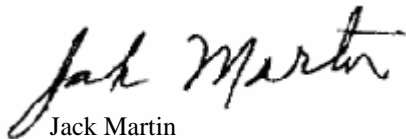
The Department recognizes the importance of public disclosure and accountability to the American taxpayer. This *Performance and Accountability Report* is a demonstration of our commitment to fulfill our fiduciary and reporting responsibilities.

I am pleased to present the U.S. Department of Education's financial statements for FY 2004 as a part of this report. For the third consecutive year, our independent public accounting firm, Ernst & Young LLP, selected by our Inspector General, issued an unqualified or "clean" opinion on the Department's consolidated financial statements. This outcome is the best possible audit result and ensures that the reader can have confidence that the financial statements fairly state the Department's financial position.

The financial statements fairly present the Department's financial position and were prepared in accordance with standards developed by the Federal Accounting Standards Advisory Board and accounting principles generally accepted in the United States. These statements are presented in the format required by the Office of Management and Budget and the Government Management Reform Act of 1994.

We continue to strive for excellence in the financial management of the Department of Education as illustrated throughout this *Performance and Accountability Report*. In FY 2004, the Department had no material weaknesses. The Department continues its efforts to correct our two reportable conditions. To address the reportable condition noted in FY 2003 by our auditors regarding Credit Reform, the Department established a working group to study, analyze, and rectify the issues. Further, steps were taken to improve the controls surrounding information systems. This important work will be completed in FY 2005.

The Department accomplished three significant achievements in FY 2004: (1) the FY 2003 *Performance and Accountability Report* won the Certificate of Excellence in Accountability Reporting Award, (2) the Department achieved "Green" status in Financial Management on the President's Management Scorecard, and (3) the Department received the Alexander Hamilton Award for our use of technology relating to treasury management. These achievements are recognition of the Department's commitment to continually strive for excellence.



Jack Martin  
Chief Financial Officer  
November 12, 2004





# Principal Financial Statements

## LIMITATIONS OF FINANCIAL STATEMENTS

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Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for fiscal years 2004 and 2003 pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the understanding that they represent a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

**United States Department of Education**  
**Consolidated Balance Sheet**  
**As of September 30, 2004 and 2003**  
(Dollars in Millions)

	Fiscal Year 2004	Fiscal Year 2003
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 66,371	\$ 57,908
Accounts Receivable (Note 5)	3	4
Other Intragovernmental Assets	17	27
Total Intragovernmental	66,391	57,939
Cash and Other Monetary Assets (Note 3)	1,040	1,108
Accounts Receivable, Net (Note 5)	152	179
Credit Program Receivables, Net (Note 4)	104,966	97,965
General Property, Plant and Equipment, Net (Note 6)	21	28
Other Assets	39	39
<b>Total Assets</b>	<b>\$ 172,609</b>	<b>\$ 157,258</b>
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable	\$ 14	\$ 14
Treasury Debt (Note 7)	96,649	92,018
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 3)	1,040	1,107
Payable to Treasury (Note 8)	4,993	7,023
Other Intragovernmental Liabilities (Note 9)	4	105
Total Intragovernmental	102,700	100,267
Accounts Payable	485	286
Accrued Grant Liability (Note 11)	1,361	1,366
Liabilities for Loan Guarantees (Note 4)	23,329	15,432
Federal Employee and Veterans' Benefits (Note 10)	19	22
Other Liabilities (Note 9)	381	450
<b>Total Liabilities (Note 10)</b>	<b>\$ 128,275</b>	<b>\$ 117,823</b>
Commitments and Contingencies (Note 18)		
<b>Net Position:</b>		
Unexpended Appropriations (Note 12)	\$ 47,285	\$ 43,931
Cumulative Results of Operations (Note 12)	(2,951)	(4,496)
<b>Total Net Position</b>	<b>\$ 44,334</b>	<b>\$ 39,435</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 172,609</b>	<b>\$ 157,258</b>

The accompanying notes are an integral part of these statements.

**United States Department of Education**  
**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2004 and 2003**  
(Dollars in Millions)

	Fiscal Year 2004	Fiscal Year 2003
<b>Program Costs</b>		
<b>Program A (Enhancement of Postsecondary and Adult Education)</b>		
Intragovernmental Gross Costs	\$ 6,376	\$ 6,627
Less: Intragovernmental Earned Revenue	1,627	1,535
<i>Intragovernmental Net Costs</i>	4,749	5,092
Gross Costs with the Public	28,167	26,060
Less: Earned Revenues from the Public	4,812	4,972
<i>Net Costs with the Public</i>	23,355	21,088
<b>Program A Total Net Cost</b>	<b>\$ 28,104</b>	<b>\$ 26,180</b>
<b>Program B (Creation of Student Achievement, Culture of Achievement and Safe Schools)</b>		
Intragovernmental Gross Costs	\$ 174	\$ 152
Less: Intragovernmental Earned Revenue	103	8
<i>Intragovernmental Net Costs</i>	71	144
Gross Costs with the Public	21,933	20,128
Less: Earned Revenues from the Public	21,933	20,128
<i>Net Costs with the Public</i>	21,933	20,128
<b>Program B Total Net Cost</b>	<b>\$ 22,004</b>	<b>\$ 20,272</b>
<b>Program C (Transformation of Education)</b>		
Intragovernmental Gross Costs	\$ 77	\$ 31
Less: Intragovernmental Earned Revenue	4	6
<i>Intragovernmental Net Costs</i>	73	25
Gross Costs with the Public	578	632
Less: Earned Revenues from the Public	14	632
<i>Net Costs with the Public</i>	564	632
<b>Program C Total Net Cost</b>	<b>\$ 637</b>	<b>\$ 657</b>
<b>Program D (Special Education and Program Execution)</b>		
Intragovernmental Gross Costs	\$ 34	\$ 19
Less: Intragovernmental Earned Revenue	4	2
<i>Intragovernmental Net Costs</i>	30	17
Gross Costs with the Public	12,848	11,678
Less: Earned Revenues from the Public	12,848	11,678
<i>Net Costs with the Public</i>	12,848	11,678
<b>Program D Total Net Cost</b>	<b>\$ 12,878</b>	<b>\$ 11,695</b>
<b>Total Program Net Costs</b>	<b>\$ 63,623</b>	<b>\$ 58,804</b>
<b>Net Cost of Operations (Note 17)</b>	<b>\$ 63,623</b>	<b>\$ 58,804</b>

The accompanying notes are an integral part of these statements.

**United States Department of Education**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2004 and 2003**  
(Dollars in Millions)

	Fiscal Year 2004		Fiscal Year 2003	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	\$ (4,496)	\$ 43,931	\$ (3,838)	\$ 39,121
Prior Period Adjustments				28
Beginning Balance, As Adjusted	(4,496)	43,931	(3,838)	39,149
<b>Budgetary Financing Sources</b>				
Appropriations Received		72,091		67,792
Appropriations Transferred - In/Out (+/-)				
Other Adjustments (+/-)		(981)		(1,049)
Appropriations Used	67,756	(67,756)	61,961	(61,961)
Nonexpenditure Financing Sources - Transfers-Out	(4)		(4)	
<b>Other Financing Sources</b>				
Imputed Financing	32		30	
Adjustments to Financing Sources (+/-)	(2,616)		(3,841)	
<b>Total Financing Sources</b>	\$ 65,168	\$ 3,354	\$ 58,146	\$ 4,782
<b>Net Cost of Operations (+/-)</b>	\$ (63,623)		\$ (58,804)	
<b>Ending Balances (Note 12)</b>	\$ (2,951)	\$ 47,285	\$ (4,496)	\$ 43,931

The accompanying notes are an integral part of these statements.

**United States Department of Education**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2004 and 2003**  
(Dollars in Millions)

	Fiscal Year 2004		Fiscal Year 2003	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>				
Budget Authority:				
Appropriations Received	\$ 72,090	\$ 1	\$ 67,776	\$ 16
Borrowing Authority		22,483		21,766
Net Transfers				
Other				
Unobligated Balance:				
Beginning of Period	5,329	9,766	4,682	7,805
Spending Authority From Offsetting Collections:				
Earned				
Collected	5,250	37,716	5,387	32,978
Receivable From Federal Sources		4	(70)	
Change in Unfilled Customer Orders				
Advance received (collected)	(34)		55	
Without advance from Federal sources	(5)		76	
Subtotal	\$ 5,211	\$ 37,720	\$ 5,448	\$ 32,978
Recoveries of Prior Year Obligations	1,587	3,047	1,277	269
Permanently Not Available	(6,575)	(18,893)	(6,225)	(17,471)
<b>Total Budgetary Resources (Note 14)</b>	<b>\$ 77,642</b>	<b>\$ 54,124</b>	<b>\$ 72,958</b>	<b>\$ 45,363</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred: (Note 14)				
Direct				
Reimbursable	\$ 75,306	\$ 38,996	\$ 67,549	\$ 35,597
Subtotal	91		82	
Subtotal	\$ 75,397	\$ 38,996	\$ 67,631	\$ 35,597
Unobligated Balance:				
Apportioned	655	948	2,981	396
Unobligated Balance Not Available	1,590	14,180	2,346	9,370
<b>Total Status of Budgetary Resources</b>	<b>\$ 77,642</b>	<b>\$ 54,124</b>	<b>\$ 72,958</b>	<b>\$ 45,363</b>
<b>Relationship of Obligations to Outlays:</b>				
Obligated Balance, Net, Beginning of Period	\$ 42,419	\$ 8,399	\$ 38,961	\$ 6,812
Obligated Balance, Net, End of Period:				
Accounts Receivable	(3)	(2)	(3)	
Unfilled customer orders from Federal Sources	(71)		(76)	
Undelivered Orders	46,468	7,666	40,744	8,382
Accounts Payable	1,753	124	1,755	16
Outlays:				
Disbursements	68,087	36,557	62,890	33,741
Collections	(5,217)	(37,716)	(5,443)	(32,978)
Subtotal	\$ 62,870	\$ (1,159)	\$ 57,447	\$ 763
Less: Offsetting Receipts	51		44	
<b>Net Outlays (Note 14)</b>	<b>\$ 62,819</b>	<b>\$ (1,159)</b>	<b>\$ 57,403</b>	<b>\$ 763</b>

The accompanying notes are an integral part of these statements.

**United States Department of Education**  
**Consolidated Statement of Financing**  
**For the Years Ended September 30, 2004 and 2003**  
(Dollars in Millions)

	Fiscal Year 2004	Fiscal Year 2003
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred (Note 14)	\$ (114,393)	\$ (103,228)
Less: Spending Authority from Offsetting Collections & Recoveries	47,565	39,972
Obligations Net of Offsetting Collections and Recoveries	(66,828)	(63,256)
Less: Offsetting Receipts	(51)	(44)
Net Obligations	\$ (66,879)	\$ (63,300)
<b>Other Resources</b>		
Transfers In/Out Without Reimbursement (+/-)		
Imputed Financing From Costs Absorbed by Others	(32)	(30)
Net Other Resources Used to Finance Activities	(32)	(30)
<b>Total Resources Used to Finance Activities</b>	\$ (66,911)	\$ (63,330)
<b>Resources Used to Finance Items Not Part of Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	\$ (4,809)	\$ (5,251)
Resources that Fund Expenses Recognized in Prior Period (Note 15)	213	(1,258)
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	35,339	31,786
Other		(72)
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in the Current or Prior Period	(31,145)	(28,065)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	\$ (402)	\$ (2,860)
<b>Total Resources Used to Finance the Net Cost of Operations</b>	\$ (66,509)	\$ (60,470)
<b>Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$ (30)	\$ (26)
Upward/Downward Reestimates of Credit Subsidy Expense	(1,559)	(1,318)
Increase in Exchange Revenue Receivable from the Public	1,070	1,088
Other (+/-)	41	(11)
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$ (478)	\$ (267)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	\$ 1,797	\$ 1,933
Other (+/-) (Note 15)	1,567	
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	\$ 3,364	\$ 1,933
<b>Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>	\$ 2,886	\$ 1,666
<b>Net Cost of Operations (Note 17)</b>	\$ (63,623)	\$ (58,804)

The accompanying notes are an integral part of these statements.

**NOTES TO PRINCIPAL FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

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## **Note 1. Summary of Significant Accounting Policies**

### **Reporting Entity**

The U.S. Department of Education (the Department) was established on May 4, 1980, by Congress, under the Department of Education Organization Act of 1979 (Public Law 96-88). It is responsible, through the execution of its congressionally approved budget, for administering direct loans, guaranteed loans, and grant programs.

The Department administers the Federal Direct Student Loan Program, the Federal Family Education Loan (FFEL) Program, Pell Grants, and Campus-Based Student Aid Programs. The Federal Direct Student Loan Program, authorized by the Student Loan Reform Act of 1993, enables the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. The Federal Family Education Loan (FFEL) Program, authorized by the Higher Education Act of 1965, as amended (HEA), cooperates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. The Pell Grant and Campus-Based Programs provide educational grants and other financial assistance to eligible applicants.

The Department also administers numerous Grant Programs and the Facilities Loan Programs. Grant Programs include grants for elementary and secondary education, special education and rehabilitative services, and educational research and improvement, along with grants for needs of the disadvantaged. Through the Facilities Loan Programs, the Department administers low-interest loans to institutions of higher learning for the construction and renovation of facilities.

### **Organization and Structure at the Department of Education**

The statements consolidate 225 discrete appropriations comprising 60 fund accounts within the following 10 reporting groups:

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- Office of Special Education and Rehabilitative Services (OSERS)
- Office of Vocational and Adult Education (OVAE)
- Office of Postsecondary Education (OPE)
- Institute of Education Sciences (IES)
- Office of English Language Acquisition (OELA)
- Office of Safe and Drug-Free Schools (OSDFS) (Established FY 2004)
- Office of Innovation and Improvement (OII) (Established FY 2004)
- Department Management (DM)



## **Basis of Accounting and Presentation**

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the U.S. Department of Education, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted (GAAP) in the United States of America and Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the Department's use of budgetary resources.

The financial statements should be read with the realization they are a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

## **Use of Estimates**

The preparation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Estimates for credit program receivables and liabilities contain assumptions that have a significant impact on the financial statements. The primary components of this assumption set include, but are not limited to, collections (including loan consolidations), repayments, default rates, prevailing interest rates and loan volume. Actual loan volume, interest rates, cash flows and other critical components used in the estimation process may differ significantly from the assumptions made at the time the financial statements were prepared. Minor adjustments to any of these assumption components may create significant changes to the estimate.

The Department recognizes the sensitivity of the changes in assumptions and the impact that the projections can have on estimates. Management has attempted to mitigate these fluctuations by using trend analysis to project future cash flows. The assumptions used for the September 30, 2004 and 2003, financial statements are based on the best information available at the time the estimate was derived.

Changes in assumptions could significantly affect the amounts reflected in these statements. For example, a long-term change in the projected interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount.

The Student Loan Model (SLM) and estimating methods used are updated periodically to reflect changing conditions. The SLM was the official estimating model of the Department as of September 30, 2004 and 2003, and was used to calculate the subsidy re-estimates recorded in these financial statements.

## **Budget Authority**

Budget authority is the authorization provided by law for the Department to incur financial obligations that will result in outlays. The Department's budgetary resources for fiscal years 2004 and 2003 included (1) unobligated balances of resources from prior years, (2) recoveries of obligations in prior years, and (3) new resources—appropriations, authority to borrow from the U.S. Department of Treasury (Treasury), and spending authority from collections. Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior-year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end may have new obligations placed against them, as well as net upward adjustments of prior-year obligations.

Treasury Debt provides most of the funding for the loan principal disbursements made under the Federal Direct Student Loan Program. Subsidy and administrative costs of the program are funded by appropriations. Budgetary resources from collections are used primarily to repay the Department's debt to Treasury. Major sources of collections include (1) principal and interest collections from borrowers or through the consolidation of loans to borrowers, (2) related fees, and (3) interest from Treasury on balances in certain credit accounts that make and administer loans and guarantees.

## **Fund Balance with Treasury**

The Department maintains cash accounts with Treasury. The fund balance with Treasury includes appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes the cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of Treasury. (See Note 2.)

## **Cash and Other Monetary Assets**

Cash and other monetary assets consist of Guaranty Agency reserves and deposits in transit. Guaranty Agency reserves represent the Department's interest in the net assets of the FFEL program Guaranty Agencies. Guaranty Agency reserves are classified as non-entity assets with the public (see Note 3) and are offset by a corresponding liability due to Treasury. Guaranty Agency reserves include initial federal start-up funds (Guaranty Agency advances), receipts of federal reinsurance payments, insurance premiums, Guaranty Agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets purchased out of reserve funds.

Section 422A of the HEA required FFEL Guaranty Agencies to establish a Federal Student Loan Reserve Fund (the "Federal Fund") and an Operating Fund by December 6, 1998. The Federal Fund and the non-liquid assets developed or purchased by a Guaranty Agency as a result, in whole or in part with federal funds, are the property of the United States. However, such ownership by the Department is independent of the actual control of the assets.

The Department disburses funds to the Guaranty Agency through the Federal Fund to pay lender claims and default aversion fees of a Guaranty Agency. The Operating Fund is the property of the Guaranty Agency except for funds an agency borrows from the Federal Fund (under Section 422A of the HEA). The Operating Fund is used by the Guaranty Agency to fulfill its responsibilities. These responsibilities include repaying money borrowed from the Federal Fund, default aversion and collection activities.

## Accounts Receivable

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public typically result from such items as overpayments of educational assistance, whereas amounts due from other federal agencies result from agreements entered into by the Department with these agencies for various goods and services. Accounts receivable are recorded at cost less an allowance for uncollectible amounts. The estimate of the allowance for loss on uncollectible accounts is based on experience in the collection of receivables and an analysis of the outstanding balances. (See Note 5.)

## Credit Program Receivables and Liabilities for Loan Guarantees

The financial statements at September 30, 2004 and 2003, reflect the Department’s estimate of the long-term cost of direct and guaranteed loans in accordance with the Federal Credit Reform Act of 1990 (the Act). Loans and interest receivable are valued at their gross amounts less an allowance for the present value of the amounts not expected to be recovered and thus having to be subsidized—called “allowance for subsidy.” The difference is the present value of the cash flows to and from the Department that are expected from the receivables over their expected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from the Department less the present value of related inflows. The estimated present value of net long-term cash outflows of the Department for subsidized costs (primarily defaults) is net of recoveries, interest supplements, and offsetting fees. The Department records all credit program loans and loan guarantees at their present values.

Components of subsidy costs involved with loans and guarantees include defaults, net of recoveries, contractual payments to third-party private loan collectors who receive a set percentage of amounts they collect, and, as an offset, application and other fees to be collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to target groups is also subsidized (or may provide an offset to subsidy if the Department’s rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to buy down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and are re-estimated each year. (See Note 4.)

## General Property, Plant and Equipment

The Department capitalizes single items of property and equipment with a cost of \$50,000 or more that have an estimated useful life greater than two years. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of \$500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project or the purchase of like items occurring within the same fiscal year that have an estimated useful life greater than two years. Property and Equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. (See Note 6.) Internal Use Software (IUS) meeting the above cost and useful life criteria is also capitalized. IUS is software purchased off the shelf, internally developed, or contractor developed solely to meet the agency’s internal needs.

The Department adopted the following useful lives for the major classes of depreciable property and equipment:

<b>Major Classes of Depreciable Property and Equipment</b>	<b>Years</b>
Information Technology (IT), Internal Use Software (IUS) and Telecommunications equipment	3
Furniture and Fixtures	5

## Liabilities

Liabilities represent actual and estimated amounts likely to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty the appropriation will be enacted. Liabilities of the Department arising from other than contracts can be abrogated by the government acting in its sovereign capacity. FFEL and Federal Direct Student Loan Program liabilities are entitlements covered by permanent indefinite budget authority enacted as of year-end.

## Treasury Debt

The amount shown for the liability to Treasury from borrowings represents unpaid principal owing on the loans at year-end associated with the Department's loan activities. The Department repays the loan principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury, with such rates generally fixed based on the rate for 10-year securities. As discussed in Note 4, the interest received by the Department from borrowers will vary from the rate paid to the Treasury. Principal and interest payments are made annually. (See Note 7.)

## Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. A liability is accrued by the Department for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount is estimated using statistical sampling techniques. (See Note 11.)

## Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances of appropriations, except those for federal credit financing and liquidating funds, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 12.)

## Personnel Compensation and Other Employee Benefits

**Annual, Sick and Other Leave.** The liability for annual leave, compensatory time off, and other leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

**Retirement Plans and Other Employee Benefits.** Employees participate either in the Civil Service Retirement System (CSRS), a defined benefit plan, or in the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay. For FERS employees, the Department contributes fixed percentages to both a defined benefits plan and a defined contributions plan (Thrift Savings Plan). For FERS employees, the Department also contributes the employer's share for Social Security (FICA) and Medicare.

The FERS program is fully funded by agency and worker contributions. Such contributions for other retirement plans and benefits are insufficient to fully fund the programs, which are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors OPM provides, and reports the full cost of the programs related to its employees.

**Federal Employees Compensation Act.** The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (Labor), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by Labor but not yet reimbursed by the Department. The Department reimburses Labor for the amount of actual claims as funds are appropriated for this purpose. There is generally a two to three year time period between payment by Labor and reimbursement to Labor by the Department. As a result, the Department recognizes a liability for the actual claims paid by Labor and to be reimbursed by the Department.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs. Labor determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the Office of Management and Budget economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments and to adjust future benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

Labor evaluates the estimated projections to ensure that the resulting projections were reliable. The analysis includes two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

## **Intragovernmental Transactions**

The Department's financial activities interact and are dependent upon the financial activity of the centralized management functions of the federal government. The Department is subject to financial regulation and management control by the Office of Management and Budget and Treasury. As a result of this relationship, operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity. Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheet.

## **Other Intragovernmental Assets**

Other intragovernmental assets represent interagency agreements between the Department and the National Science Foundation (NSF). As of September 30, 2004 and 2003, other intragovernmental assets totaled \$17 million and \$27 million, respectively. These agreements were entered into prior to FY 2003 and were appropriately treated as an expense by the Department. During FY 2003, NSF informed the Department that \$27 million was recorded on NSF's books as

an “advance from others.” This amount represents unexpended balances for interagency agreements with the Department. The Department began recording “advances to others” in order to facilitate the United States Financial Statement Consolidated Eliminations (for federal governmentwide financial statements) in FY 2003. Accordingly, the previous expense of \$27 million associated with the NSF interagency agreements was reversed in FY 2003 as a prior period adjustment and recorded as an “advance to others.”

## Note 2. Fund Balance with Treasury

Fund balance with Treasury at September 30, 2004 and 2003, consisted of the following:

<u>(Dollars in Millions)</u>	<u>2004</u>	<u>2003</u>
Appropriated Funds	\$ 49,353	\$ 46,637
Revolving Funds	17,010	11,190
Other Funds	8	81
<b>Total Fund Balance with Treasury</b>	<b><u>\$ 66,371</u></b>	<b><u>\$ 57,908</u></b>

### Status of Fund Balance with Treasury

<u>(Dollars in Millions)</u>	<u>2004</u>	<u>2003</u>
Unobligated Balance		
- Available	\$ 1,603	\$ 3,377
- Unavailable	14,738	10,609
Obligated Balance, Not Yet Disbursed	50,022	43,841
Other Funds	8	81
<b>Total Status of Fund Balance with Treasury</b>	<b><u>\$ 66,371</u></b>	<b><u>\$ 57,908</u></b>

Fund Balance with Treasury is an entity asset maintained with Treasury. The monies are available to pay current liabilities and finance loan programs. The Department has the authority to disburse funds to agencies and institutions participating in its programs through the Treasury, which processes cash receipts and disbursements on its behalf.

A portion of the appropriated funds included at September 30, 2004 and 2003, was funded in advance by multi-year appropriations for expenditures anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require an annual appropriation. Their fund balance comes from collections (other federal entities and the public) and from borrowings. Other funds primarily consist of suspense, deposit funds and clearing accounts.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include reimbursements and other income earned, undelivered orders and expended authority-unpaid.

### Note 3. Cash and Other Monetary Assets

Cash and Other Monetary Assets consisted of Guaranty Agency reserves (non-entity assets) and deposits in transit as of September 30, 2004 and 2003.

<u>(Dollars in Millions)</u>	<b>2004</b>		
	<u>Guaranty Agency Reserves</u>	<u>Deposits in Transit</u>	<u>Total</u>
<b>Beginning Balance, September 30</b>	\$ 1,107	\$ 1	\$ 1,108
Current Year Activity	(67)	(1)	(68)
<b>Ending Balance, September 30</b>	<b>\$ 1,040</b>	<b>\$ -</b>	<b>\$ 1,040</b>

<u>(Dollars in Millions)</u>	<b>2003</b>		
	<u>Guaranty Agency Reserves</u>	<u>Deposits in Transit</u>	<u>Total</u>
<b>Beginning Balance, September 30</b>	\$ 1,169	\$ 36	\$ 1,205
Current Year Activity	(62)	(35)	(97)
<b>Ending Balance, September 30</b>	<b>\$ 1,107</b>	<b>\$ 1</b>	<b>\$ 1,108</b>

Guaranty Agency reserves are collected and held on behalf of the U.S. government, a liability due to Treasury and considered intragovernmental liabilities. These balances represent the federal government's interest in the net assets of state and nonprofit FFEL Program Guaranty Agencies. (See Note 1.)

On September 30, 2004 and 2003, Guaranty Agencies held approximately \$1,040 million and \$1,107 million in federal assets, respectively. The agencies use the funds to pay lender claims, primarily for loan defaults and discharges. Consistent with Section 422A(e) of the HEA, these funds are considered "property of the United States" and are reflected in the *Budget of the United States Government*.



## Note 4. Credit Program Receivables and Liabilities for Loan Guarantees

The Department operates the William D. Ford Direct Student Loan and Federal Family Education Loan (FFEL) programs to help students finance the costs of higher education. Under the programs, the Department makes loans directly or guarantees all or a portion of loans made by participating lending institutions to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education—public and private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents receive loans regardless of income or credit rating; student borrowers who demonstrate financial need also receive federal interest subsidies.

Under the Direct Loan program, the federal government makes loans directly to students and parents through participating schools. Loans are originated and serviced through contracts with private vendors. Under the FFEL program, more than 3,400 financial institutions make loans directly to students and parents. FFEL loans are guaranteed by the federal government against default, with 36 state or private nonprofit Guaranty Agencies acting as intermediaries in administering the guarantees. Beginning with loans first disbursed on or after October 1, 1993, financial institutions became responsible for two percent of the cost of each default. Guaranty Agencies also began paying a portion of the cost (in most cases, five percent) of each defaulted loan from federal funds they hold in trust. FFEL lender participants receive statutorily set federal interest and special allowance subsidies; Guaranty Agencies receive fee payments as set by statute. In most cases, loan terms and conditions under the two programs are identical.

The Federal Credit Reform Act of 1990 (the Act) underlies the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees, other than for general administration of the programs, is referred to as “subsidy cost.” Under the Act, subsidy costs for loans obligated beginning in FY 1992 are the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually through the re-estimate process.

The Department estimates all future cash flows associated with Direct Loans and FFEL. Projected cash flows are used to develop subsidy estimates. Subsidy costs can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy is recorded as the initial amount of the loan guarantee liability when guarantees are made—the loan liability—and as a valuation allowance to government-owned loans and interest receivable (i.e., direct and defaulted guaranteed loans).

The Department uses a computerized cash flow projection Student Loan Model (SLM) to calculate subsidy estimates for Direct Loans and guaranteed FFEL program loans. Cash flows are projected over the life of the loan, aggregated by loan type, cohort year, and risk category. The loan’s cohort year represents the year a direct loan was obligated or a loan was guaranteed, regardless of the timing of disbursements. Risk categories include two-year colleges, freshmen and sophomores at four-year colleges, juniors and seniors at four-year colleges, graduate schools, and proprietary (for-profit) schools.

The estimates reflected in these statements were prepared using assumptions developed for the FY 2005 Mid-Session Review, a governmentwide exercise required annually by the OMB. These estimates are the most current available to the Department at the time the financial statements are prepared. Department management has a process to review these estimates in the context of subsequent changes in assumptions, and reflect the impact of these changes as appropriate.

In recent years, the consolidation of existing loans into new direct or guaranteed loans has increased significantly. Under the Act and requirements provided by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the retirement of loans being consolidated is considered a receipt of principal and interest; this receipt is offset by the disbursement related to the newly created consolidation loan. The underlying direct or guaranteed loans, whether

performing or non-performing, in any given cohort are paid off in their original cohort and new loans are opened in the cohort in which consolidation activity occurs. This consolidation activity is taken into consideration in establishing the subsidy rate for defaults.

The FFEL estimated liability for loan guarantees is reported as the present value of estimated net cash outflows. Defaulted FFEL loans are reported net of an allowance for subsidy computed using net present value methodology, including defaults, collections, and cancellations. The same methodology is used to estimate the allowance on Direct Loans receivables.

The Department disbursed approximately \$20 billion in Direct Loans to eligible borrowers in FY 2004 and approximately \$18 billion in FY 2003. Half of all loan volume is obligated in the fourth quarter of the fiscal year. Loans typically disburse in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Regardless of the fiscal year in which they occur, disbursements are tracked by the cohort to which they belong, which is determined by the time of obligation rather than disbursement.

As of September 30, 2004 and 2003, the total principal balances outstanding of guaranteed loans held by lenders were approximately \$245 billion and \$213 billion, respectively. As of September 30, 2004 and 2003, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately \$240 billion and \$209 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the Guaranty Agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the Guaranty Agencies from their federal funds. Payments by Guaranty Agencies do not reduce government exposure because they are made from federal funds administered by the agencies.

The Department accrues interest receivable and records interest revenue on its performing direct loans. Given the Department's substantial collection rates, interest receivable is also accrued and interest revenue recognized on defaulted direct loans. Guaranteed loans that default are initially turned over to Guaranty Agencies for collection, and interest receivable is accrued and recorded on the loans as the collection rate is substantial. After approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection; accrued interest is calculated but only realized upon collection. Interest income is recognized for performing and defaulted direct loans. The Department does not record interest income on defaulted guaranteed loans; all borrower interest actually or expected to be accrued or received is used in estimating the FFEL liability for loss and allowance for subsidy.

As previously noted, borrowers may prepay and close out existing loans without penalty from capital raised through the disbursement of a new consolidation loan. The loan liability and net receivables include estimates of future prepayments of existing loans; they do not reflect costs associated with anticipated future consolidation loans.

Due to the nature of the loan commitment process in which schools establish a loan commitment with the filing of an aid application, which may occur before a student has been accepted by the school or begins classes, approximately seven percent of loan commitments are never disbursed. For Direct Loans committed in FY 2004, an estimated \$1.3 billion will not be disbursed; for guaranteed loans committed in FY 2004, an estimated \$6.3 billion will not be disbursed. Direct Loan schools may originate loans through a cash advance from the Department, establishing a loan receivable, or by advancing their own funds in anticipation of reimbursement from the Department.

## Credit Program Receivables, Net

The Credit Program Receivables, Net consisted of the following program loans:

<i><b>(Dollars in Millions)</b></i>	<b>2004</b>	<b>2003</b>
Direct Loan Program Loan Receivables, Net	\$ 93,747	\$ 86,634
FFEL Program Loan Receivables, Net	10,671	10,786
Perkins Program Loan Receivables, Net	194	195
Facilities and Other Loan Receivables, Net	354	350
<b>Credit Program Receivables, Net</b>	<b>\$ 104,966</b>	<b>\$ 97,965</b>

The following schedules summarize the direct and defaulted FFEL loan principal and related interest receivable, net or inclusive of the allowance for subsidy.

<b>Direct Loan Program Receivables</b>		
<i><b>(Dollars in Millions)</b></i>	<b>2004</b>	<b>2003</b>
Principal Receivable	\$ 89,245	\$ 84,520
Interest Receivable	2,858	2,771
<b>Receivables</b>	<b>92,103</b>	<b>87,291</b>
Less: Allowance for Subsidy	(1,644)	657
<b>Credit Program Receivables, Net</b>	<b>\$ 93,747</b>	<b>\$ 86,634</b>

Of the \$92.1 billion in Direct Loan receivables as of September 30, 2004, \$6.3 billion are currently in default and held at the Department's Borrowers Services Collections Group. As of September 30, 2003, \$5.6 billion were in default and held at the Department's Borrowers Services Collections Group out of a total receivable of \$87.3 billion.

<b>FFEL Program Receivables</b>						
<i><b>(Dollars in Millions)</b></i>	<b>2004</b>			<b>2003</b>		
	<b>Pre-1992</b>	<b>Post-1991</b>	<b>Total</b>	<b>Pre-1992</b>	<b>Post-1991</b>	<b>Total</b>
Principal Receivable	\$ 10,324	\$ 7,247	\$ 17,571	\$ 10,555	\$ 7,119	\$ 17,674
Interest Receivable	857	1,580	2,437	1,144	1,553	2,697
<b>Receivables</b>	<b>11,181</b>	<b>8,827</b>	<b>20,008</b>	<b>11,699</b>	<b>8,672</b>	<b>20,371</b>
Less: Allowance for Subsidy	7,921	1,416	9,337	8,273	1,312	9,585
<b>Credit Program Receivables, Net</b>	<b>\$ 3,260</b>	<b>\$ 7,411</b>	<b>\$ 10,671</b>	<b>\$ 3,426</b>	<b>\$ 7,360</b>	<b>\$ 10,786</b>

## Direct Loan Program Reconciliation of Allowance for Subsidy

The reconciliation of allowance for subsidy for the Direct Loan Program follows:

<i>(Dollars in Millions)</i>	<u>2004</u>	<u>2003</u>
<b>Beginning Balance, Allowance for Subsidy</b>	<b>\$ 657</b>	<b>\$ (2,115)</b>
<b>Components of Subsidy Transfers</b>		
Interest Rate Differential	(1,276)	(1,724)
Defaults, Net of Recoveries	390	613
Fees	(401)	(377)
Other	1,117	1,122
<b>Current Year Subsidy Transfers</b>	<b>(170)</b>	<b>(366)</b>
<b>Components of Subsidy Re-estimates</b>		
Interest Rate Re-estimates <sup>1</sup>	(1,526)	388
Technical and Default Re-estimates	1,153	4,694
<b>Total Subsidy Re-estimates</b>	<b>(373)</b>	<b>5,082</b>
<b>Activity</b>		
Fee Collections	450	408
Loan Cancellations <sup>2</sup>	(92)	(104)
Subsidy Allowance Amortization	(1,815)	(1,953)
Other	(301)	(295)
<b>Total Activity</b>	<b>(1,758)</b>	<b>(1,944)</b>
<b>Ending Balance, Allowance for Subsidy</b>	<b>\$ (1,644)</b>	<b>\$ 657</b>

<sup>1</sup> The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

<sup>2</sup> Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.

## FFEL Program Reconciliation of Liabilities for Loan Guarantees

Liabilities for Loan Guarantees represent the present value of future projected cash outflows from the Department, net of inflows, such as fees, and collection of principal and interest on defaulted guaranteed loans assumed for direct collection.

The FFEL Program Liability for Loan Guarantees reconciliation is associated with the FFEL Program loans guaranteed in the financing account. The FFEL liquidating account liability for loan guarantees is included in the total Liabilities for Loan Guarantees.

<i>(Dollars in Millions)</i>	<u>2004</u>	<u>2003</u>
<b>Beginning Balance, Liability for Loan Guarantees</b>	<b>\$ 15,310</b>	<b>\$ 11,571</b>
<b>Components of Subsidy Transfers</b>		
Interest Supplement Costs <sup>1</sup>	10,087	5,569
Defaults, Net of Recoveries	888	1,398
Fees	(4,230)	(3,181)
Other <sup>2</sup>	2,151	2,087
<b>Current Year Subsidy Transfers</b>	<b>8,896</b>	<b>5,873</b>
<b>Components of Subsidy Re-estimates</b>		
Interest Rate Re-estimates	70	4
Technical and Default Re-estimates	(1,449)	(2,534)
<b>Subsidy Re-estimates in Liability</b>	<b>(1,379)</b>	<b>(2,530)</b>
<b>Activity</b>		
Interest Supplement Payments	(2,345)	(2,088)
Claim Payments	(2,803)	(2,834)
Fee Collections	2,588	2,025
Interest on Liability Balance	436	458
Other <sup>3</sup>	2,511	2,835
<b>Total Activity</b>	<b>387</b>	<b>396</b>
<b>Ending Balance, Liability for Loan Guarantees</b>	<b>23,214</b>	<b>15,310</b>
FFEL Liquidating Account Liability for Loan Guarantees	115	122
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 23,329</b>	<b>\$ 15,432</b>

<sup>1</sup> Increase in 2004 primarily results from costs associated with increased consolidation loan volume.

<sup>2</sup> Subsidy primarily associated with debt collections and loan cancellations due to death, disability, and bankruptcy.

<sup>3</sup> Activity primarily associated with the transfer of subsidy for defaults; loan consolidation activity; and loan cancellations due to death, disability, and bankruptcy.

## Subsidy Expense

Direct Loan and FFEL program subsidy expenses were as follows:

<b>Direct Loan Program Subsidy Expense</b>		
<i>(Dollars in Millions)</i>	<b>2004</b>	<b>2003</b>
<b>Components of Current-Year Subsidy Transfers</b>		
Interest Rate Differential	\$ (1,276)	\$ (1,724)
Defaults, Net of Recoveries	390	613
Fees	(401)	(377)
Other	1,117	1,122
<b>Current Year Subsidy Transfers</b>	<b>(170)</b>	<b>(366)</b>
Re-estimates	(373)	5,082
<b>Direct Loan Subsidy Expense</b>	<b>\$ (543)</b>	<b>\$ 4,716</b>

Direct Loan subsidy expense was reduced by \$373 million by the 2004 re-estimates. The re-estimate related to changes in actual and forecasted interest rates reduced subsidy expense by \$847 million. The re-estimate related to changes in assumptions for other variables, such as assumed term and maturity, loan volume, and prepayment rates increased subsidy expense by \$474 million. A one percent increase in projected borrower base rates would reduce projected Direct Loan costs by \$775 million.

<b>FFEL Program Loan Guarantee Subsidy Expense</b>		
<i>(Dollars in Millions)</i>	<b>2004</b>	<b>2003</b>
<b>Components of Current-Year Subsidy Transfers</b>		
Interest Supplement Costs	\$ 10,087	\$ 5,569
Defaults, Net of Recoveries	888	1,398
Fees	(4,230)	(3,181)
Other	2,151	2,087
<b>Current Year Subsidy Transfers</b>	<b>8,896</b>	<b>5,873</b>
Re-estimates	(380)	(3,365)
<b>FFEL Loan Guarantee Subsidy Expense</b>	<b>\$ 8,516</b>	<b>\$ 2,508</b>

FFEL subsidy expense was reduced by \$380 million by the 2004 re-estimates. The re-estimate related to changes in actual and forecasted interest rates reduced subsidy expense by \$352 million. The re-estimate related to changes in assumptions for other variables, such as assumed term and maturity, loan volume, and prepayment rates reduced subsidy expense by \$28 million. A one percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by \$4.2 billion.

## Subsidy Rates

The subsidy rates applicable to the 2004 loan cohort year were as follows:

<b>Subsidy Rates - Cohort 2004</b>					
	<b>Interest Differential</b>	<b>Defaults</b>	<b>Fees</b>	<b>Other</b>	<b>Total</b>
Direct Loan Program	(5.65%)	1.74%	(1.97%)	5.26%	(0.62%)
	<b>Interest Supplements</b>	<b>Defaults</b>	<b>Fees</b>	<b>Other</b>	<b>Total</b>
FFEL Program	13.33%	1.06%	(5.56%)	2.78%	11.61%

The subsidy rates disclosed pertain only to the cohort listed. These rates cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new direct or guaranteed loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when direct loans are disbursed by the Department or third-party lenders disburse guaranteed loans. The costs of the Department's student loan programs, and especially the Direct Loan program, are highly sensitive to changes in actual and forecasted interest rates. Rates are established in statute; the existing loan portfolio has a mixture of borrower and lender rate formulae. Governmentwide interest rate projections are developed by the President's Office of Management and Budget.

New student and parent loans have variable interest rates, reset annually. The federal capital for Direct Loans is provided annually by the Treasury at a fixed interest rate. Borrowers may consolidate outstanding loans into a single loan with a fixed interest rate based on the interest rates of the original loans. Borrower interest rates differ from the rate at which the Department borrows from Treasury. When developing subsidy cost estimates, the Department considers the impact of future interest rate changes on program costs and as part of the re-estimate process, annually adjusts subsidy costs. Changes in interest rate assumptions decreased the re-estimate for Direct Loans by \$847 million in 2004 and increased the re-estimate by \$1.3 billion in 2003. For FFEL, interest rates assumption changes reduced the re-estimate by \$352 million and \$768 million in 2004 and 2003, respectively.

## Administrative Expenses

The administrative expenses for Direct Loan and FFEL Programs were as follows:

	<b>2004</b>		<b>2003</b>	
	<b>Direct Loan</b>	<b>FFEL</b>	<b>Direct Loan</b>	<b>FFEL</b>
<b><i>(Dollars in Millions)</i></b>				
Operating Expense	\$ 409	\$ 281	\$ 358	\$ 271
Other Expense	10	-	10	2
<b>Total Administrative Expenses</b>	<b>\$ 419</b>	<b>\$ 281</b>	<b>\$ 368</b>	<b>\$ 273</b>

## Perkins Loan Program

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. For each fiscal year 2004 and 2003, the Department provided capital contributions of \$99 million used to make loans to eligible students through participating schools at five percent interest. For certain defaulted loans, the Department reimburses the originating school and collects from the borrowers. At September 30, 2004 and 2003, loans receivable, net of an allowance for loss, was \$194 million and \$195 million, respectively. These loans, originally disbursed as grants, are valued at historical cost.

## Facilities Loan Programs

The Department administers the College Housing and Academic Facilities Loans (CHAFL), College Housing Loans (CHL), and Higher Education Facilities Loans (HEFL) Programs. From 1952 to 1993, these programs provided low-interest financing to institutions of higher education for the construction, reconstruction, and renovation of housing, academic, and other educational facilities. Since 1998, no new loans have been authorized.

The Department also administers the Historically Black Colleges and Universities (HBCU) Capital Financing Program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and, in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make the loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with statute, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The credit program receivables were as follows:

<i><b>(Dollars in Millions)</b></i>	<b>2004</b>	<b>2003</b>
Principal Receivable	\$ 452	\$ 449
Interest Receivable	6	8
<b>Receivables</b>	<b>458</b>	<b>457</b>
Less: Allowance for Subsidy	104	107
<b>Credit Program Receivables, Net</b>	<b>\$ 354</b>	<b>\$ 350</b>



## Note 5. Accounts Receivable

Accounts receivable consisted of the following at September 30, 2004 and 2003:

<i><u>(Dollars in Millions)</u></i>	<b>2004</b>		
	<u>Gross Receivables</u>	<u>Allowance</u>	<u>Net Receivables</u>
Intragovernmental	\$ 3	\$ -	\$ 3
With the Public	377	(225)	152
<b>Total Accounts Receivable</b>	<b>\$ 380</b>	<b>\$ (225)</b>	<b>\$ 155</b>

<i><u>(Dollars in Millions)</u></i>	<b>2003</b>		
	<u>Gross Receivables</u>	<u>Allowance</u>	<u>Net Receivables</u>
Intragovernmental	\$ 4	\$ -	\$ 4
With the Public	460	(281)	179
<b>Total Accounts Receivable</b>	<b>\$ 464</b>	<b>\$ (281)</b>	<b>\$ 183</b>

Accounts receivable represent balances due from recipients of grant and other financial assistance programs, and reimbursable agreements from other federal agencies. They are recorded at their estimated net realizable value. Estimates for the allowance for loss on uncollectible accounts are based on historical data.

## Note 6. General Property, Plant and Equipment

General property, plant and equipment consisted of the following at September 30, 2004 and 2003:

<i>(Dollars in Millions)</i>	<b>2004</b>		
	<b>Asset Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Asset Value</b>
IT Equipment and Software	\$ 76	\$ (57)	\$ 19
Furniture and Fixtures	3	(1)	2
<b>Total General Property, Plant and Equipment</b>	<b>\$ 79</b>	<b>\$ (58)</b>	<b>\$ 21</b>

<i>(Dollars in Millions)</i>	<b>2003</b>		
	<b>Asset Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Asset Value</b>
IT Equipment and Software	\$ 65	\$ (38)	\$ 27
Furniture and Fixtures	2	(1)	1
<b>Total General Property, Plant and Equipment</b>	<b>\$ 67</b>	<b>\$ (39)</b>	<b>\$ 28</b>

Information Technology (IT) Equipment consists of computer hardware and related software. The majority of these costs represent the continuing acquisition and implementation of the financial accounting system and includes Potomac Center Plaza (PCP) phone system. Furniture and fixtures and building improvements are related to renovating and furnishing new quarters for FSA and PCP.

### Leases

The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, but rather expensed as incurred. Estimated future minimum lease payments for privately owned buildings as of September 30, 2004 and 2003, were as follows:

<b>2004</b>		<b>2003</b>	
<i>(Dollars in Millions)</i>		<i>(Dollars in Millions)</i>	
<b>Fiscal Year</b>	<b>Lease Payment</b>	<b>Fiscal Year</b>	<b>Lease Payment</b>
2005	\$ 46	2004	\$ 32
2006	55	2005	47
2007	61	2006	51
2008	63	2007	55
2009	64	2008	56
After 2009	66	After 2008	51
<b>Total</b>	<b>\$ 355</b>	<b>Total</b>	<b>\$ 292</b>

## Note 7. Treasury Debt

At September 30, 2004, the Department's Debt to the Treasury and the Federal Financing Bank (FFB) was \$96,531 million and \$118 million, respectively. The table below depicts the change in debt from October 1, 2003 to September 30, 2004:

<i>(Dollars in Millions)</i>	2004				
	Treasury			FFB	Total
	Direct Student Loans	Facilities Loans	Total		
Beginning Balance	\$ 91,787	\$ 151	\$ 91,938	\$ 80	\$ 92,018
Accrued Interest	1	-	1	2	3
New Borrowing	21,191	-	21,191	53	21,244
Repayments	(16,558)	(41)	(16,599)	(17)	(16,616)
<b>Ending Balance</b>	<b>\$ 96,421</b>	<b>\$ 110</b>	<b>\$ 96,531</b>	<b>\$ 118</b>	<b>\$ 96,649</b>

At September 30, 2003, the Department's Debt to the Treasury and FFB was \$91,938 million and \$80 million, respectively. The table below depicts the change in debt from October 1, 2002 to September 30, 2003:

<i>(Dollars in Millions)</i>	2003				
	Treasury			FFB	Total
	Direct Student Loans	Facilities Loans	Total		
Beginning Balance	\$ 89,498	\$ 215	\$ 89,713	\$ 69	\$ 89,782
Accrued Interest	-	-	-	1	1
New Borrowing	19,637	-	19,637	11	19,648
Repayments	(17,348)	(64)	(17,412)	(1)	(17,413)
<b>Ending Balance</b>	<b>\$ 91,787</b>	<b>\$ 151</b>	<b>\$ 91,938</b>	<b>\$ 80</b>	<b>\$ 92,018</b>

Funds were borrowed to provide funding for direct loans to students and facilities loan programs. In addition, the FFB holds bonds issued by the Department on behalf of the HBCU Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest as a payable to the FFB under rules established by the Credit Reform Act of 1990.

The level of repayments on borrowings to Treasury is derived from many factors:

- Beginning-of-the-year cash balance, collections, borrowings, interest revenue, disbursements, and interest expense have an impact on the available cash to repay Treasury.
- Cash is held to cover future liabilities, such as contract collection costs and disbursements in transit.

## Note 8. Payable to Treasury

At September 30, 2004 and 2003, Payable to the Treasury for estimated liquidating fund future cash inflows in excess of outflows and for downward re-estimates of subsidy is shown in the table below:

<i>(Dollars in Millions)</i>	<u>2004</u>	<u>2003</u>
Future Liquidating Account Collections, Beginning Balance	\$ 3,761	\$ 2,007
Valuation of Pre-92 Loan Liability and Allowance	847	3,542
Capital Transfers to Treasury	(1,117)	(1,788)
<b>Future Liquidating Account Collections, Ending Balance</b>	<b>3,491</b>	<b>3,761</b>
FFEL Downward Subsidy Re-estimate	1,502	3,262
<b>Total Payable to Treasury</b>	<b>\$ 4,993</b>	<b>\$ 7,023</b>

In accordance with the Credit Reform Act, the liquidating fund pays monies to Treasury each year based on available fund balances, and the FFEL financing fund pays the liability related to downward subsidy re-estimates, upon budget execution.

## Note 9. Other Liabilities

Other liabilities include current liabilities for contractual services, administrative services, deferred credits, liability for deposit funds, contingent liabilities, custodial liabilities, and the liability for unfunded accrued annual leave.

Additionally, the non-current liabilities include accrued unfunded FECA. Other liabilities consisted of the following at September 30, 2004 and 2003:

<i>(Dollars in Millions)</i>	<u>2004</u>	<u>2003</u>
<b>Intragovernmental</b>		
Accrued Unfunded FECA Liability	\$ 3	\$ 3
Liability for Deposit Funds	(21)	46
Advance From Others	22	56
<b>Total Intragovernmental</b>	<b>4</b>	<b>105</b>
<b>With the Public</b>		
Accrued Payroll and Benefits	15	12
Accrued Unfunded Annual Leave	30	29
Custodial Liability	206	220
Deferred Credits	1	7
Liability for Deposit Funds	30	36
Other	99	146
<b>Total With the Public</b>	<b>381</b>	<b>450</b>
<b>Total Other Liabilities</b>	<b>\$ 385</b>	<b>\$ 555</b>

## Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities on the Department's Balance Sheet as of September 30, 2004 and 2003, include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consisted of the following at September 30, 2004 and 2003:

<u>(Dollars in Millions)</u>	<u>2004</u>	<u>2003</u>
<b>Intragovernmental</b>		
Accrued Unfunded FECA Liability	\$ 3	\$ 3
<b>Total Intragovernmental</b>	<u>3</u>	<u>3</u>
<b>With the Public</b>		
Custodial Liability	206	220
Accrued Unfunded Annual Leave	30	29
Federal Employee and Veterans' Benefits	<u>19</u>	<u>22</u>
<b>Total With the Public</b>	<u>255</u>	<u>271</u>
<b>Liabilities Not Covered by Budgetary Resources</b>	<b>258</b>	<b>274</b>
<b>Liabilities Covered by Budgetary Resources</b>	<u><b>128,017</b></u>	<u><b>117,549</b></u>
<b>Total Liabilities</b>	<u><b>\$ 128,275</b></u>	<u><b>\$ 117,823</b></u>

## Note 11. Accrued Grant Liability

The accrued grant liability by reporting groups are shown in the table below. (See Note 1.)

<u>(Dollars in Millions)</u>	<u>2004</u>	<u>2003</u>
FSA	\$ 637	\$ 551
OESE	207	256
OSERS	158	250
OVAE	39	57
OPE	242	169
IES	10	52
OELA	30	31
OSDFS	3	-
OII	<u>35</u>	<u>-</u>
<b>Total Accrued Grant Liability</b>	<u><b>\$ 1,361</b></u>	<u><b>\$ 1,366</b></u>

## Note 12. Net Position

The nature of the Department's net position was discussed in Note 1, and the components are set forth in the Statement of Changes in Net Position. The table below reports the composition of appropriations that have not been used to fund goods and services received or benefits provided as of September 30, 2004 and 2003:

<b><i>(Dollars in Millions)</i></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Unobligated Balances		
Available	\$ 619	\$ 2,979
Not Available	280	357
Undelivered Orders	<u>46,386</u>	<u>40,595</u>
<b>Total Unexpended Appropriations</b>	<b><u>\$ 47,285</u></b>	<b><u>\$ 43,931</u></b>

Undelivered orders and unobligated balances for federal credit financing and liquidating funds, and trust funds are not included in the chart above because they are not funded through appropriations. As a result, unobligated and undelivered order balances in the chart above will differ from these balances in the Combined Statement of Budgetary Resources.

The Department had Cumulative Results of Operations of (\$2,951) million as of September 30, 2004, and (\$4,496) million as of September 30, 2003. Cumulative Results of Operations arise from unfunded expenses and capital purchases.

### Note 13. Interest Revenue and Expense

For the Direct Loan Program, non-federal interest revenue is earned on the individual non-defaulted loans in the loan portfolio while federal interest is earned on the uninvested fund balances with Treasury. For the Direct Loan Program, interest expense is incurred on the Department's borrowings from Treasury. For the FFEL program, federal interest revenue is earned on the uninvested fund balance with Treasury in the financing fund. Program A, Enhancement of Postsecondary and Adult Education includes the Direct Loan Program and the FFEL Program.

The interest revenues and expenses directly attributable to the Direct Loan Program, the FFEL Program, and other remaining programs are summarized below as of September 30, 2004 and 2003:

<u>(Dollars in Millions)</u>	<u>Direct Student Loans</u>		<u>FFEL Program</u>		<u>Other Programs</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Interest Revenue:</b>								
Federal	\$ 1,000	\$ 1,076	\$ 436	\$ 458	\$ -	\$ -	\$ 1,436	\$ 1,534
Non-federal	4,761	4,954	-	-	50	30	4,811	4,984
<b>Total Interest Revenue</b>	<b>\$ 5,761</b>	<b>\$ 6,030</b>	<b>\$ 436</b>	<b>\$ 458</b>	<b>\$ 50</b>	<b>\$ 30</b>	<b>\$ 6,247</b>	<b>\$ 6,518</b>
<b>Interest Expense:</b>								
Federal	\$ 5,761	\$ 6,030	\$ 436	\$ 458	\$ 16	\$ 16	\$ 6,213	\$ 6,504
Non-federal	-	-	-	-	(3)	-	(3)	-
<b>Total Interest Expense</b>	<b>\$ 5,761</b>	<b>\$ 6,030</b>	<b>\$ 436</b>	<b>\$ 458</b>	<b>\$ 13</b>	<b>\$ 16</b>	<b>\$ 6,210</b>	<b>\$ 6,504</b>

## Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2004, budgetary resources were \$131,766 million and net outlays were \$61,660 million. As of September 30, 2003, budgetary resources were \$118,321 million and net outlays were \$58,166 million.

### Apportionment Categories of Obligations Incurred

The Department receives apportionments of its resources from OMB. Category A apportionments are those for resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

The apportionment categories of obligations incurred as of September 30, 2004 and 2003, are summarized below:

<u>(Dollars in Millions)</u>	<u>2004</u>	<u>2003</u>
Direct:		
Category A	\$ 1,279	\$ 1,244
Category B	112,970	101,840
Exempt from Apportionment	<u>53</u>	<u>62</u>
	<u>114,302</u>	<u>103,146</u>
Reimbursable:		
Category A	1	8
Category B	4	71
Exempt from Apportionment	<u>86</u>	<u>3</u>
	<u>91</u>	<u>82</u>
<b>Total Apportionment Categories of Obligations Incurred</b>	<b><u>\$ 114,393</u></b>	<b><u>\$ 103,228</u></b>

### Permanent Indefinite Budget Authority

The Federal Direct Loan and the Federal Family Education Loan Programs were granted permanent indefinite budget authority through legislation. Part D of the William D. Ford Federal Direct Loan Program and part B of the Federal Family Education Loan Program, pursuant to the HEA, pertains to the existence, purpose, and availability of this permanent indefinite budget authority.

### Reauthorization of Legislation

Funds for most Department of Education programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the General Education Provisions Act. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue per congressional budgeting rules.



## Unused Borrowing Authority

The Department is given authority to draw funds from the Treasury to help finance the majority of its direct lending activity in accordance with its needs. Unliquidated Borrowing Authority is considered a budgetary resource and is available to support obligations. The Department periodically reviews its borrowing authority balances and may cancel unused amounts. Unused Borrowing Authority as of September 30, 2004 and 2003, was determined as follows:

<u>(Dollars in Millions)</u>	<u>2004</u>	<u>2003</u>
Beginning Balance, Unused Borrowing Authority	\$ 6,978	\$ 4,953
Current Year Borrowing Authority	22,483	21,766
Funds Drawn From Treasury	(21,244)	(19,648)
Prior Year Unused Borrowing Authority Cancelled	<u>(2,265)</u>	<u>(93)</u>
<b>Ending Balance, Unused Borrowing Authority</b>	<b><u>\$ 5,952</u></b>	<b><u>\$ 6,978</u></b>

## Comparison to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7 (SFFAS No. 7), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government (Budget)*. However, the *Budget* has not yet been published. The *Budget* is scheduled for publication in February 2005 and will be available through OMB. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements. There were no material differences between the FY 2003 column on the Statement of Budgetary Resources and the FY 2003 actual amounts reported in the *Budget*.

## Note 15. Statement of Financing

The Statement of Financing (SOF) provides information on the total resources used by an agency, both those received through budgetary resources and those received through other means during the reporting period. The statement reconciles these resources with the net cost of operations by (1) removing resources that do not fund net cost of operations and (2) including components of net cost of operations that did not generate or use resources during the year.

The SOF is presented as a consolidated statement for the Department and its major programs. Net interagency eliminations are presented for proprietary amounts. The budgetary amounts are reported on a combined basis as presented in the Statement of Budgetary Resources. Accordingly, net interagency eliminations for budget amounts are not presented.

The relationship between the amounts reported as liabilities not covered by budgetary resources on the Balance Sheet and amounts reported as components requiring or generating resources in future periods on the Statement of Financing were analyzed. The differences are primarily due to the increase in custodial liability, which does not generate net cost of operations or require the use of budgetary resources.

Other, in the components not requiring or generating resources for FY 2004, is primarily comprised of the subsidy expense recognized in FY 2003 that was not funded in FY 2004 for the Direct Loan program.

## Note 16. Cost and Earned Revenue by Budget Function

The Department's gross costs and revenue, by budget function for September 30, 2004 and 2003, are presented below:

<i>(Dollars in Millions)</i>	2004			2003		
	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	\$ 70,062	\$ (6,564)	\$ 63,498	\$ 65,208	\$ (6,523)	\$ 58,685
Administration of Justice	125	-	125	119	-	119
<b>Total</b>	<b>\$ 70,187</b>	<b>\$ (6,564)</b>	<b>\$ 63,623</b>	<b>\$ 65,327</b>	<b>\$ (6,523)</b>	<b>\$ 58,804</b>

The Department's intragovernmental gross costs and revenue, by budget function for September 30, 2004 and 2003, are presented below:

<i>(Dollars in Millions)</i>	2004			2003		
	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	\$ 6,536	\$ (1,738)	\$ 4,798	\$ 6,709	\$ (1,551)	\$ 5,158
Administration of Justice	125	-	125	119	-	119
<b>Total</b>	<b>\$ 6,661</b>	<b>\$ (1,738)</b>	<b>\$ 4,923</b>	<b>\$ 6,828</b>	<b>\$ (1,551)</b>	<b>\$ 5,277</b>

## Note 17. Program Costs by Segment

The format of the Statement of Net Cost is in compliance with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. Specifically, responsibility segments were aligned with the major goals of the Department of Education's *Strategic Plan 2002–2007*, as required by the Government Performance and Results Act (GPRA).

Reporting groups were aligned with the following Strategic Goals:

- Enhance the quality and access to postsecondary and adult education,
- Create a culture of achievement,
- Improve student achievement,
- Develop safe schools and strong character, and
- Transform education into an evidence-based field.

The importance of special education was highlighted by maintaining a separate responsibility segment on the Statement of Net Cost.

Program A on the Statement of Net Cost relates directly to Strategic Goal 5: Enhance the quality of and access to postsecondary and adult education. It combines the reporting groups of Federal Student Aid, the Office of Vocational and Adult Education, and the Office of Postsecondary Education. Program B relates directly to Strategic Goals 1, 2, and 3: Create a culture of achievement, Improve student achievement, and Develop safe schools and strong character. Program B combines the Office of Elementary and Secondary Education, the Office of English Language Acquisition and the Office of Safe and Drug-free Schools. Program C relates to Strategic Goal 4: Transform education into an evidenced-based field, and includes the Institute of Education Sciences and Office of Innovation and Improvement. Finally, Program D relates to “special education and program execution” and includes the Office of Special Education and Rehabilitative Services.

## Note 18. Contingencies

### Guaranty Agencies

The Department can assist Guaranty Agencies experiencing financial difficulties by advancing funds or by other means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of Guaranty Agencies because the likelihood of such occurrences is uncertain and cannot be estimated with sufficient reliability.

### Perkins Loans Reserve Funds

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In FY 2004, the Department provided funding of 84.8 percent of the capital used to make loans to eligible students through participating schools at five percent interest. The school provided the remaining 15.2 percent of program funding. For the latest academic year ended June 30, 2004, approximately 750,420 loans were made, totaling \$1.6 billion at 1,700 institutions, averaging \$2,161 per loan. The Department's share of the Perkins Loan Program was approximately \$6.5 billion as of June 30, 2004.

In FY 2003, the Department provided funding of 85.2 percent of the capital used to make loans to eligible students through participating schools at five percent interest. The school provided the remaining 14.8 percent of program funding. For the academic year ended June 30, 2003, approximately 763,890 loans were made, totaling \$1.5 billion at 1,742 institutions, averaging \$1,919 per loan. The Department's share of the Perkins Loan Program was approximately \$6.5 billion as of June 30, 2003.

Perkins Loan borrowers who meet statutory eligibility requirements—such as service as a teacher in low-income areas, as a Peace Corps or VISTA volunteer, in the military or in law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances a contingency is deemed to exist. The Department may be required to compensate Perkins Loan institutions for the cost of the partial loan forgiveness.

### **Litigation and Other Claims**

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements.

### **Other Matters**

Some portion of the current year financial assistance expenses (grants) may include funded recipient expenditures that were subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department's financial statements.

# Required Supplementary Stewardship Information

# Required Supplementary Stewardship Information

## For the Year Ended September 30, 2004

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### Investment in Human Capital

The U.S. Department of Education executes programs under the Education, Training, Employment, and Social Services function established by the Congress in the Budget Act of 1974. This report presents Human Capital activity related to the execution of the Department's congressionally approved budget and programs.

The Department's mission is to ensure equal access to education and to promote educational excellence throughout the nation. To carry out this mission, the Department works in partnership with states, schools, communities, institutions of higher education, and financial institutions—and through them, with students, teachers and professors, families, administrators, and employers. Key functions of the partnership are as follows:

- Leadership to address critical issues in American education.
- Grants to education agencies and institutions to strengthen teaching and learning and to prepare students for citizenship, employment in a changing economy, and lifelong learning.
- Student loans and grants to help pay for the costs of postsecondary education.
- Grants for literacy, employment, and self-sufficiency training for adults.
- Monitoring and enforcement of civil rights to ensure nondiscrimination by recipients of federal education funds.
- Support for statistics, research, development, evaluation, and dissemination of information to improve educational quality and effectiveness.

### Human Capital Programs

Federal investment in Human Capital comprises those expenses for general public education and training programs that are intended to increase or maintain national economic productive capacity. The Department of Education's Human Capital programs are administered by the following offices: Elementary and Secondary Education, Safe and Drug-Free Schools,

Innovation and Improvement, Postsecondary Education, Federal Student Aid, Special Education and Rehabilitative Services, Institute of Education Sciences, English Language Acquisition, and Vocational and Adult Education. A list of key programs for each office is outlined below.

### Office of Elementary and Secondary Education

The Office of Elementary and Secondary Education provides leadership, technical assistance, and financial support to state and local educational agencies for maintenance and improvement of preschool, elementary, and secondary education. Programs administered by this office include the following:

- **Improving the Academic Achievement of the Disadvantaged (Title I) Programs** provide financial assistance to state and local educational agencies and other institutions to support services for children in high-poverty schools, institutions for neglected and delinquent children, homeless children, and certain Indian children.
- **The Impact Aid Program** provides financial assistance for the maintenance and operations of school districts in which the federal government has acquired substantial real property. It provides direct assistance to local educational agencies that educate substantial numbers of federally connected pupils (children who live on or whose parents work on federal property).
- **Migrant Education Programs** support high-quality comprehensive educational programs for migratory children and youth to address disruptions in schooling and other problems that result from repeated moves.
- **Improving Teacher Quality State Grants (Title II)** provide funds, on a formula basis, to increase the academic achievement of students by ensuring that all teachers are highly qualified to teach.

## Office of Safe and Drug-Free Schools

The Office of Safe and Drug-Free Schools supports efforts to create safe schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well-being of students, and teach students good citizenship and character. Programs administered by this office include the following:

- **Health, Mental Health, and Physical Education** programs promote the health and well-being of students and families as outlined by Title IV, Safe and Drug-Free Schools and Communities Act.
- **Drug and Violence Prevention—State and National Programs** are designed to develop and maintain safe, disciplined, and drug-free schools.

## Office of Innovation and Improvement

The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools, and community and nonprofit organizations. The office leads the movement for greater parental options and information in education. Programs administered by this office include the following:

- **The Charter Schools Program** supports the planning, development, and initial implementation of charter schools. Charter schools provide enhanced parental choice and are exempt from many statutory and regulatory requirements. In exchange for increased flexibility, charter schools are held accountable for improving student academic achievement.
- **The Fund for the Improvement of Education** provides authority for the Secretary to support nationally significant programs to improve the quality of elementary and secondary education at the state and local levels and help all students meet challenging state academic content standards and student achievement standards. Funds also support “Programs of National Significance” through grants to state and local educational agencies, nonprofit organizations, and other public

and private entities that have been identified by the Congress in appropriations legislation.

## Office of Postsecondary Education

The Office of Postsecondary Education formulates policy and coordinates programs that assist postsecondary educational institutions and students pursuing a postsecondary education. This office administers the following programs:

- **The Fund for the Improvement of Postsecondary Education** provides grants to colleges and universities to promote reform, innovation, and improvement in postsecondary education.
- **Higher Education Programs (HEP)** administer discretionary funds and provide support services that improve student access to postsecondary education and foster excellence in institutions of higher education. The TRIO programs, under HEP, are outreach and support programs targeted to help disadvantaged students progress from middle school to postbaccalaureate programs.

## Office of Federal Student Aid

The Office of Federal Student Aid administers need-based financial assistance programs for students pursuing postsecondary education. The Department makes available federal grants, loans, and work-study funding to eligible undergraduate and graduate students. The Department’s two major loan programs are as follows:

- **The Federal Family Education Loan Program** operates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students.
- **The William D. Ford Direct Student Loan Program** is a direct lending program in which loan capital is provided to students by the federal government through borrowings from the U.S. Treasury.

## Office of Special Education and Rehabilitative Services

The Office of Special Education and Rehabilitative Services supports programs that assist in educating children with special needs. It provides for the rehabilitation of youth and adults with disabilities and supports research to improve the lives of individuals with disabilities. This office includes three components:

- **The Office of Special Education Programs** administers programs and projects relating to the education of all children, youth, and adults with disabilities from birth through age 21 by providing leadership and financial support to assist states and local districts. The largest program is the Grants to States under the Individuals with Disabilities Education Act.
- **The Rehabilitation Services Administration** oversees programs and projects related to vocational rehabilitation and independent living of individuals with disabilities to increase their employment, independence, and integration into the community. The largest program is the Vocational Rehabilitation State Grants.
- **The National Institute on Disability and Rehabilitation Research** provides leadership and support for a comprehensive program of research related to the rehabilitation of individuals with disabilities.

## Institute of Education Sciences

The Institute of Education Sciences is the main research arm of the Department. It compiles statistics; funds research, evaluations, and dissemination; and provides research-based guidance to further evidence-based policy and practice. Its three operational divisions are as follows:

- **The National Center for Education Research (NCER)** supports research that contributes to the solution of significant education problems in the United States. Through its research initiatives and the national research and development centers, NCER supports research activities that examine the effectiveness of educational programs,

practices, and policies, including the application of technology to instruction and assessment. The goal of its research programs is to provide scientific evidence of what works and for whom and under what conditions.

- **The National Center for Education Evaluation and Regional Assistance** is responsible for conducting evaluations of the impact of federal programs and disseminating information from evaluation and research, and for providing technical assistance to improve student achievement. The National Library of Education, established within the center, is the largest federally funded library devoted entirely to education and provides services in three areas: reference and information services, collection and technical services, and resource sharing and cooperation.
- **The National Center for Education Statistics** is responsible for collecting, analyzing, and reporting education information and statistics on the condition and progress of education at the preschool, elementary, secondary, postsecondary, and adult levels, including data related to education in other nations. Among its data collection efforts is the National Assessment of Educational Progress.

## Office of English Language Acquisition

The Office of English Language Acquisition administers programs designed to enable students with limited English proficiency to become proficient in English and meet challenging state academic content and student achievement standards. Programs from this office include the following:

- **The State Formula Grant Program** is designed to improve the education of limited English proficient children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program provides enhanced instructional opportunities for immigrant children and youths.



- **The National Professional Development Program** provides grants to institutions of higher education in partnership with local educational agencies or state educational agencies to improve classroom instruction for English language learners and to improve the qualifications of teachers of English language learners and other educational personnel.
- **The Foreign Language Assistance Program** provides grants to pay for the federal share of the cost of innovative model programs providing for the establishment, improvement, or expansion of foreign language study for elementary and secondary school students.

## Office of Vocational and Adult Education

The Office of Vocational and Adult Education provides funds for vocational-technical education for youth and adults. Most of the funds are awarded as grants to state educational agencies. This office administers the following and other programs:

- **Perkins Vocational and Technology Education State Grants** help state and local schools offer programs to develop the academic, vocational, and technical skills of students in high schools, community colleges, and regional technical centers.

## Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 87 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitative services. While spending for entitlement programs is usually a function of the authorizing statutes creating the programs and is not generally affected by appropriations laws, spending for discretionary programs is decided in the annual appropriations process. Most Department programs are discretionary, for example, Impact Aid, Vocational Education, Special Education, Pell Grants, Research, and Statistics.

## Program Outputs

Education, in the United States, is primarily a state and local responsibility. States and communities, as well as public and private organizations, establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominantly state and local role. Of the estimated \$852 billion being spent nationwide on education at all levels for the school year 2003–04, about 90 percent comes from state, local, and private sources. The federal contribution to national education expenditures is about \$85 billion. The federal contribution includes education expenditures not only from the Department, but also from other federal agencies such as the Department of Health and Human Services' Head Start Program and the Department of Agriculture's School Lunch Program. The Department's \$67.0 billion appropriation is about 7.9 percent of total education expenditures and about 2.9 percent of the federal government's \$2.3 trillion budget in fiscal year 2004.

The Department currently administers programs affecting every area and level of education. The Department's elementary and secondary programs annually serve 14,000 school districts and more than 54 million students attending over 93,000 public schools and more than 27,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 9.5 million postsecondary students.

While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. In fact, the Department's staff of approximately 4,400 is nearly 40 percent below the 7,528 employees who administered federal education programs in 1980, when the Department was created. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to less than two percent of the Department's budget. This means that the Department delivers about 98 cents on the dollar in education assistance to states, school districts, postsecondary institutions, and students.

Summary of Human Capital Expenses

<b>(Dollars in Millions)</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Federal Student Aid Expense</b>					
Direct Loan Subsidy	\$ (543)	\$ 4,716	\$ 877	\$ 1,307	\$ (3,933)
Guaranteed Loan Subsidy	8,516	2,509	3,988	(314)	295
Grant Programs	14,943	13,836	12,256	10,812	8,929
Salaries & Administrative	186	179	207	249	450
<b>Subtotal</b>	<b>23,102</b>	<b>21,240</b>	<b>17,328</b>	<b>12,054</b>	<b>5,741</b>
<b>Other Departmental</b>					
Elementary and Secondary Education	21,188	19,493	16,127	13,851	13,768
Special Education & Rehabilitative Services	12,687	11,529	9,906	8,590	8,065
Other Departmental Programs	5,160	4,828	4,531	3,893	3,962
Salaries & Administrative	448	395	472	341	293
<b>Subtotal</b>	<b>39,483</b>	<b>36,245</b>	<b>31,036</b>	<b>26,675</b>	<b>26,088</b>
<b>Grand Total</b>	<b>\$62,585</b>	<b>\$57,485</b>	<b>\$48,364</b>	<b>\$38,729</b>	<b>\$31,829</b>

## Program Outcomes

Education is the stepping-stone to higher living standards for American citizens. Education is key to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

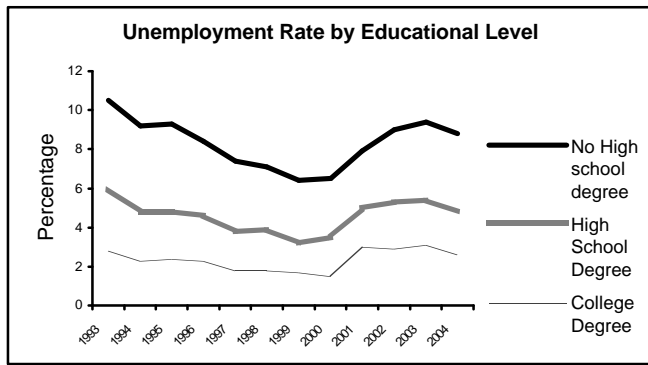
Economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Recently, both individuals and society as a whole have placed increased emphasis on educational attainment as the workplace has become increasingly technological and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in

general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of completing high school and investing in postsecondary education.

**Unemployment rate.** Persons with lower levels of educational attainment were more likely to be unemployed than those who had higher levels of educational attainment. The 2004 unemployment rate for adults (25 years old and over) who had not completed high school was 8.8 percent compared with 4.8 percent of those with four years of high school and 2.6 percent for those with a bachelor's degree or higher. Younger people with high school diplomas tended to have higher unemployment rates than persons 25 and over with similar levels of education.



**Annual Income.** For 2004, the median annual income for *adults* (25 years and over) varied considerably by education level. Men with a high school diploma earned \$32,968, compared with \$59,072 for men with a college degree. Women with a high school diploma earned \$25,532 compared with \$44,668 for women with a college degree. Men and women with college degrees earned 71 percent more than men and women with high school diplomas. Earnings for women with college degrees have increased by 43 percent since 1979, while those of male college graduates have risen 26 percent. These returns of investing in education directly translate into the advancement of the American economy as a whole.



# Required Supplementary Information

**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR YEAR ENDING SEPTEMBER 30, 2004**

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**Intragovernmental Assets**

Intragovernmental assets at September 30, 2004, consisted of the following:

<u>(Dollars in Millions)</u>	<u>Fund Balance with Treasury</u>	<u>Accounts Receivable</u>	<u>Other Assets</u>
<b>Trading Partner</b>			
Department of Justice	\$ -	\$ 1	\$ -
Department of the Treasury	66,371	-	-
National Science Foundation	-	-	17
Department of Veterans Affairs	-	-	-
Department of Health and Human Services	-	2	-
<b>Grand Total</b>	<b>\$ 66,371</b>	<b>\$ 3</b>	<b>\$ 17</b>

## Intragovernmental Liabilities

Intragovernmental liabilities at September 30, 2004, consisted of the following:

<u>(Dollars in Millions)</u>	<u>Accounts Payable</u>	<u>Treasury Debt</u>	<u>Guaranty Agency Federal and Restricted Funds Due to Treasury</u>	<u>Payable to Treasury</u>	<u>Other Liabilities</u>
<b>Trading Partner</b>					
Department of Commerce	\$ 3	\$ -	\$ -	\$ -	\$ (1)
Department of Labor	-	-	-	-	2
Department of the Treasury	1	96,649	1,040	4,993	(1)
General Printing Office	1	-	-	-	(12)
General Services Administration	2	-	-	-	(7)
United States Post Office	1	-	-	-	-
Independent Agencies	2	-	-	-	-
Department of Health and Human Services	3	-	-	-	18
Office of Personnel Management	1	-	-	-	-
Department of Transportation	-	-	-	-	(1)
Department of Agriculture	-	-	-	-	1
Department of Homeland Security	-	-	-	-	1
Other	-	-	-	-	4
<b>Grand Total</b>	<b>\$ 14</b>	<b>\$96,649</b>	<b>\$ 1,040</b>	<b>\$ 4,993</b>	<b>\$ 4</b>

## Intragovernmental Earned Revenues and Related Costs

The Department's intragovernmental earned revenues are not reported by 'trading partner' because they are below the Office of Management and Budget threshold of \$500 million.

**United States Department of Education**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2004**  
**(Dollars in Millions)**

	Combined		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>								
Budget Authority :								
Appropriations Received	\$ 72,090	\$ 1	\$ 27,729	\$ 22,383	\$ 21,451		\$ 14,751	
Borrowing Authority		22,483						
Net Transfers					1			
Other								
Unobligated Balance:								
Beginning of Period	5,329	9,766	2,320	9,765	2,696		144	
Spending Authority From Offsetting Collections:								
Earned								
Collected	5,250	37,716	5,085	37,679	101		5	
Receivable From Federal Sources		4		4			(1)	
Change in Unfilled Customer Orders								
Advance received	(34)				(38)			
Without advance from Federal Sources	(5)		(1)		(63)		(2)	
Subtotal	\$ 5,211	\$ 37,720	\$ 5,084	\$ 37,683			\$ 2	
Recoveries of Prior Year Obligations	1,587	3,047	1,151	3,047	321		33	
Permanently Not Available	(6,575)	(18,893)	(6,135)	(18,825)	(194)		(97)	
<b>Total Budgetary Resources</b>	<b>\$ 77,642</b>	<b>\$ 54,124</b>	<b>\$ 30,149</b>	<b>\$ 54,053</b>	<b>\$ 24,275</b>		<b>\$ 14,833</b>	
<b>Status of Budgetary Resources:</b>								
Obligations Incurred:								
Direct	\$ 75,306	\$ 38,996	\$ 28,582	\$ 38,925	\$ 24,008		\$ 14,730	
Reimbursable	91						2	
Subtotal	\$ 75,397	\$ 38,996	\$ 28,582	\$ 38,925	\$ 24,008		\$ 14,732	
Unobligated Balance:								
Apportioned	655	948	62	948	240		90	
Unobligated Balance Not Available	1,590	14,180	1,505	14,180	27		11	
<b>Total Status of Budgetary Resources</b>	<b>\$ 77,642</b>	<b>\$ 54,124</b>	<b>\$ 30,149</b>	<b>\$ 54,053</b>	<b>\$ 24,275</b>		<b>\$ 14,833</b>	
<b>Relationship of Obligations to Outlays:</b>								
Obligated Balance, Net, Beginning of Period	\$ 42,419	\$ 8,399	\$ 10,332	\$ 8,390	\$ 17,763		\$ 8,220	
Obligated Balance, Net, End of Period:								
Accounts Receivable	(3)	(2)		(2)				
Unfilled customer orders from Federal Sources	(71)				(4)			
Undelivered Orders	46,468	7,666	8,949	7,656	19,898		9,918	
Accounts Payable	1,753	124	851	124	262		183	
Outlays:								
Disbursements	68,087	36,557	27,963	36,488	21,356		12,822	
Collections	(5,217)	(37,716)	(5,086)	(37,679)	(63)		(6)	
Subtotal	\$ 62,870	\$ (1,159)	\$ 22,877	\$ (1,191)	\$ 21,293		\$ 12,816	
Less: Offsetting Receipts	51		51					
<b>Net Outlays</b>	<b>\$ 62,819</b>	<b>\$ (1,159)</b>	<b>\$ 22,826</b>	<b>\$ (1,191)</b>	<b>\$ 21,293</b>		<b>\$ 12,816</b>	<b>\$ (0)</b>



**United States Department of Education**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2004**  
**(Dollars in Millions)**

	Office of Vocational & Adult Education		Office of Postsecondary Education		Institute of Education Sciences		Office of English Language Acquisition	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>								
Budget Authority :								
Appropriations Received	\$ 2,122		\$ 2,339	\$ 1	\$ 479		\$ 685	
Borrowing Authority				100				
Net Transfers								
Other								
Unobligated Balance:								
Beginning of Period	81		45	1	7		17	
Spending Authority From Offsetting Collections:								
Earned								
Collected	2		35	37	4			
Receivable From Federal Sources					(1)			
Change in Unfilled Customer Orders								
Advance received					4			
Without advance from Federal Sources					(3)			
Subtotal	\$ 2		\$ 35	\$ 37	\$ 4			
Recoveries of Prior Year Obligations	22		20		13		14	
Permanently Not Available	(19)		(65)	(68)	(15)		(18)	
<b>Total Budgetary Resources</b>	<b>\$ 2,208</b>		<b>\$ 2,374</b>	<b>\$ 71</b>	<b>\$ 488</b>		<b>\$ 698</b>	
<b>Status of Budgetary Resources:</b>								
Obligations Incurred:								
Direct	\$ 1,986		\$ 2,334	\$ 71	\$ 476		\$ 685	
Reimbursable	2				4			
Subtotal	\$ 1,988		\$ 2,334	\$ 71	\$ 480		\$ 685	
Unobligated Balance:								
Apportioned	216		22		2		7	
Unobligated Balance Not Available	4		18		6		6	
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,208</b>		<b>\$ 2,374</b>	<b>\$ 71</b>	<b>\$ 488</b>		<b>\$ 698</b>	
<b>Relationship of Obligations to Outlays:</b>								
Obligated Balance, Net, Beginning of Period	\$ 1,618		\$ 2,837	\$ 9	\$ 575		\$ 938	
Obligated Balance, Net, End of Period:								
Accounts Receivable								
Unfilled customer orders from Federal Sources					(1)			
Undelivered Orders	1,581		2,609	10	558		933	
Accounts Payable	55		256		45		31	
Outlays:								
Disbursements	1,947		2,286	69	443		645	
Collections	(2)		(35)	(37)	(7)			
Subtotal	\$ 1,945		\$ 2,251	\$ 32	\$ 436		\$ 645	
Less: Offsetting Receipts								
<b>Net Outlays</b>	<b>\$ 1,945</b>	<b>(0)</b>	<b>\$ 2,251</b>	<b>\$ 32</b>	<b>\$ 436</b>	<b>(0)</b>	<b>\$ 645</b>	<b>(0)</b>

**United States Department of Education**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2004**  
**(Dollars in Millions)**

	Office of Safe & Drug-Free Schools		Office of Innovation & Improvement		Department Management	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>						
Budget Authority :						
Appropriations Received	\$ 863		\$ 1,110		\$ 561	
Borrowing Authority						
Net Transfers			(1)			
Other						
Unobligated Balance:						
Beginning of Period					19	
Spending Authority From Offsetting Collections:						
Earned						
Collected			14		4	
Receivable From Federal Sources	2					
Change in Unfilled Customer Orders						
Advance received						
Without advance from Federal Sources	66				(2)	
Subtotal	\$ 68		\$ 14		\$ 2	
Recoveries of Prior Year Obligations					13	
Permanently Not Available	(8)		(7)		(17)	
<b>Total Budgetary Resources</b>	<b>\$ 923</b>		<b>\$ 1,116</b>		<b>\$ 578</b>	
<b>Status of Budgetary Resources:</b>						
Obligations Incurred:						
Direct	\$ 847		\$ 1,101		\$ 557	
Reimbursable	68		14		1	
Subtotal	\$ 915		\$ 1,115		\$ 558	
Unobligated Balance:						
Apportioned	8		1		7	
Unobligated Balance Not Available					13	
<b>Total Status of Budgetary Resources</b>	<b>\$ 923</b>		<b>\$ 1,116</b>		<b>\$ 578</b>	
<b>Relationship of Obligations to Outlays:</b>						
Obligated Balance, Net, Beginning of Period					\$ 136	
Obligated Balance, Net, End of Period:						
Accounts Receivable	(\$2)				(1)	
Unfilled customer orders from Federal Sources	(66)					
Undelivered Orders	891		\$1,004		127	
Accounts Payable	4		37		29	
Outlays:						
Disbursements	21		74		530	
Collections			(14)		(4)	
Subtotal	\$ 21		\$ 60		\$ 526	
Less: Offsetting Receipts						
<b>Net Outlays</b>	<b>\$ 21</b>	<b>\$ (0)</b>	<b>\$ 60</b>	<b>\$ (0)</b>	<b>\$ 526</b>	<b>\$ (0)</b>

# Report of Independent Auditors





UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 12 2004

Honorable Roderick Paige  
Secretary of Education  
Washington, D.C. 20202

Dear Mr. Secretary:

The enclosed reports present the results of the annual audits of the U.S. Department of Education's financial statements for fiscal years 2004 and 2003, to comply with the Government Management Reform Act of 1994 (GMRA). The reports should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of Ernst & Young LLP to audit the financial statements of the Department as of September 30, 2004 and 2003, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, whether the Department's financial management systems substantially complied with FFMIA, or on compliance with laws and regulations.

Ernst & Young is responsible for the attached auditor's report dated November 10, 2004, and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,



John P. Higgins, Jr.

Enclosures

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*



# REPORT OF INDEPENDENT AUDITORS



Ernst & Young LLP  
1225 Connecticut Avenue, N.W.  
Washington, DC 20036

Phone: (202) 327-6000  
Fax: (202) 327-6200  
www.ey.com

## Report of Independent Auditors

To the Inspector General  
U.S. Department of Education

We have audited the accompanying consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2004 and 2003, and its net cost, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in the Management Discussion and Analysis of the Department, required supplementary stewardship information, and required supplementary information is not a required part of the basic financial statements but is supplementary information required by Office of Management and Budget Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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**Report of Independent Auditors**  
Page 2

In accordance with Government Auditing Standards, we have also issued our reports dated November 10, 2004, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

*Ernst & Young LLP*

November 10, 2004  
Washington, D.C.



# REPORT ON INTERNAL CONTROL



Ernst & Young LLP  
1225 Connecticut Avenue, N.W.  
Washington, DC 20036

Phone: (202) 327-6000  
Fax: (202) 327-6200  
www.ey.com

## Report on Internal Control

To the Inspector General  
U.S. Department of Education

We have audited the consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2004 and 2003, and the related consolidated statement of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended, and have issued our report thereon dated November 10, 2004.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determined whether this internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal control, determined whether these controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB 01-02 and not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control related to performance measures reported in the Management Discussion and Analysis of the Department's consolidated and combined financial statements, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants and OMB

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**Report on Internal Control**

Page 2

Bulletin No. 01-02, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, and report financial data consistent with the assertions by management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weaknesses. The remainder of this report details the reportable conditions.

**REPORTABLE CONDITIONS****1. Improvements of Credit Reform Estimation and Financial Reporting Processes are Needed (Modified Repeat Condition)**

The Federal Credit Reform Act of 1990, as amended, was enacted to require agencies to more accurately measure and budget for the cost of federal loan programs. In implementing the requirements of the Credit Reform Act, and in complying with Federal accounting standards, agencies are required to estimate the net cost of extending credit over the life of a direct loan or guaranteed loan based on the present value of estimated net cash flows, excluding certain administrative costs. Such costs are also re-estimated on a periodic basis. While improvements were made over the last several years, we noted that the management controls surrounding the calculation and reporting of the loan liability activity and subsidy estimates should be further refined and implemented earlier in the process to ensure that appropriate estimates are prepared. OMB Circular A-123 defines management controls as "the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making."

During FY 2004, we noted that the Department made significant progress on this reportable condition. Early in FY 2004, the Department created a formal Credit Reform Workgroup (CRW) which consisted of managers from the Office of the Chief Financial Officer (OCFO), Federal Student Aid (FSA), and Budget Service. The primary purpose of the CRW was to inform the appropriate parties of key internal issues related to Credit Reform, and manage the development of improved processes, procedures and sources of information to enhance the credit reform estimation process.



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**Report on Internal Control**

Page 3

While the CRW has made progress in many areas, the work is still ongoing. In FY 2005, the Department will continue to focus on improving and documenting the processes used to arrive at cost estimates. A primary focus for the upcoming fiscal year is to refine the processes used to develop assumptions in the model, that appropriate review procedures are in place within the Budget Service area, and that the entire loan estimation process is documented for transparency. The end objective is a well-defined process, which includes appropriate and robust checks and edits, as well as documentation of key decisions and rationales.

However, after identifying the key improvements made or currently being made by the Department, during our testing of loan guarantees, allowance for subsidy, and subsidy costs estimates, we noted the following items that indicate management controls and analysis should be strengthened:

- The long term cost for the Direct Loan (DL) program is reflected on the financial statements through periodic charges for subsidy costs, adjustments or re-estimates to those subsidy costs, and loan activity, which is all recognized in the allowance for the DL receivable. The Department uses a computer-based cash flow projection model (i.e. Student Loan Model or SLM) and OMB calculator to calculate subsidy estimates related to the loan programs that are then recorded in the allowance for subsidy account. The model uses multiple sources of loan data and hundreds of assumptions. In order to perform a check of estimates resulting from the SLM and OMB calculator, the Department prepares a "backcast", which compares the model's estimates to actual activity for the current and prior fiscal years. After reviewing this "backcast", we noted that the estimated cash collections developed by the model for the DL program for FY 2004 and prior years were greater than actual collections by a significant amount. The Department has indicated that an increase in deferments/forbearances and income-contingent repayment plans in the DL program are the primary reason for the delay of the actual receipt of payments. The Department is reviewing whether additional sources of information are needed and/or modifications to the assumptions used are required. The output from this new process to model collections will be an important component in the calculations used to determine the net present value of direct loans.
- A key detection control used by the Department for the loan program estimation process are analytical tools, such as the backcast mentioned above; these tools are used to assess the validity of the estimates derived by the SLM and OMB calculator. One of these analytical tools is the forecast, which illustrates the timing of the estimates of collections or disbursements for the loan program in the years occurring after the current fiscal year. The information for the forecast is derived from data developed directly from the model. As a check, the Department should be able to reconcile the total amounts in the forecast to the allowance for subsidy and liability for loan guarantees. However, we noted that some of the analyses prepared by the Department were not appropriately reconciled with one another; specifically for the Federal Family Education Loan (FFEL) program. In order for analytical tools to provide useful information and to serve the purpose as a detection control for the Department such analysis should contain accurate information.



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**Report on Internal Control**

Page 4

- The early phase of the loan estimation process includes the development of the assumptions, which are used to populate the SLM with data that, in turn, feeds into the OMB calculator which arrives at the actual cost re-estimates. In order to develop a majority of the assumptions, the Department utilizes the National Student Loan Database System (NSLDS) to extract a sample of loan data, which is known as the Statistical Abstract (STAB). The Department then executes internally developed computer programs to arrive at the assumption data that is entered into the SLM. During our review of these programs, we noted that the programming language was not documented to explain the procedures executed by the programs. As a result, a review of the logic of these programs cannot be performed by someone unfamiliar with the code, which could have the potential of allowing undetected errors to exist in the development of the assumption data.
- Many phases must be completed before the cost estimates are calculated for the loan programs. Most of these phases occur in the Budget Service area and include the cooperation of mathematicians, statisticians, and economists. During our testing of the various phases of the loan estimation process, we noted that no formal review process was documented for a significant amount of information prepared by Budget Services. Further, we noted a calculation error in a spreadsheet that was subsequently adjusted by the Department. We noted that the CRW has begun working on detailed operating procedures for the loan estimation process in FY 2004. Without sufficient documentation of operating and review procedures the loan estimation process may be prone to mechanical and significant errors.
- FFEL program receivables are classified as Pre-1992 loans (liquidating account loans) and Post-1991 loans (financing account loans). The Department records certain collections on each of these loan categories using an estimation process (splitter process), as this information cannot be obtained directly from cash collections. The allocation of collections between liquidating and financing loans ultimately affects the liability account for loan guarantees and accounts payable to treasury. Currently, the Department relies primarily on the output of the credit reform model to record the net value of the Pre-1992 loans. The Department does not currently have a method to be better informed as to whether the resulting split is occurring properly on an overall basis. The development of additional analytical tools in this area could provide additional assurance as to whether the model is operating as intended.

**Recommendations:**

We recommend that the Department of Education perform the following:

1. Reassess and modify the model for DL collections, which would appropriately project the timing of estimated total collections. These revisions should ensure that collections for all types of payment plans are taken into account when developing cost estimates. Also, evaluate whether additional sources of data are needed for modeling collections. If



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**Report on Internal Control**

Page 5

further alignment of actual and estimated collections is necessary for DL, then appropriate re-estimate adjustments should be developed.

2. Continue to improve the analytical tools used for the loan estimation process. Ensure that all analytical tools reconcile with one another to allow for their use as detect controls for loan program cost estimates.
3. Document in detail the programs written to develop the assumptions for the SLM. Documentation should allow an informed reader or reviewer to understand the purpose of the procedures being executed, in order to diminish the potential of logic errors in the program's output.
4. The Department, including Budget Service, should continue to develop detailed operating procedures for the loan estimation process, which would include the step-by-step procedures that take place during the various phases of the process.
5. Analytical tools should be developed to assure the splitter process, as described above, is operating as intended.

**2. Controls Surrounding Information Systems Need Enhancement (Modified Repeat Condition)**

In connection with the annual audit of the Department's fiscal year 2004 financial statements, we conducted a controls review of the information technology (IT) processes related to the significant accounting and financial reporting systems. OMB Circular A-130, *Management of Federal Information Resources*, requires: (1) standard documentation and procedures for certification and accreditation of systems; (2) records management programs that provide adequate and proper documentation of agency activities; (3) agencies to develop internal information policies and procedures and oversee, evaluate, and otherwise periodically review agency information resource management activities; and (4) agency plans to assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system.

The Office of Inspector General reported in the October 2004 audit report, *Department of Education's Implementation of FISMA – Fiscal Year 2004* (control number ED-OIG/A11-E0002), that the Department has made progress in addressing control weaknesses identified in prior audits. OIG has reported that the Department has made progress in several areas, including: finalizing system security plans, configuration management plans, and continuity/disaster recovery plans that support the agency-wide Information Security Program and Certification and Accreditation program; taking corrective action of security weaknesses reported in its Plan of Action and Milestones updates to OMB; assessing the viability of its Continuity of Operations and Business Continuity Plans; and implementing procedures for periodically testing and evaluating network level information security and implementing network intrusion detection systems.



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**Report on Internal Control**

Page 6

Although progress has been made with respect to information technology controls, our work and the OIG findings reinforce that continuous effort is needed to further address control weaknesses related to information technology and systems. The OIG identified the Department's Certification and Accreditation process as a significant deficiency in its 2004 Federal Information Security Management Act (FISMA) report. The Department disagreed with the OIG's assessment of its Certification and Accreditation process. In particular, the following recommendations for improvements were noted for the Department:

- The Department's mission critical servers need to be consistently updated with the latest application version updates, virus/data integrity protection packages, and security patches.
- The use of complex passwords should be enforced on all systems across the enterprise.
- Network and host based intrusion detection systems should be deployed to provide meaningful alerts of potential network intrusions and malicious internal network activity.
- Access controls should be strengthened to protect certain mission critical systems.
- Configuration management processes can be improved to ensure consistent security configurations of servers across the enterprise and configuration settings.
- Technical security weaknesses identified in prior audits should be comprehensively reviewed to determine whether security controls have been fully implemented or adequately address the security weaknesses.
- The Certification and Accreditation process at the Department needs to be improved. Specifically, the Department should utilize security tools in determining whether system security weaknesses have been corrected and the Department should improve its oversight of contractors performing the C&A.

**Recommendation:**

We recommend that the Department continue efforts to address the security weakness identified by the OIG's FISMA report. Specifically, the Department should implement actions to address the issues outlined above.

**STATUS OF PRIOR YEAR FINDINGS**

In the reports on the results of the fiscal year 2003 audit of the Department of Education's financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:



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Report on Internal Control  
Page 7

Figure 1: Summary of FY 2003 Reportable Conditions

Issue Area	Summary Control Issues	FY 2004 Status
Improvement of Financial Reporting Related to Credit Reform is Needed (Reportable Condition)	Management controls and analysis need to be strengthened over financial reporting related to credit reform.	Improvements Noted – Modified Repeat Condition Reportable Condition
Controls Surrounding Information Systems Need Enhancement (Reportable Condition)	Improvements are needed in overall information technology security management.	Improvements Noted – Modified Repeat Condition Reportable Condition

We have reviewed our findings and recommendations with Department management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to the OIG in accordance with applicable Department directives.

In addition to the reportable conditions described above, we noted certain other matters involving internal control and its operations that were reported to management in a separate letter dated November 10, 2004.

This report is intended solely for the information and use of the management of the Department, OMB, Congress and the Department’s OIG, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

November 10, 2004  
Washington, D.C.





# REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS



Ernst & Young LLP  
1225 Connecticut Avenue, N.W.  
Washington, DC 20036

Phone: (202) 327-6000  
Fax: (202) 327-6200  
www.ey.com

## Report on Compliance with Laws and Regulations

To the Inspector General  
U.S. Department of Education

We have audited the consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2004 and 2003, and the related consolidated statement of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended, and have issued our report thereon dated November 10, 2004.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Department is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Department.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with certain requirements discussed in the preceding paragraph. We have identified the following instance of noncompliance:

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**Report on Compliance with Laws and Regulations**

Page 2

The Department has made progress in strengthening controls over information technology processes during FY 2004. However, our work and audit reports prepared by the Office of Inspector General (OIG) identify certain control weaknesses over information technology security and systems that need to be addressed. More specifically the Department should: (1) consistently apply updates, virus/data integrity protection packages, and security patches to mission critical systems; (2) enforce the use of complex passwords in all systems across the organization; (3) strengthen access controls to protect mission critical systems; (4) improve the configuration management process to ensure consistent security configuration of servers across the organization and improve configuration settings to comply with best practices; (5) comprehensively review technical security weaknesses identified in prior audits in order to determine whether security controls have been fully implemented or adequately address the security weaknesses; and (6) improve management and implementation of the Department's Certification and Accreditation process.

The Report on Internal Control includes additional information related to the financial management systems that were found not to comply with the requirements of FFMA relating to information technology security and controls. It also provides information on the responsible parties, relevant facts pertaining to the noncompliance with FFMA, and our recommendations related to the specific issues. We have reviewed our findings and recommendations with management of the Department. Management concurs with our recommendations and to the extent findings and recommendations were noted in prior years has provided a proposed action plan to the Office of Inspector General in accordance with applicable Department directives.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department, OMB, Congress and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

November 10, 2004  
Washington, D.C.



UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-\_\_\_\_\_

NOV 10 2004

MEMORANDUM

TO: John P. Higgins, Jr.  
Inspector General

FROM: Jack Martin *Jack Martin*  
Chief Financial Officer

William Leiding *W Leiding*  
Assistant Secretary for Management and Chief Information Officer

SUBJECT: DRAFT AUDIT REPORTS  
Fiscal Years 2004 and 2003 Financial Statement Audit  
U.S. Department of Education  
ED-OIG/A17E0006

Please convey my sincere thanks and appreciation to everyone on your staff who worked diligently on this financial statement audit. The Department has reviewed the draft Fiscal Years 2004 and 2003 Financial Statement Audit Reports. Without exception, we concur and agree with the Internal Control Report and the Auditor's Opinion. We also concur and agree with the report on Compliance with Laws and Regulation, except as noted in our report.

We will share the final audit results with responsible senior officials, other interested program managers, and staff. At that time we will also request that they prepare corrective action plans to be used in the resolution process.

Again, please convey my appreciation to everyone on your staff whose efforts permitted the Department to complete the audit within the accelerated timeframe. Please contact Terry Bowie at 401-4144 with questions or comments.



*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*



# Other Statutorily Required Reports

## OTHER STATUTORILY REQUIRED REPORTS

### Report to the Congress on Audit Follow-up

The Inspector General Act, as amended, requires that the Secretary report to the Congress on the final action taken for the Inspector General audits. With this *Performance and Accountability Report*, the Department of Education is reporting on audit follow-up activities for the period October 1, 2003, through September 30, 2004.

The Audit Accountability and Resolution Tracking System (AARTS) is the Department's single database system used for tracking, monitoring, and reporting on the audit follow-up status of the Government Accountability Office (GAO) audits; the Office of Inspector General (OIG) issued internal audits, external audits, and alternative products; and Single Audits of funds held by non-federal entities. AARTS functionalities allow the following:

- Tracking of internal, external, GAO, sensitive, and alternative product types from inception to final disposition.
- Evaluation and escalation points for audit reports and recommendations at appropriate levels in the user hierarchy.
- Notifying users of audit decisions and approaching or expiring events and transactions.
- Downloading report and query results into electronic file formats.
- Attaching files to the audit record.
- Providing a personal portal (Digital Dashboard) for user-assigned transactions.
- Providing a search function to query application (Audit Report) data.
- Providing for both a defined and an ad hoc report generation environment.

**Number of Audit Reports and Dollar Value of Disallowed Cost.** At the start of this reporting period, the balance for audit reports with disallowed costs totaled 80, representing \$71.5 million. By the end of the reporting period, the outstanding balance had decreased

to 62 audits, representing \$31.7 million. The information in the table below represents audit reports for which receivables were established.

#### Final Actions on Audits with Disallowed Costs for Fiscal Year Ending September 30, 2004

	Number of Reports	Disallowed Costs
Beginning Balance as of 10/1/2003	80	\$71,510,544
+ Management Decision	171	12,192,310
Pending Final Action	251	\$83,702,854
- Final Action	189	52,022,451
Ending Balance as of 9/30/2004	62	\$31,680,403

#### Number of Audit Reports and Dollar Value of Recommendations That Funds Be Put to Better Use.

The Department has a total of seven audit reports totaling \$243 million with recommendations that funds be put to better use. Only two of these, totaling \$5 million, have been resolved. Resolution occurs when there is agreement between the program office and the Department's OIG on the corrective actions that will be taken to address all of the recommendations in the audit.

**Reports Pending Final Action One Year or More After Issuance of a Management Decision.** As of September 30, 2004, the Department has a total of six OIG internal and nationwide audit reports on which final action was not taken within a year after the issuance of a management decision; 33 percent were over two years old. Many corrective actions are dependent upon major system changes that are currently being implemented. For detailed information on these audits, refer to the Department's *Semiannual Report to Congress on Audit Follow-up Number 31*.

### Credit Management and Debt Collection Improvement Act

The Department of Education has designed and implemented a comprehensive credit management and debt collection program that enables us to effectively administer our multi-billion-dollar student loan and other

programs. The credit management and debt collection program covers each phase of the credit cycle—including prescreening of loan applicants, account servicing, collection, and close-out—and it conforms to the governmentwide policies in the Federal Claims Collection Standards, the Office of Management and Budget (OMB) Circular A-129, and the Debt Collection Improvement Act (DCIA). As a result, the Department has made significant strides in student loan default management and prevention.

The Department has been working diligently with schools and partners in the student loan industry to reduce the cohort default rate. The FY 2002 cohort default rate dropped to an all-time low of 5.2 percent. The low default rate is a function of the Department's improved borrower counseling and the steps we have taken in gatekeeping to remove schools with high rates from participating in the federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid, and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

The Department also continues to conduct computer matches with other federal agencies as part of our effort

to strengthen the management and oversight of student financial assistance programs. The computer matches are designed to ensure that students meet various eligibility criteria and to increase the collections from students who have defaulted on their loans.

The Department of Education categorizes our debt into two basic categories: student loan debt, which accounts for approximately 99 percent of all of the Department's outstanding debts, and institutional and other administrative debt. The Department of Treasury granted the Department a permanent exemption from the cross-servicing requirements of the DCIA for defaulted student loans and approval to continue to service our own internal student loan debts because of our successful track record. However, we have been referring eligible student loan debts—those we previously tried to collect using all other available tools—to the Department of Treasury for tax refund offset since 1986.

The Department handles our institutional and administrative debts outside of the systems established for student loans. The Department was one of the first to participate in the Treasury Cross Servicing Program and has been referring delinquent debts since October 1996. As of September 30, 2004, we have forwarded approximately 88 percent of all institutional and administrative debts eligible for cross servicing to Treasury.





# Appendix A Performance Data Tables

## APPENDIX A: PERFORMANCE DATA TABLES

### Key to Tables in Appendix A

M = Million  
 PP = Percentage points  
 FY = Fiscal Year  
 SY = School Year  
 NCLB = No Child Left Behind Act  
 ESEA = Elementary and Secondary Education Act

Tables generally contain data for 2000–04 to the extent that measures were in place for those years.

Bolded entries represent data not previously reported in an annual performance report.

### Key to Documentation in Appendix A

**Source.** Identifies the original source(s) of the data provided in the corresponding table.

**Data Quality.** Includes information such as how data were collected, calculated, and reviewed; data strengths and limitations; and plans for improvement of data quality.

**Target Context.** Explains the rationale for targets.

**Related Information.** Identifies the location of supplementary information about the topic addressed by the performance measure(s).

**Additional Information.** Provides relevant background about a measure. Also provides an explanation for unmet targets and actions being taken or planned to address the shortfall. Where data are not yet available, the section provides the date by which data are expected to be available.

An implemented accountability system must include:

Standards-based assessments in reading/language arts in each of grades 3–8 and once at the high school level.

Standards-based assessments in mathematics in each of grades 3–8 and once at the high school level.

An approved accountability plan under No Child Left Behind.

Data are reported as estimated because assessment systems for these states have not yet been approved by the Department.

**Target Context.** A target of 15 percent of states having systems in place two years ahead of the required schedule was considered ambitious.

**Related Information.** Final regulations for No Child Left Behind state accountability systems are available at <http://www.ed.gov/policy/landing.jhtml>.

**Additional Information.** The 12 states with implemented assessments and accountability systems under No Child Left Behind in SY 2003–04 were California, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, South Dakota, Tennessee, Texas, Utah, and West Virginia.

Under No Child Left Behind, states are required beginning with SY 2005–06 to administer standards-based assessments in both reading/language arts and mathematics in each of grades 3–8 and at the high school level. During school years 2002–03, 2003–04, and 2004–05, states must administer reading/language arts and mathematics assessments at least once in grades 3–5, at least once in grades 6–9, and at least once in grades 10–12.

### OBJECTIVE 1.1: LINK FEDERAL FUNDING TO ACCOUNTABILITY FOR RESULTS

1.1.1 Percentage of states with final No Child Left Behind accountability systems (as required by SY 2005–06) that are fully implemented	
Fiscal Year	Actual
2003	<b>21</b> (est)
2004	<b>23</b> (est)
We exceeded our 2004 target of 15.	

States = States and jurisdictions that are required under No Child Left Behind to implement assessments systems; this includes the 50 states, the District of Columbia, and Puerto Rico.

est = estimated, preliminary, or partial data  
 This measure was first established for FY 2004.

**Source.** Department of Education, Consolidated State Performance Reports and Consolidated State Applications, 2002–03.

**Data Quality.** Department of Education staff review Consolidated State Applications and Consolidated State Performance Reports submitted by state educational agencies (SEAs). States must submit data to substantiate the implementation of their accountability systems.

### OBJECTIVE 1.2: FLEXIBILITY AND LOCAL CONTROL

1.2.1 Percentage of school districts using Local-Flex, Transferability, or Rural Flexibility			
Fiscal Year	Local-Flex	Transferability	Rural Flexibility
2003		<b>12.5</b>	<b>61</b>
2004	<b>1.2</b>	Target is 22.5.	Target is 71.
	We set a baseline in 2004.	We set a baseline in 2003. Data for 2004 are pending.	We set a baseline in 2003. Data for 2004 are pending.

The measure for Local-Flex was first established for FY 2004. Measures for Transferability and Rural Flexibility were first established for FY 2003.

**Source.** Department of Education, Office of Elementary and Secondary Education, Consolidated State Performance Reports, annual submissions.

**Data Quality.** Department of Education staff reviewed Consolidated State Performance Reports submitted by state educational agencies in summer 2004 for SY 2002–03. Data are validated against internal review procedures. The percentage of school districts using Local-Flex, Transferability, or Rural Flexibility provide an unduplicated count of districts because the Department does not believe that a school district would use more than one of these initiatives at the same time.

Each of the three program authorities has a different number of potentially eligible local educational agency (LEA) participants.

The Local-Flex statute authorizes up to 80 eligible LEAs; there were no participants in SY 2002–03 and only one participant in SY 2003–04.

Fifty states reported that a total 1,857 of 14,859 LEAs used their Transferability authority during SY 2002–03. Two states have not reported Transferability counts as of September 2004.

During SY 2002–03, 2,904 of 4,763 eligible LEAs notified states of their intention to use the Alternative Uses of Funds Authority under the Rural Education Achievement Program—Small, Rural School Achievement (REAP-SRSA). REAP-SRSA data are based on reports from 49 states as of August 2004; remaining states have been given extensions to submit these data.

**Target Context.** For Transferability and Rural-Flexibility, FY 2003 was a baseline year; targets for FY 2004 were set at 10 percentage points above the baseline. FY 2004 was the baseline year for Local-Flex.

**Related Information.** More information on flexibility programs is available at <http://www.ed.gov/nclb/freedom/local/flexibility/index.html>.

More information on the Rural Education Achievement Program is available at <http://www.ed.gov/programs/reapsrsa/index.html>.

**Additional Information.** Data for 2004 for Transferability and REAP will be available in April 2005.

These measures are based on the provisions for the Local Flexibility Demonstration Program (Local-Flex), Local Transferability, and REAP-SRSA.

The Local-Flex program allows local school districts to consolidate formula funds under the following programs: Improving Teacher Quality State Grants, Educational Technology, Innovative Programs, and Safe and Drug-Free Schools. It was authorized under No Child Left Behind and was available for SY 2002–03. The baseline year for data is SY 2003–04. The first recipient was approved in December 2003.

The Transferability Authority gives authority to states and districts to transfer up to 50 percent of the funds they receive by formula under certain programs to state and local activities most likely to improve student achievement. It was authorized under No Child Left Behind and was available to districts starting with SY 2002–03. (The Department published guidance for this activity in fall 2002.) The baseline year for this activity was SY 2002–03.

The Alternative Uses of Funds Authority under REAP allows eligible local educational agencies the authority to combine funding under certain federal programs to carry out local activities under other specified federal programs. It first operated under No Child Left Behind provisions in SY 2002–03, although it existed for a year under previous legislation. The Department initially collected data for SY 2002–03, when regulations under No Child Left Behind were fully implemented.

1.2.2 Number of states receiving State-Flex authority (statutory maximum of 7)	
Fiscal Year	Actual
2003	0
2004	0
We did not meet our 2004 target of 3.	

This measure was first established for FY 2004.

**Source.** Department of Education, Office of Elementary and Secondary Education, Consolidated State Performance Reports, annual submissions.

**Data Quality.** The Department entered into its first State-Flex agreement during SY 2003–04. However, the one state that received State-Flex authority withdrew from the program in summer 2004. At present there are no states with State-Flex authority.

**Related Information.** Information on State-Flex is available at <http://www.ed.gov/programs/stateflex/index.html>.

**Additional Information.** State-Flex permits states to make the best use of federal funds by consolidating certain formula funds (other than Title I) if doing so will help the state raise student achievement. There is no specific application deadline for this authority. Applications are accepted on a rolling basis as received until the maximum number of State-Flex proposals authorized by the statute—seven—has been approved. The Department published a Federal Register Notice in March 2004 inviting states to apply for State-Flex at their convenience.

1.2.3 Percentage of LEAs with authority under State-Flex that make AYP	
Fiscal Year	Actual
2004	<b>Not Applicable</b>
This measure was not applicable for 2004 because no states had State-Flex authority.	

LEAs = Local Educational Agencies  
 This measure was first established for FY 2004.

**Source.** Department of Education, Office of Elementary and Secondary Education, State-Flex Program Office, program files.

**Data Quality.** Approval of this authority is contingent upon a state receiving State-Flex authority. At present there are no states with State-Flex authority; therefore the baseline could not be established.

**Target Context.** When new states apply and receive State-Flex authority, the Department will establish a baseline and targets.

**Related Information.** More information on flexibility programs is available at <http://www.ed.gov/nclb/freedom/local/local.html>.

Additional information about what happens when a school fails to make adequate yearly progress is available at [http://www.ed.gov/nclb/overview/welcome/closing\\_edlite-slide026.html](http://www.ed.gov/nclb/overview/welcome/closing_edlite-slide026.html).

1.2.4 Percentage of Department grantees that express satisfaction with Department customer service	
Fiscal Year	Actual
2002	63
2003	68
2004	Target is 67.
Data for 2004 are pending.	

**Source.** Department of Education, Survey on Satisfaction of Chief State School Officers, 2002.

Department of Education, Survey on Satisfaction with the U.S. Department of Education, 2003.

Department of Education, Customer Satisfaction Measurement and Improvement System, 2004.

**Data Quality.** The Department collected data for this measure from a questionnaire distributed to 52 state education leaders in FY 2002 and 312 state education leaders in FY 2003. The questionnaire asked about satisfaction with customer service, technical assistance, Web utilization, and documentation. The survey was developed and results were tabulated and processed by a contractor with expertise in survey development and analysis.

The FY 2004 survey will collect data through a revised questionnaire that retains some of the previous survey's questions to allow for trending. The revised questionnaire improves the previous questionnaire by

allowing the Department to identify impact levels for each customer service component so that we can remediate service delivery in those areas of greatest impact. The revised survey was developed and conducted by a contractor with expertise in survey design and development.

**Target Context.** A performance baseline of 63 was set from the results of the 2002 survey data. The 2003 and 2004 targets were set based on expected progress in satisfying our customers.

**Additional Information.** Because the Department chose to revise its questionnaire for the FY 2004 survey, collection of customer satisfaction data for FY 2004 was delayed briefly. Results of the 2004 survey will be available December 2004.

**OBJECTIVE 1.3: INFORMATION AND OPTIONS FOR PARENTS**

1.3.1 Percentage of students in grades K–12 who are attending a school (public or private) that their parents have chosen	
Fiscal Year	Actual
1999	26
2001*	26
2003	<b>27</b>
2004	<b>Not collected</b>
We exceeded our 2003 target of 19. We did not collect data for 2004 because it is an off-year for both collections.	

\* K–8

**Source.** Department of Education, National Center for Education Statistics, National Household Education Surveys Program, Parent Survey, 2003.

Department of Education, National Center for Education Statistics, National Household Education Surveys Program, Before- and After-School Programs and Activities Survey, 1999 and 2001.

Department of Education, National Center for Education Statistics, National Household Education Surveys Program, Parent and Family Involvement in Education Survey, 2003.

**Data Quality.** The National Household Education Survey is a national random-digit-dialed telephone data collection program sponsored by the National Center for Education Statistics. When properly weighted, the data are representative of all civilian, noninstitutionalized persons in the United States. The weighted response rate for the Parent Survey, 1999, was 65 percent. The weighted response rate for the Before- and After-School Programs and Activities Survey, 2001, was 60 percent. The weighted response rate for the Parent and Family Involvement in Education Survey, 2003, was 54 percent.

Data for 2001 are only for K–8, not the specified K–12 population of the current measure. K–12 data will be collected every four years. No data collection was conducted in 2004. The next planned K–8 data collection is 2005, and those estimates will be available in 2006. Data to update the K–12 estimates will be collected in 2007 and will be available in 2008.

**Target Context.** School choice is a school reform initiative that, since the 1980s, has moved from a theoretical argument for changes in the public education system to a widespread reform movement (U.S. Department of Education, 1995; Cookson, 1994). Within the United States, school choice primarily comprises programs that allow students to attend any public school within or outside of their local school district, a magnet or charter school, a private school, or home-school. Before the late 1980s, school choice was almost synonymous with private school attendance (Choy, 1997). However, the availability of public school choice, which generally includes magnet and charter schools and inter- and intradistrict school choice, has grown. The number of magnet schools nearly doubled since between the early 1980s and the year 2000, and the number of public charter schools grew from two schools in 1992 to over 1,400 schools in 1999 (Nelson, et al., 2000; Algozzine et al., 1999)

**Related Information.** The National Household Education Survey Web site is <http://nces.ed.gov/nhes/>.

Information on the Parent Survey, 1999, is available at [http://nces.ed.gov/nhes/surveytopics\\_school.asp](http://nces.ed.gov/nhes/surveytopics_school.asp).

Information about the Before- and After-School Programs and Activities Survey, 2001, is available at [http://nces.ed.gov/nhes/surveytopics\\_school.asp](http://nces.ed.gov/nhes/surveytopics_school.asp).

Information about the Parent and Family Involvement Survey, 2003, is available at [http://nces.ed.gov/nhes/surveytopics\\_school.asp](http://nces.ed.gov/nhes/surveytopics_school.asp).

Additional information on parental choice is available at <http://www.ed.gov/parents/schools/choice/edpicks.jhtml?src=qc>.

In addition to magnet schools and charter schools, the Voluntary Public School Choice program, a discretionary program, supports states and school districts in efforts to establish or expand a public school choice program. More information is available at <http://www.ed.gov/programs/choice/index.html>.

1.3.2 Number of children attending charter schools	
Fiscal Year	Actual
1999	252,000
2000	478,000
2001	546,000
2002	575,000
2003	684,000
2004	<b>698,000</b>
We made progress toward our 2004 target of 800,000.	

**Source.** Center for Education Reform, *National Charter School Directory 2002–2004* (2002, 2003, and 2004 data).

Department of Education, program files (2000 and 2001 data).

Department of Education, *State of Charter Schools 2000: Fourth-Year Report* (1999 data).

**Data Quality.** Initially, the Department collected charter school enrollment data through a four-year national study of charter schools. The 1999 data were taken from the last such study as reported in *State of Charter Schools 2000: Fourth-Year Report*. For FY 2000 and FY 2001, the Department used data that were collected, validated, and reported by the states. States have varying methods for collection and varying standards for defining charter schools and enrollment.

FY 2002, 2003, and 2004 data were provided by the Center for Education Reform, which collected data by a telephone survey using methods similar to those used by the Department in FY 2000 and 2001. The Center for Education Reform counts enrollment at the beginning of each school year. FY 2004 data for this measure are taken from the Center for Education Reform's statistics for SY 2003–04. SY 2003–04 data are used because they measure actual enrollment in FY 2004, which covers October 2003 to September 2004. The Center published updated enrollment statistics for SY 2003–04 in January 2004.

**Target Context.** The Department modified the 2004 target in December 2003 because of the slower-than-anticipated growth of new charter schools and because states with caps on the number of charter schools have not revised their charter school statutes that govern establishment of new charter schools.

The growth in the number of children enrolled in charter schools and the number of new charter schools has continued over the last five years, although not as dramatically as in the early days of the charter school movement. This trend is largely dependent on state legislatures, which maintain authority to pass laws authorizing the creation and regulation of charter schools. Few states have enacted charter school legislation in recent years. Although some states have successfully amended their state statutes to either

increase or remove the cap on the number of charter schools, other states have not been as successful. In states where the number of charter schools has reached or is approaching the cap, enrollment has slowed or leveled off. In states and cities where there are large numbers of charter schools, it has become increasingly difficult for charter school developers to secure adequate facilities.

**Related Information.** The Center for Education Reform’s statistics and highlights page makes current-year enrollment figures available at <http://www.edreform.com/index.cfm?fuseAction=stateStatChart&psectionid=15&cSectionID=44>.

The Department sponsors an independent Web site that provides information about charter schools. It is available at <http://www.uscharterschools.org/>.

The NCES Common Core of Data collects information on charter schools as part of its Public School Universe data collection. Information on the Common Core of Data is available at <http://nces.ed.gov/ccd/>.

The *State of Charter Schools 2000: Fourth Year Report* is available at <http://www.ed.gov/pubs/charter4thyear/>.

**Additional Information.** The Department continues to employ a number of information-sharing strategies to assist states in furthering their charter school efforts, including providing testimony by Department staff to state legislatures, providing information to state charter school organizations, and inviting state legislators to attend the Department’s Annual Charter School Conference. In addition, the President’s 2005 budget request included a substantial increase in funds for the Credit Enhancement for Charter Schools Facilities Program, which provides funds on a competitive basis to public and nonprofit entities, and consortia of those entities, to leverage other funds and help charter schools obtain school facilities through such means as purchase, lease, and donation. Grantees may also use grants to leverage funds to help charter schools construct and renovate school facilities.

1.3.3 Of eligible children, the percentage using supplemental educational services under the provisions of ESEA Title I	
Fiscal Year	Actual
2003	Target is to set a baseline.
2004	Target is baseline + 5 PP.
Data for 2003 and 2004 are pending.	

ESEA = Elementary and Secondary Education Act

**Source.** *Evaluation of Title I Accountability and School Improvement Efforts (TASSIE): Second Year Findings.*

**Data Quality.** The number of all students eligible for services may be underestimated because 45 percent of districts required to offer supplemental services reported they did not have schools required to provide

supplemental services and did not provide any data on numbers of students. The estimates of the number of students who received services are based on the 48 percent of districts with schools required to offer supplemental services and that provided supplemental services to students in identified Title I schools. For additional information regarding the limitations of the data, see *Evaluation of Title I Accountability and School Improvement Efforts (TASSIE): Second Year Findings* at <http://www.ed.gov/ods/ppss/reports.html#title>.

The formula for determining the percentage of students is the approximate number of students who received supplemental services from an approved supplemental services provider in SY 2002–03 divided by the number of students eligible to receive supplemental services in SY 2002–03, including students in all districts with Title I schools identified for two or more years that reported they had Title I schools required to offer supplemental services to students, regardless of whether or not the district offered supplemental services.

Eligible children are children from low-income families who attend a school in its second year of “school improvement” status under Title I of the Elementary and Secondary Education Act. Provisions for supplemental services under Title I went into effect September 2002 for SY 2002–03.

**Related Information.** TASSIE reports are available at [www.ed.gov/ods/ppss/reports.html#title](http://www.ed.gov/ods/ppss/reports.html#title). Additional information on TASSIE is also available at [www.tassieonline.org](http://www.tassieonline.org).

Information on supplemental services is available at <http://www.ed.gov/about/offices/list/oi/about/choice.html>.

**Additional Information.** Data for 2003 will be available at the end of November 2004. Data for 2004 will be available in October 2005.

**OBJECTIVE 1.4: USE OF SCIENTIFICALLY BASED METHODS WITHIN FEDERAL EDUCATION PROGRAMS**

1.4.1 Number of hits on the What Works Clearinghouse Web site	
Fiscal Year	Actual
2003	1,522,922
2004	<b>4,249,668</b>
We exceeded our 2004 target of 2,000,000.	

**Source.** Department of Education, Institute of Education Sciences, What Works Clearinghouse Web site.

**Data Quality.** Automated Web software enables an accurate count of Web hits, exact items receiving the greatest number of hits, and time intervals of Web site visits.

**Target Context.** The Department modified the 2004 target in December 2003 based on FY 2003 data, which were the first data available. Preliminary evidence suggests increased activity on the Web site with the release of the study reports.

**Related information.** Additional information on the What Works Clearinghouse is available at <http://w-w-c.org/> or call 301-519-5444.

The What Works Clearinghouse Web site was created in October 2002. At that time, it posted information about

research standards. On June 30, 2004, the What Works Clearinghouse released its first study reports assessing the strengths and weaknesses of specific studies. These reports evaluated peer-assisted learning interventions and middle school mathematics curricula. The What Works Clearinghouse study reports are written for educators, policy-makers, and the general public.

## OBJECTIVE 2.1: READING ACHIEVEMENT

2.1.1–2.1.6 Of states with third-grade reading assessments, the percentage meeting their targets for third-grade reading achievement						
Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	Limited English Proficient Students
2003	100	83	83	83	33	50
2004	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.
	We exceeded our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.

States = States and jurisdictions that are required under No Child Left Behind to implement assessment systems; this includes the 50 states, the District of Columbia, and Puerto Rico.

**Source.** Department of Education, 2002–03 Consolidated State Performance Reports.

**Data Quality.** States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education. Of the 52 eligible entities, 26 tested third-grade reading with standards-based assessments. Of the remaining 26 entities, 22 did not test third-grade reading/language arts in SY 2002–03, and four tested third-grade reading/language arts with non-standards-based assessments. These four states were under time line waivers or compliance agreements with the Department for failing to meet the standards and assessments requirements of the 1994 Improving America’s Schools Act. There are also a few occasions where a state did not report for one or more subpopulations. In addition, Puerto Rico reports on the subgroup limited Spanish proficient in lieu of limited English proficient.

**Target Context.** Although states are not required to test third-grade reading until SY 2005–06, the Department’s expectation is that beginning with 2004, those states that do test will meet their targets for all students in the aggregate and for each subgroup of students.

**Related Information.** Information on the Consolidated State Performance Reports can be obtained at <http://www.ed.gov/admins/lead/account/consolidated/index.html#csp>.

**Additional Information.** Data for 2004 (SY 2003-04) will be available in January 2005.

Starting with SY 2002–03, each state was required to set the same annual achievement target for all students and for several student subgroups. State targets were based on assessments from SY 2001–02. The first tests that measure against these targets were administered in SY 2002–03. Therefore, FY 2003 is the first year for which state-level data were available. Each state must issue a State Report Card that includes its annual assessment and achievement data.

The Department is investing substantial sums in high-quality content enrichment for providers of after school services.

The Department is contracting to provide technical assistance to LEAs that did not receive Reading First grants to replicate effective practices through Reading First grants. The Department will have a new CD-ROM and accompanying booklet for distribution this fall providing examples of scientifically based strategies for early reading in preschool programs.

**OBJECTIVE 2.2: MATHEMATICS AND SCIENCE ACHIEVEMENT**

2.2.1–2.2.6 Percentage of states meeting their targets for middle school mathematics achievement						
Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	Limited English Proficient Students
2003	Grade 6 = <b>94</b> Grade 7 = <b>93</b> Grade 8 = <b>95</b>	Grade 6 = <b>53</b> Grade 7 = <b>50</b> Grade 8 = <b>37</b>	Grade 6 = <b>44</b> Grade 7 = <b>21</b> Grade 8 = <b>22</b>	Grade 6 = <b>75</b> Grade 7 = <b>43</b> Grade 8 = <b>38</b>	Grade 6 = <b>18</b> Grade 7 = <b>21</b> Grade 8 = <b>11</b>	Grade 6 = <b>35</b> Grade 7 = <b>21</b> Grade 8 = <b>16</b>
2004	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.
	We exceeded our 2003 target of 87 for each of the three middle school grades. Data for 2004 are pending.	We did not meet our 2003 target of 87 for any of the three middle school grades. Data for 2004 are pending.	We did not meet our 2003 target of 87 for any of the three middle school grades. Data for 2004 are pending.	We did not meet our 2003 target of 87 for any of the three middle school grades. Data for 2004 are pending.	We did not meet our 2003 target of 87 for any of the three middle school grades. Data for 2004 are pending.	We did not meet our 2003 target of 87 for any of the three middle school grades. Data for 2004 are pending.

States = States and jurisdictions that are required under No Child Left Behind to implement assessment systems; this includes the 50 states, the District of Columbia, and Puerto Rico.

**Source.** Department of Education, 2002–03 Consolidated State Performance Reports.

**Data Quality.** States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education. Of the 52 eligible entities, 18 tested mathematics with standards-based assessments in the sixth grade, 14 in the seventh grade, and 39 in the eighth grade.

Of the 34 entities reported as not assessing mathematics in the sixth grade, four assessed sixth-grade mathematics with non-standards-based assessments and 30 states did not assess mathematics at that grade. Of the 38 entities reported as not assessing mathematics in the seventh grade, four assessed seventh-grade mathematics with non-standards-based assessments and 34 did not assess mathematics in that grade. Of the 13 entities reported as not assessing mathematics in eighth grade, four assessed eighth-grade mathematics with non-standards-based assessments and nine did not assess mathematics at that grade. The four states testing with non-standards-based assessments were under time line waivers or compliance agreements with the Department for failing to meet the standards and assessments requirements of the 1994 Improving America's Schools Act. There were also a few occasions where a state did not report for one or more subpopulations.

**Target Context.** Although states are not required to assess mathematics in all middle school grades until SY 2005–06, the Department's expectation is that beginning with 2004, those states that do test will meet their targets for all students in the aggregate and for each subgroup of students.

**Related Information.** Information on the Consolidated State Performance Reports can be obtained at <http://www.ed.gov/admins/lead/account/consolidated/index.html>.

**Additional Information.** Data for 2004 (SY 2003–04) will be available in January 2005.

Starting with SY 2002–03, each state was required to set the same annual achievement target for all students and for several student subgroups. State targets were based on assessments from SY 2001–02. The first tests that measure against these targets were administered in SY 2002–03. Therefore, FY 2003 is the first year for which state-level data were available. Each state must issue a State Report Card that includes its annual assessment and achievement data.

The Department is undertaking an initiative to increase and improve professional development and instruction in high-poverty schools in mathematics for grades K–8. Increased collaboration between mathematics experts and the Title I community is the vehicle for this effort. In line with the Department's Mathematics Science Partnership program recommendations, most states have targeted middle grades mathematics as their focus.



**OBJECTIVE 2.3: HIGH SCHOOL ACHIEVEMENT**

2.3.1–2.3.6 Percentage of states meeting their targets for high school reading achievement						
Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	Limited English Proficient Students
2003	95	23	20	32	4	9
2004	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.
	We exceeded our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.

States = States and jurisdictions that are required under No Child Left Behind to implement assessment systems; this includes the 50 states, the District of Columbia, and Puerto Rico.

**Source.** Department of Education, 2002–03 Consolidated State Performance Reports.

**Data Quality.** States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education for review. Of the 52 eligible entities, data from four entities are not included because those states did not administer standards-based assessments in high school reading/language arts in FY 2002–03. These four states were under time line waivers or compliance agreements with the Department for failing to meet the standards and assessments requirements of the 1994 Improving America’s Schools Act. Data from two additional states are not included because those state report assessment results using an index. There are also a few occasions where a state did not report for one or more subpopulations. In addition, Puerto Rico reports on the subgroup limited Spanish proficient in lieu of limited English proficient.

**Target Context.** States are required to test reading in at least one grade from 10 to 12; and the Department’s expectation is that beginning in 2004 all states will meet their targets for all students in the aggregate and for each subgroup of students.

**Related Information.** Information on the Consolidated State Performance Reports can be obtained at <http://www.ed.gov/admins/lead/account/consolidated/index.html>.

**Additional Information.** Data for 2004 (SY 2003–04) will be available in January 2005.

Starting with SY 2002–03, each state was required to set the same annual achievement target for all students and for several student subgroups. State targets were based on assessments from SY 2001–02. The first tests that measure against these targets were administered in

SY 2002–03. Therefore, FY 2003 is the first year for which state-level data were available. Each state must issue a State Report Card that includes its annual assessment and achievement data.

The Department completed reviews of the programs active in each state to meet the high quality teacher requirements of No Child Left Behind. The Department held a series of technical assistance visits to each state by Teacher Assistance Corps personnel to address the issues identified in the reviews and provide useful ideas.

Teacher-to-Teacher workshops were held in Summer 2004 for 1,400 teachers. The presenters were exemplary teachers and Department staff, who described, explained, and demonstrated techniques and practices that had been shown effective in closing the achievement gap. The Department is launching “Lessons Learned” at <http://www.ed.gov/teacherquality>, which includes videos of lessons taught by these teachers, study guides, and checklists, etc.

Beginning in June 2004, the Department began monitoring the practices employed by states to improve teacher knowledge of core academic subjects, intended to meet high quality teacher requirements and, ultimately, to improve student achievement in reading, mathematics and the other core academic subjects.

Additionally, Title I monitoring of states is occurring on a three-year cycle. The Department reviews activities being carried out in each state under No Child Left Behind Title I (Part A), Even Start, Neglected & Delinquent, and Homeless for their instructional effectiveness and technical assistance provided statewide.

2.3.7–2.3.12 Percentage of states meeting their targets for high school mathematics achievement						
Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	Limited English Proficient Students
2003	93	31	22	34	7	24
2004	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.	Target is 100.
	We exceeded our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.	We did not meet our 2003 target of 87. Data for 2004 are pending.

States = States and jurisdictions that are required under No Child Left Behind to implement assessment systems; this includes the 50 states, the District of Columbia, and Puerto Rico.

**Source.** Department of Education, 2002–03 Consolidated State Performance Reports.

**Data Quality.** States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education for review. Of the 52 eligible entities, one state did not report high school mathematics assessment data. Data from four entities are not included because those states did not administer standards-based assessments in high school mathematics in FY 2002–03. These four states were under time line waivers or compliance agreements with the Department for failing to meet the standards and assessments requirements of the 1994 Improving American’s Schools Act. Data from two additional states are not included because those states report assessment results using an index. There are also a few occasions where a state did not report for one or more subpopulations. In addition, Puerto Rico reports on the subgroup limited Spanish proficient in lieu of limited English proficient.

**Target Context.** States are required to test mathematics in at least one grade level from 10 to 12; the Department’s expectation is that all states will meet their targets for all students in the aggregate and for each subgroup of students.

**Related Information.** Information on the Consolidated State Performance Reports can be obtained at

<http://www.ed.gov/admins/lead/account/consolidated/index.html#csp>.

Information on NAEP can be obtained at <http://nces.ed.gov/nationsreportcard/>.

**Additional Information.** Data for 2004 (SY 2003–04) will be available in January 2005.

Starting with SY 2002–03, each state was required to set the same annual achievement target for all students and for several student subgroups. State targets were based on assessments from SY 2001–02. The first tests that measure against these targets were administered in SY 2002–03. Therefore, FY 2003 is the first year for which state-level data were available. Each state must issue a State Report Card that includes its annual assessment and achievement data.

The Department sponsored a national high school summit followed by seven regional high school summits to specifically address improving the academic achievement of high school students. In addition, the Department has begun making competitive awards to state educational agencies to support efforts to raise state standards in high schools and middle schools. Further, the Department provided state and local educational agencies with the latest reform models, data, research, and content experts to enable their efforts at improving their plans for high school improvement.

2.3.13–2.3.15 Percentage of 12th-grade students who took at least one Advanced Placement exam			
Fiscal Year	All Students	African American Students	Hispanic Students
1999	11.7	3.4	6.4
2000	12.4	3.9	7.4
2001	13.2	4.1	8.1
2002	14.2	4.5	8.9
2003	14.8	4.9	10.0
2004	15.2	5.7	11.6
	We made progress toward our 2004 target of 16.	We made progress toward our 2004 target of 7.	We made progress toward our 2004 target of 12.

2.3.16–2.3.19 Percentage of 12th-grade students who scored 3 or higher on at least one Advanced Placement exam				
Fiscal Year	English	History	Calculus	Science
2000	68.8	66.5	64.3	60.7
2001	63.4	63.8	64.7	58.3
2002	66.4	66.7	67.8	59.7
2003	63.5	65.6	66.7	59.7
2004	<b>65.2</b>	<b>66.6</b>	<b>61.2</b>	<b>57.6</b>
	We made progress toward our 2004 target of 65.5.	We made progress toward our 2004 target of 67.6.	We did not meet our 2004 target of 68.7.	We did not meet our 2004 target of 59.9.

This measure was significantly modified in FY 2004.

**Source.** College Board, *Advanced Placement Program National Summary Reports*, 1999, 2000, 2001, 2002, 2003, and 2004.

U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics*, 2002.

U.S. Department of Education, National Center for Education Statistics, *Private School Universe Survey: 2001–2002*, table 13.

U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2013*, table 3.

U.S. Department of Education, National Center for Education Statistics, The NCES Common Core of Data, State Nonfiscal Survey of Public Elementary/Secondary Education, various years; and National Elementary and Secondary Enrollment Model, table 3. (This table was prepared June 2003.)

**Data Quality.** Advanced Placement (AP) participation and achievement measures are calculated by using data from the Advanced Placement Program National Summary Reports, 12th-grade candidates, which are available at <http://www.apcentral.collegeboard.com>. The College Board and the Educational Testing Service validate data according to their own statistical standards. AP Summary Reports provide the numerator for determining the percentage of all 12th-grade U.S. students who took at least one AP exam. The denominator is the total of all U.S. students, in both public and private school, enrolled in 12th grade for the year of the AP test. The denominator comes from 12th-grade enrollment figures as they appear in the National Center for Education Statistics documents listed in Source. The National Center for Education Statistics validates its data according to its own statistical standards.

Numerators and denominators for calculating African American and Hispanic participation are arrived at by a similar method.

The formula for determining the percentage of all 12th-grade U.S. students who scored 3 or higher on the AP exams is the total number of the 12th-grade U.S.

candidates who scored 3, 4, or 5 on the particular test divided by the total number of 12th-grade student candidates who took the particular test.

**Target Context.** Prior to FY 2004, the Department measured the percentage of all 12th-grade students who scored 3 or higher on at least one Advanced Placement exam, and targets were set based on special analyses of 2000 data provided by the College Board.

Effective FY 2004, the Department modified this measure to use a universe of only those students who took Advanced Placement exams. New targets were established based on recomputed trend data.

**Related Information.** The *Digest of Education Statistics* is available at <http://nces.ed.gov/programs/digest>.

The Private School Universe Survey: 2001–2002 is available at <http://nces.ed.gov/ncestaff/survdetl.asp?surveyid=002>.

The *Projections of Education Statistics to 2012* is available at [http://nces.ed.gov/programs/projections/tables/table\\_03.asp](http://nces.ed.gov/programs/projections/tables/table_03.asp).

**Additional Information.** Since 1999, the Department's Advanced Placement Incentives Program has provided funds to states for the payment of AP test fees for low-income students. Appropriations for this program have continued to increase slightly over the years, and the fee payment is expected to continue to help increase participation in AP exams. AP achievement (a score of 3, 4, or 5 on an AP test) depends on more than participation in an AP class. Students are expected to draw from strong academic backgrounds in the subject areas of the AP exams. One year of participation in an AP class may not provide the depth of experience in a subject required by a rigorous AP exam. To improve the achievement of students on AP exams, the Department will continue to focus on Goal 2.3 activities designed to create a more rigorous academic curriculum for high school students.

The Department is giving an absolute priority for the improvement of pre-Advanced Placement and Advanced Placement curricula, teacher staff

development, and student support services targeting disadvantaged students in its Advanced Placement grants competition.

2.3.20–2.3.22 Percentage of 18- to 24-year-olds who have completed high school			
Fiscal Year	All	African Americans	Hispanic Americans
1999	85.9	83.5	63.4
2000	86.5	83.7	64.1
2001	86.5	85.6	65.7
2002	<b>86.6</b>	<b>84.7</b>	<b>67.3</b>
2003	Target is 86.5.	Target is 84.5.	Target is 66.0.
2004	Target is 87.5.	Target is 85.5.	Target is 69.0.
	We exceeded our 2002 target of 86.1. Data for 2003 and 2004 are pending.	We exceeded our 2002 target of 84.0. Data for 2003 and 2004 are pending.	We exceeded our 2002 target of 64.0. Data for 2003 and 2004 are pending.

**Source.** U.S. Department of Commerce, Bureau of the Census, Current Population Survey, October 1999–2001.

Department of Education, National Center for Education Statistics (NCES), *Dropout Rates in the United States: 2002*.

**Data Quality.** Data were validated by Bureau of the Census review procedures and by NCES validation procedures.

**Target Context.** High school completion targets are based on performance data that have been tracked by the U.S. Census Bureau in the Current Population Survey, October (1972–2002). The 1972 performance data provided a baseline for this measure; subsequent targets indicate incremental goals for making progress in high school completion.

**Related Information.** *Dropout Rates in the United States: 2000* is available at <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2002114>.

The Common Core of Data survey system of the NCES annually collects information about public school dropouts and completers from states that report dropouts. *Public High School Dropouts and Completers from the Common Core of Data: 2002* is available at <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2002382>.

**Additional Information.** Data for 2003 will be available in October 2005; data for 2004 will be available in October 2006.

High school completion rates represent the proportion of 18- to 24-year-olds not currently enrolled in high school or below who have completed a high school diploma or an equivalent credential, including a General Educational Development (GED) credential.

**OBJECTIVE 2.4: TEACHER AND PRINCIPAL QUALITY**

2.4.1 Percentage of classes taught by teachers of core academic subjects that are <i>highly qualified</i> as defined by No Child Left Behind	
Fiscal Year	Actual
2003	<b>See below.</b>
2004	Target is 75.
Data for 2004 are pending.	

This measure was first established for FY 2004.

State	Percentage of Classes (or Teachers <sup>1</sup> ) 2003
Alabama	35.3
Alaska	Data not available
Arizona	95
Arkansas	Data not available
California	48
Colorado	86.1
Connecticut	96.0
Delaware	85
District of Columbia	43.1
Florida	91.1
Georgia	94
Hawaii	80.3
Idaho	98.1
Illinois	97.9
Indiana	96.2
Iowa	94.8
Kansas	80
Kentucky	95
Louisiana	85
Maine	Data not available
Maryland	64.5
Massachusetts	94
Michigan	95
Minnesota	Data not available
Mississippi	85
Missouri	95.1
Montana	Data not available
Nebraska	90
Nevada	50
New Hampshire	86
New Jersey	Data not available

<sup>1</sup> See Data Quality discussion.

State	Percentage of Classes (or Teachers) <sup>1</sup> 2003
New Mexico	77
New York	Data not available
North Carolina	83
North Dakota	91.1
Ohio	82
Oklahoma	98.0
Oregon	81.8
Pennsylvania	95
Puerto Rico	Data not available
Rhode Island	Data not available
South Carolina	Data not available
South Dakota	88.7
Tennessee	33.9
Texas	75.8
Utah	Data not available
Vermont	92
Virginia	83
Washington	83
West Virginia	94
Wisconsin	Data not available
Wyoming	95

<sup>1</sup>See Data Quality Discussion.

**Source.** Department of Education, 2002–03 Consolidated State Performance Reports.

**Data Quality.** Data protocols for SY 2002–03 vary considerably from state to state and may include estimates; partial data; and percentage of teachers or percentages of classes. In some cases, special education teachers are included; in other cases, they are not. The Department expects to be able to report more accurate and complete data for all states beginning with SY 2003–04.

In the September 2003 Consolidated State Application and Part I of the December 2003 Consolidated State Performance Report, states were asked to provide baseline data from the 2002–03 school year for the percentage of classes in the core academic subjects being taught by “highly qualified” teachers (as the term is defined in section 9101(23) of the Elementary and Secondary Education Act), in the aggregate and in high- and low-poverty schools. Section 1111(h)(1)(C)(viii) defines “high-poverty” and “low-poverty schools” as schools in the top and bottom quartiles of poverty in the state.

SY 2002–03 was the first year that states were required to collect and report data on the percentage of core academic classes taught by highly qualified teachers. The information that must be collected for this data requirement is complex—states must match individual classroom data with individual teacher qualification data and then disaggregate those data by school poverty levels. For states that were unable to collect and merge these data sets for SY 2002–03, the Department placed conditions on their Title I and Title II October 2003 grant awards requiring them to submit detailed data collection plans for SY 2003–04 and for future years for how the state will collect and report these data.

**Related Information.** More information on how to become a highly qualified teacher is available at <http://www.ed.gov/teachers/become/programs/list.jhtml?page=24&size=10&sort=date&desc=show>.

**Additional Information.** Data for 2004 will be available in September 2005.

The No Child Left Behind Act requires that each state educational agency have a plan to ensure that all teachers teaching in core academic subjects within the state are highly qualified no later than the end of SY 2005–06. The requirement that teachers be highly qualified applies to all public elementary or secondary school teachers employed by a local educational agency who teach a core academic subject. “Highly qualified” means that the teacher must meet all of the following:

1. Has obtained full state certification as a teacher or passed the state teacher licensing examination and holds a license to teach in the state, and does not have certification or licensure requirements waived on an emergency, temporary, or provisional basis.
2. Holds a minimum of a bachelor’s degree.
3. Has demonstrated subject matter competency in each of the academic subjects in which the teacher teaches, in a manner determined by the state and in compliance with section 9101(23) of the Elementary and Secondary Education Act.

The statutory definition includes additional elements that apply somewhat differently to new and current teachers, and to elementary, middle, and secondary school teachers. The complete definition of a “highly qualified” teacher is in section 9101(23) of the Elementary and Secondary Education Act. The term “core academic subjects” means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography [section 9101(11)]. While the statute includes the arts in the core academic subjects, it does not specify which of the arts are core academic subjects; therefore, states must make this determination.

As it relates to special educators, No Child Left Behind provides that the highly qualified teacher requirements apply only to those teachers who provide direct instruction in core academic subjects. Special educators who do not directly instruct in core academic subjects or who provide only consultation to highly qualified teachers in adapting curricula, using behavioral supports and interventions, or selecting appropriate accommodations are not required to demonstrate subject-matter competency in those subjects.

Further, the Department has provided flexibility for teachers in three areas (rural, science, and current multi-subject teachers) to demonstrate that they are highly qualified. Additional information can be found at: <http://www.ed.gov/nclb/methods/teachers/hqtflexibility.html>.

**OBJECTIVE 2.5: U.S. STUDENTS' KNOWLEDGE OF WORLD LANGUAGES, REGIONS, AND INTERNATIONAL ISSUES AND INTERNATIONAL TIES IN EDUCATION**

<b>2.5.1</b> Percentage of public secondary school (grades 9–12) students enrolled in foreign-language courses	
<b>Fiscal Year</b>	<b>Actual</b>
1994	<b>41.0</b>
2000	<b>43.6</b>
2004	<b>Not collected</b>
We did not collect data for 2004 because the American Council on the Teaching of Foreign Language modified its survey schedule.	

This measure was first established for FY 2004.

**Source.** Department of Education, National Center for Education Statistics, *Digest of Education Statistics, 2002*, table 57. (Used for data for 1994 and 2000.)

**Data Quality.** NCES obtains these data from the American Council on the Teaching of Foreign Languages on the average every four years.

**Target Context.** At the time the target for 2004 was set, the most recent data were for 1994, with 41 percent enrollment. The Department projected an increase to 43 percent. Future targets will be reconsidered based on new trend data.

Since 1976, enrollment in foreign language courses has steadily increased from 22.2 percent to the most recent rate of 43.6 percent. The most marked increase has occurred in Spanish enrollment; a 52 percent increase in the period 1976–90 and a 55.4 percent increase in 1990–2000.

**Related Information.** More information on the American Council on the Teaching of Foreign Languages is available at <http://www.actfl.org/>.

**Additional Information.** The Department is pursuing a data source for this measure.

<b>2.5.2</b> Number of U.S. postsecondary students studying abroad	
<b>Fiscal Year</b>	<b>Actual</b>
2000	<b>143,590</b>
2001	<b>154,168</b>
2002	<b>160,920</b>
2004	Target is 164,000.
Data for 2003 and 2004 are pending.	

This measure was first established for FY 2004.

**Source.** Institute of International Education, Open Doors Survey, November 2003.

**Data Quality.** The Institute for International Education is an independent, nonprofit organization founded in 1919 and recognized as a world leader in the international exchange of people and ideas.

In 2002–03, surveys were sent to 1,286 accredited colleges and universities throughout the United States. They were asked to provide information on the number of their own students to whom they awarded credit for study abroad in 2001–02, including the summer of 2002. There was an 87 percent response rate. The survey population includes students who have studied in a program sponsored by a U.S. university or other entity, and who received academic credit toward their degree at a U.S. institution of higher education.

**Target Context.** The number of U.S. postsecondary students studying abroad has consistently increased.

**Related Information.** More information on Open Doors is available at <http://opendoors.iienetwork.org/>.

More information on the institute is available at <http://www.iie.org/>.

**Additional Information.** Data for 2003 (SY 2002–03) will be available in November 2004. Data for 2004 will be available in November 2005.

Open Doors reports include comprehensive and detailed data on international students, scholars in the United States, and U.S. students who study abroad. The Institute for International Education implements the Fulbright and Humphrey Fellowships.

**OBJECTIVE 3.1: SAFE AND DRUG FREE SCHOOLS**

3.1.1 –3.1.2 Rate of violent crimes and serious violent crimes experienced at school by students ages 12–18		
Fiscal Year	Violent Crime	Serious Violent Crime
1999	33/1000	7/1000
2000	26/1000	5/1000
2001	28/1000	6/1000
2002	<b>24/1000</b>	<b>3/1000</b>
2003	Target is 24/1000.	Target is 4/1000.
2004	Target is 23/1000.	Target is 4/1000.
	We met our 2002 target of 24/1000. Data for 2003 and 2004 are pending.	We did better than our 2002 target of 4/1000. Data for 2003 and 2004 are pending.

**Source.** U.S. Departments of Education and Justice, *Indicators of School Crime and Safety*.

**Data Quality.** The primary source of new data that provides information on the experiences of victimization at school is the *Indicators of School Crime and Safety* report, which is released annually and includes a special analysis of the National Crime Victimization Survey (NCVS). The *Indicators of School Crime and Safety* report uses a variety of independent data sources from federal departments and agencies including the Census Bureau, the National Center for Education Statistics, the Bureau of Justice Statistics, and the Centers for Disease Control and Prevention. Each agency uses its own statistical procedures to validate the data. Survey estimates are derived from a stratified, multistage cluster sample of schools.

**Target Context.** Historical data were analyzed to provide an ambitious but achievable target.

**Related Information.** Data from the school crime supplement to the NCVS are available at [http://nces.ed.gov/programs/quarterly/Vol\\_4/4\\_4/q2\\_2.asp](http://nces.ed.gov/programs/quarterly/Vol_4/4_4/q2_2.asp).

The *Indicators of School Crime and Safety* report is available at <http://www.nces.ed.gov/pubs2004/2004004.pdf>.

**Additional Information.** The most recent available data are for 2002. Data for 2003 are expected in November 2005, and data for 2004 in November 2006.

Violent crime includes serious violent crime and simple assault. Serious violent crime includes rape, sexual assault, robbery, and aggravated assault. Most NCVS data are reported the year after collection, but in-school victimization data come from a special analysis with a delayed release.

3.1.3–3.1.5 Percentage of youth ages 12–17 who reported using the following substances in the past 30 days			
Fiscal Year	Alcohol	Tobacco (Cigarettes)	Marijuana
1999	16.5	14.9	7.2
2000	16.4	13.4	7.2
2001	17.3	13.0	8.0
2002	17.6	<b>13.0</b>	8.2
2003	<b>17.7</b>	<b>12.2</b>	<b>7.9</b>
2004	Target is 14.	Target is 11.	Target is 7.
	We did not meet our 2003 target of 12.2. Data for 2004 are pending.	We made progress toward our 2003 target of 10.3. Data for 2004 are pending.	We made progress toward our 2003 target of 7. Data for 2004 are pending.

**Source.** The Substance Abuse and Mental Health Services Administration (SAMHSA), the National Survey on Drug Use and Health (formerly called the National Household Survey on Drug Abuse).

**Data Quality.** National Survey on Drug Use and Health data are validated by SAMHSA. Data are updated annually. The project interviews approximately 70,000 people aged 12 years or older, in every state, annually. Because of the size of the sample, it is possible to make relatively precise estimates of many variables of major interest. The former variable for “marijuana” is replaced in the survey with “marijuana and hashish.”

Methodological changes in the administration of the National Survey on Drug Use and Health, including payment of an incentive fee to respondents, improved quality control procedures, and the addition of new population data into the survey’s sample weighting procedures affect the comparability of the 2002 and 2003 data with those of prior years.

In this report, we correct an error in the value we reported last year for cigarette use. In last year’s report, we inadvertently reported the figure for “any tobacco”; the measure refers to “cigarettes.” The value is corrected from 15.2 percent to 13.0 percent.

**Target Context.** Historical data were analyzed to provide an ambitious but achievable target.

**Related Information.** Data from the National Survey on Drug Use and Health are available at <http://www.oas.samhsa.gov/nhsda.htm>.

**Additional Information.** FY 2004 data will be available in October 2005.

The Department’s Office of Safe and Drug-Free Schools is targeting its efforts toward improving the outcomes of these measures.

3.1.6–3.1.7 Percentage of youth ages 12–17 who reported using the following substances in the past 30 days (discontinued effective FY 2004)		
Fiscal Year	Cocaine	Heroin
1999	0.5	0.2
2000	0.6	0.1
2001	0.4	0.0
2002	0.6	0.0
2003	<b>0.6</b>	<b>0.1</b>
	We did not meet our 2003 target of 0.37.	We exceeded our 2003 target of 0.15

**Source.** The Substance Abuse and Mental Health Services Administration (SAMHSA), the National Survey on Drug Use and Health (formerly called the National Household Survey on Drug Abuse).

**Final Report on FY 2003 Measures.** These measures were discontinued effective FY 2004. The Department is reporting FY 2003 results, which were pending at the time of the publication of the *FY 2003 Performance and Accountability Report*.

**Data Quality.** National Survey on Drug Use and Health data are validated by SAMHSA. Data are updated annually. The project interviews approximately 70,000 people aged 12 years or older, in every state, annually. Because of the size of the sample, it is possible to make relatively precise estimates of many variables of major interest.

**Related Information.** Data from the National Survey on Drug Use and Health are available at <http://www.oas.samhsa.gov/nhsda/2k2nsduh/Results/2k2Results.htm>.

**Additional Information.** The Department discontinued this measure effective 2004.

3.1.8–3.1.10 Percentage of high school students who report any substance use on school property in the previous 30 days			
Fiscal Year	Alcohol	Cigarettes	Marijuana
1999	4.9	14	7.2
2001	4.9	9.9	5.4
2003	<b>5.2</b>	<b>8</b>	<b>5.8</b>
	We did not meet our 2003 target of 5.	We did better than our 2003 target of 14.	We did better than our 2003 target of 7.

3.1.11 Percentage of high school students who report being offered, sold, or given an illegal drug on school property in the previous 12 months	
Fiscal Year	Actual
2001	28.5
2003	<b>28.7</b>
We did better than our 2003 target of 29.	

**Source.** Centers for Disease Control, Youth Risk Behavior Surveillance System.

**Data Quality.** The Youth Risk Behavior Surveillance System surveys students about issues associated with youth morbidity and mortality, including violence and drug and alcohol use. The system includes national, state, and local school-based surveys of students. The national survey, conducted for the Centers for Disease Control and Prevention, provides data from a nationally representative sample of high school students in public and private schools in the United States. Data are collected biennially in odd years, usually during the spring semester, and are analyzed and reported on the year following collection.

**Target Context.** Historical data were analyzed to provide an ambitious but achievable target.

**Related Information.** Data from the Youth Risk Behavior surveys are available at <http://www.cdc.gov/HealthyYouth/yrbs/index.html>.

**Additional Information.** We are reporting 2003 data not previously reported. 2004 is an off year for this biennial collection.

The Department’s Office of Safe and Drug-Free Schools is targeting its efforts toward improving these outcomes, especially the outcome concerning the use of alcohol.

**OBJECTIVE 3.2: CHARACTER AND CITIZENSHIP**

3.2.1 Percentage of students in grade 12 who participate in community service or volunteer work	
Fiscal Year	Actual
1999	75.3
2000	75.2
2001	77.4
2003	<b>Not collected</b>
2004	<b>Not collected</b>
We did not collect data for 2003 or 2004 because previously used sources no longer collect this information.	

**Source.** University of Michigan, Survey Research Center, Monitoring the Future, Supplemental Analysis.

**Data Quality.** Monitoring the Future is a repeated series of surveys in which segments of the population (8th-, 10th-, and 12th-graders) are presented with the same set of questions over a period of years to see how answers change over time. Data were collected from



students during the spring of each year; however, data for this measure will not be collected in 2003 or thereafter. Further, there is no other source that provides these data. Therefore, the Department plans to discontinue this measure.

**Related Information.** Information about Monitoring the Future is available at <http://www.monitoringthefuture.org/>.

3.2.2 The percentage of students in grade 12 who think most of the students in their classes would dislike it or dislike it very much if a student intentionally did things to make his/her teachers angry	
Fiscal Year	Actual
1999	33.6
2000	32.1
2001	30.6
2002	34.7
2003	35.2
2004	Target is 36.
We exceeded our 2003 target of 34. Data for 2004 are pending.	

This measure was first established for FY 2003.

3.2.3 The percentage of students in grade 12 who think that most students in their classes would dislike it or dislike it very much if a student cheated on a test	
Fiscal Year	Actual
1999	14.8
2000	12.2
2001	13.5
2002	14.9
2003	14.1
2004	Target is 19.
We did not meet our 2003 target of 17. Data for 2004 are pending.	

This measure was first established for FY 2003.

**Source.** University of Michigan, Survey Research Center, Monitoring the Future.

**Data Quality.** This project is a repeated series of surveys in which segments of the population (8th-, 10th-, and 12th-graders) are presented with the same set of questions over a period of years to see how answers change over time. Data are collected from students during the spring each year. Each year's data collection takes place in approximately 420 public and private high schools and middle schools selected to provide an accurate representative cross section of students throughout the contiguous United States.

**Target Context.** Historical data were analyzed to provide an ambitious but achievable target.

**Related Information.** Information about Monitoring the Future is available at <http://www.monitoringthefuture.org/>.

**Additional Information.** Data for 2004 will be available in December 2005.

Monitoring the Future, begun in 1975, has many purposes, including studying changes in the beliefs, attitudes, and behavior of young people in the United States.

The Department's Office of Safe and Drug-Free Schools is targeting its efforts toward improving these outcomes.

3.2.4 Percentage of 14- to 18-year-olds who believe cheating occurs by half or most students	
Fiscal Year	Actual
1999	43
2000	41
2003	50
2004	Target is 40.
Data for 2004 are pending.	

**Source.** The Horatio Alger Association, State of Our Nation's Youth Survey.

**Data Quality.** On the basis of a telephone survey of about 1,003 students across the country, about 505 geographic points were selected randomly and proportionate to the population of each region and, within each region, by size of place. Individuals were selected in accordance with a probability sample design that gives all telephone numbers an equal chance to be included. The data's statistical margin of sampling error is +/-3.1 percentage points. Minimal weights were applied to sex and year in school.

The survey question on cheating was not asked in 2001 or 2002. Data from 2003 forward may not be comparable to previous years because the question and response options were changed for the 2003 survey. Previous measures aggregated data about students who *believe* that cheating occurs in either no or few students or in half or most students. The 2003 measure asked respondents from what they *know*, what proportion of students cheat using the following categories: just a few, about 25 percent, about half, about 75 percent, near all, or not sure. The figure reported is the aggregate of the responses for about half, about 75 percent, and nearly all categories.

**Target Context.** The target for 2004 was set based on the question in the survey for 2002 and prior years. Data from 2004 will be used to set new targets for future years, based on the new question.

**Related Information.** Information on this survey may be obtained from the Horatio Alger Association at 703-684-9444 or is available at <http://www.horatioalger.com/>.

**Additional Information.** Data for FY 2004 will be available in late November 2004.

**OBJECTIVE 4.1: HIGH-QUALITY RESEARCH**

<b>4.1.1</b> Percentage of new IES and OSEP research and evaluation projects funded by the Department to conduct research on or evaluate programs, practices, and policies designed to improve student learning and achievement that are deemed to be of high quality by an independent review panel of qualified scientists	
<b>Fiscal Year</b>	<b>Actual</b>
2001	40
2002	53
2003	66
2004	<b>60 (est)</b>
We did not meet our 2004 target of 70.	

est = estimated, preliminary, or partial data

<b>4.1.2</b> Percentage of new IES and OSEP research and evaluation publications reporting research on or evaluation of programs, practices, and policies designed to improve student learning and achievement that are deemed to be of high quality by an independent review panel of qualified scientists	
<b>Fiscal Year</b>	<b>Actual</b>
2001	0
2002	100
2003	Not applicable
2004	<b>Not applicable</b>
There were no 2004 publications to review.	

**Source.** Department of Education, Institute of Education Sciences (IES), independent external review panels.

**Data Quality.** Review panels composed of senior scientists with expertise in various content areas evaluated a random sample of newly funded proposals for IES and Office of Special Education Programs (OESP) projects. Reviews are standardized using criteria developed by IES.

For measure 4.1.1, the 2004 estimate is based on the IES newly funded proposals. The scores of one reviewer were extreme outliers—greater than 3.8 standard deviations below the average of the other 12 reviewers. If these scores were removed, the percentage of projects deemed to be of high quality would be 70 percent. In the future, if the average ratings of a reviewer constitute extreme outliers, these scores will be removed.

For measure 4.1.2, no pertinent publications were released in 2003 or 2004.

**Target Context.** The Department modified the target for measure 4.1.1 in December 2003 to be more reasonable based on trend data.

**Additional Information.** Data on OSEP projects will be available in January 2005.

Independent review panels convened by the Department to evaluate the quality of new IES and OSEP projects and publications are independent of peer review panels that oversee the selection of projects. These panels are convened after the close of the fiscal year to review projects and publications of the prior year.

The Department’s National Institute of Disability and Rehabilitation Research (NIDRR) also uses independent panels of experts to conduct reviews of eligible projects under its largest three funding mechanisms. Of those reviewed, 54 percent of 2002 projects and 67 percent of 2003 projects were deemed effective. Data for 2004 are pending and will be available in January 2005. NIDRR is currently developing a new annual performance assessment process to correct the limitations of the current process.

<b>4.1.3</b> Of new IES and OSEP research and evaluation projects funded by the Department to conduct research on or to evaluate programs, practices, and policies designed to improve student learning and achievement, the percentage of projects addressing causal questions that employ randomized experimental designs	
<b>Fiscal Year</b>	<b>Actual</b>
2001	46
2002	78
2003	94
2004	<b>90 (est)</b>
We exceeded our 2004 target of 75.	

est = estimated, preliminary or partial data

<b>4.1.4</b> Of IES and OSEP new research and evaluation publications reporting research on or evaluation of programs, practices, and policies designed to improve student learning and achievement, the percentage of publications addressing causal questions that describe studies that employ randomized experimental designs	
<b>Fiscal Year</b>	<b>Actual</b>
2001	0
2002	100
2003	Not applicable
2004	<b>Not applicable</b>
There were no 2004 publications to review.	

**Source.** Department of Education, Institute of Education Sciences (IES).

**Data Quality.** Research staff evaluates all newly funded research proposals. Quality review standards were developed by IES. Each product and proposal is reviewed to determine if the project includes questions of effectiveness (i.e., causal questions) and, if so, whether the project employs randomized experimental designs. Inter-rater reliability checks are completed to ensure the reliability of the data.

For measure 4.1.3, the 2004 estimate is based on the IES newly funded proposals. Office of Special Education Program’s proposals have not yet been evaluated. For

measure 4.1.4, no pertinent publications were released for 2003 or 2004.

**Target Context.** The 2004 target for use of randomized experimental design was set based on 2001 data, prior to the availability of subsequent years' data.

**Additional Information.** Remaining 2004 data for measure 4.1.3 will be available in December 2004.

Presence of a causal question is defined as a study in which one variable is hypothesized to affect a second variable.

A randomized experimental design is defined as instances in which there is an experimental treatment group and one or more comparison groups with random assignment of participants to treatment or comparison conditions. If a proposal or publication included a design in which two or more groups of participants were compared but did not explicitly indicate that random assignment procedures would be used, the proposal was recorded as not using a randomized experimental design.

#### OBJECTIVE 4.2: RELEVANCE OF RESEARCH

4.2.1 Percentage of new research projects funded by the Department that are deemed to be of high relevance to educational practice as determined by an independent review panel of qualified practitioners	
Fiscal Year	Actual
2001	24
2002	53
2003	48
2004	Target is 75.
We did not meet our 2003 target of 54. Data for 2004 are pending.	

**Source.** Department of Education, Institute of Education Sciences (IES), panel reviews.

**Data Quality.** An external panel of qualified practitioners evaluated the relevance of a random sample of newly funded research proposals submitted in 2003 and rated their relevance. The inclusion of only

experienced practitioners and administrators in education and special education on the panel promotes the quality of the data. A total of 29 newly funded 2003 research projects were reviewed by a panel of 14 education practitioners and decision-makers (including principals, superintendents, directors of special education, and chief state school officers). The sample included nine randomly selected projects from the 18 Office of Special Education Programs (OSEP) FY 2003 Field Initiated Studies program and 20 of 38 IES projects. For the IES proposals, a stratified random sample was drawn from the seven IES FY 2003 research competitions: (1) Mathematics and Science Education Research Program, (2) Interagency Education Research Initiative Program, (3) Preschool Curriculum Evaluation Research Program, (4) Social and Character Development Research Program, (5) Teacher Quality Research Program, (6) Reading Comprehension Research Program, and (7) Cognition and Student Learning Research Program. Each of the 29 abstracts was randomly assigned to at least three of the 14 reviewers to rate for relevance. By office, 60 percent of IES projects and 22 percent of OSEP projects were rated relevant or better.

**Target Context.** Target performance levels were based on 2001 actual performance, with the goal of increasing to 75 percent by 2004. This target demonstrates recognition that some important research will be funded that may not seem highly relevant to education practitioners and decision-makers at the moment but will make contributions over the long term.

**Additional Information.** Data for 2004 will be available in January 2005.

The independent review panel referenced here is different from the peer review panels that oversee the selection of projects. The independent review panel was convened at the close of the fiscal year to review projects and publications as a way to judge the effectiveness of the Department's quality control mechanisms.

**OBJECTIVE 5.1: COLLEGE ACCESS AND COMPLETION**

5.1.1–5.1.4 Percentage of 16- to 24-year-old high school graduates enrolled in college the October following graduation				
Fiscal Year	Overall	White	Black	White-Black Gap
1999	62.9	66.3	58.9	7.4
2000	63.3	65.7	54.9	10.8
2001	61.7	64.2	54.6	9.6
2002	Target is 63.8.	Target is 66.9.	Target is 59.6.	Target is 7.3.
2003	Target is 64.1.	Target is 67.0.	Target is 60.3.	Target is 6.7.
2004	Target is 67.0.	Target is 69.4.	Target is 60.8.	Target is 8.6.
	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.

5.1.5–5.1.9 Percentage of 16- to 24-year-old high school graduates enrolled in college the October following graduation					
Fiscal Year	Hispanic	White-Hispanic Gap	Low Income	High Income	Income Gap
1999	42.2	24.1	49.4	76.0	26.6
2000	52.9	12.8	49.7	77.1	27.4
2001	51.7	12.5	43.8	79.8	36.0
2002	Target is 50.0.	Target is 16.9.	Target is 51.5.	Target is 76.9.	Target is 25.4.
2003	Target is 51.5.	Target is 15.5.	Target is 53.5.	Target is 77.0.	Target is 23.5.
2004	Target is 57.5.	Target is 11.9.	Target is 51.0.	Target is 80.0.	Target is 29.0.
	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.	Data for 2002, 2003, and 2004 are pending.

**Source.** Census Bureau, Current Population Survey, October 2001, released in December 2002.

**Data Quality.** Information includes those persons aged 16–24 completing high school in a given year. Actual values are one-year averages calculated from the Current Population Survey. Data are subject to both Census and NCES validation procedures.

**Target Context.** The Department made minor revisions to the 2004 targets in December 2003 based on re-

analysis of 1998–2001 enrollment data.

**Related Information.** The Department of Education's *Condition of Education 2004* is available at <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2004077>.

**Additional Information.** FY 2002 data will be available in late November 2004. FY 2003 data will be available in December 2004. FY 2004 data will be available in December 2005.

5.1.10–5.1.15 National percentage of full-time, bachelor's degree-seeking students who graduate from four-year institutions within six years						
Fiscal Year	Overall	White	Black	White-Black Gap	Hispanic	White-Hispanic Gap
1999	53.0	56.0	35.4	20.6	40.9	15.1
2000	52.4	55.4	35.7	19.7	41.5	13.9
2001	Pending; no target	Pending; no target	Pending; no target	Pending; no target	Pending; no target	Pending; no target
2002	<b>54.4</b>	<b>57.2</b>	<b>38.2</b>	<b>19.0</b>	<b>44.8</b>	<b>12.4</b>
2003	<b>54.3</b>	<b>57.3</b>	<b>38.5</b>	<b>18.8</b>	<b>43.5</b>	<b>13.8</b>
2004	Target is 54.0.	Target is 56.8.	Target is 37.4.	Target is 19.4.	Target is 43.2.	Target is 13.6.
	We exceeded our 2002 target of 52.7. We exceeded our 2003 target of 53.1. Data for 2001 and 2004 are pending.	We exceeded our 2002 target of 56.0. We exceeded our 2003 target of 56.1. Data for 2001 and 2004 are pending.	We exceeded our 2002 target of 37.0. We made progress toward our 2003 target of 38.9. Data for 2001 and 2004 are pending.	We met our 2002 target of 19.0. We made progress toward our 2003 target of 17.2. Data for 2001 and 2004 are pending.	We exceeded our 2002 target of 41.0. We exceeded our 2003 target of 42.5. Data for 2001 and 2004 are pending.	We did better than our 2002 target of 15.0. We did not meet our 2003 target of 13.6. Data for 2001 and 2004 are pending.

These measures were first established for FY 2002, so there are no targets for FY 2001.

5.1.16–5.1.21 Percentage of full-time, degree- or certificate-seeking students at two-year institutions who graduate, earn a certificate, or transfer from two-year institutions within three years						
Fiscal Year	Overall	White	Black	White-Black Gap	Hispanic	White-Hispanic Gap
1999	34.4	35.3	29.5	5.8	32.5	2.8
2000	32.7	34.0	26.5	7.5	30.1	3.9
2001	Pending; no target	Pending; no target	Pending; no target	Pending; no target	Pending; no target	Pending; no target
2002	<b>29.3</b>	<b>30.7</b>	<b>23.3</b>	<b>7.4</b>	<b>27.0</b>	<b>3.7</b>
2003	<b>30.6</b>	<b>31.7</b>	<b>26.1</b>	<b>5.6</b>	<b>30.1</b>	<b>1.6</b>
2004	Target is 34.0.	Target is 34.5.	Target is 27.3.	Target is 7.2.	Target is 31.1.	Target is 3.4.
	We did not meet our 2002 target of 32.5. We made progress toward our 2003 target of 32.7. Data for 2001 and 2004 are pending.	We did not meet our 2002 target of 34.0. We made progress toward our 2003 target of 34.1. Data for 2001 and 2004 are pending.	We did not meet our 2002 target of 26.3. We made progress toward our 2003 target of 27.0. Data for 2001 and 2004 are pending.	We did better than our 2002 target of 7.7. We did better than our 2003 target of 7.1. Data for 2001 and 2004 are pending.	We did not meet our 2002 target of 30.5. We made progress toward our 2003 target of 30.8. Data for 2001 and 2004 are pending.	We did not meet our 2002 target of 3.5. We did better than our 2003 target of 3.3. Data for 2001 and 2004 are pending.

These measures were first established for FY 2002, so there are not targets for FY 2001.

**Source.** Department of Education, National Center for Education Statistics (NCES), Graduation Rate Survey, part of the Integrated Postsecondary Education Data System (IPEDS).

**Data Quality.** Data are subject to NCES validation procedures. Years represent rates of graduation for graduating cohort. For example, the percentage of the 1996 cohort that graduated from a four-year institution by 2002 is reported in 2002; the percentage of the 1999 cohort that graduated, earned a certificate, or transferred from a two-year degree-granting institution by 2002 is reported in 2002.

Although the survey can provide information on whether the students transferred from a two-year school, the data do not distinguish the students who transferred to a four-year school from those who transferred to another two-year school. The reported numbers reflect any student who successfully transferred out of the school within three years.

**Target Context.** The Department made minor revisions to the 2004 targets in December 2003 based upon re-analysis of 1998–2001 graduation and completion data.

**Related Information.** NCES's postsecondary survey site (including IPEDS) is available at <http://nces.ed.gov/surveys/SurveyGroups.asp?Group=2>.

**Additional Information.** Data for 2001 will be available in late November 2004. Data for 2004 will be available in November 2005. Data for 2002 and 2003 were available before data for 2001 because the Graduation Rate Survey is mandated beginning in 2002. Now that the 2002 and 2003 data analysis and release are completed, work is proceeding on the 2001 data.

**OBJECTIVE 5.2: ACCOUNTABILITY OF POSTSECONDARY INSTITUTIONS**

<b>5.2.1</b> Percentage of states and territories submitting HEA Title II reports with all data reported using federally required definitions	
<b>Fiscal Year</b>	<b>Actual</b>
2001	63
2002	80
2003	<b>83</b>
2004	<b>91</b>
We did not meet our 2003 target of 100. Data for 2004 are pending.	

**Source.** Department of Education, Office of Postsecondary Education, Title II Data System.

**Data Quality.** Data are reported to states by institutions. The states compile the data and submit them to the Department.

**Target Context.** The Department modified the 2004 target in December 2003, based on trend data and anticipated improvements based on support services offered by the Department.

**Related Information:** Additional information about Title II can be found at <http://www.title2.org>.

The report *Meeting the Highly Qualified Teachers Challenge: The Secretary's Annual Report on Teacher Quality* can be found at <http://www.title2.org/secReport.htm>.

<b>5.2.2-5.2.4</b> Percentage of institutions of higher education submitting required reports and information on time*			
<b>Fiscal Year</b>	<b>Audit data</b>	<b>Campus crime data</b>	<b>IPEDS data</b>
2004	<b>Not collected</b>	<b>Not collected</b>	<b>Not collected</b>

<b>5.2.5</b> Percentage of OPE grants closed on time*	
<b>Fiscal Year</b>	<b>Actual</b>
2004	<b>Not collected</b>

<b>5.2.6</b> Percentage of IG and GAO audits of OPE activities that are resolved on time*	
<b>Fiscal Year</b>	<b>Actual</b>
2004	<b>Not collected</b>

\*The December 2003 *Interim Adjustments to the Strategic Plan* inadvertently identified measures 5.2.2–5.2.6 as FY 2004 measures; they actually begin as measures in FY 2005.

**OBJECTIVE 5.3: FUNDING POSTSECONDARY EDUCATION**

<b>5.3.1</b> Average national increases in college tuition, adjusted for inflation	
<b>Fiscal Year</b>	<b>Actual</b>
1999	5.4%
2000	4.5%
2001	3.1%
2002	6.4%
2003	<b>6.6%</b>
2004	Target is 5.0%.
We did not meet our 2003 target of 3.0%. Data for 2004 are pending.	

**Source.** Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall Enrollment Survey and Institutional Characteristics Survey.

**Data Quality.** Survey data are for the entire academic year and reflect average charges paid by students. Tuition and fees were weighted by the number of full-time-equivalent undergraduates but were not adjusted to reflect student residency.

**Target Context.** The Department modified the 2004 target in December 2003 to reflect recent trend data, which indicate that our prior target was not reasonable.

**Related Information.** College Board statistics on increases in tuition costs are available at [http://www.collegeboard.com/prod\\_downloads/press/cost04/041264TrendsPricing2004\\_FINAL.pdf](http://www.collegeboard.com/prod_downloads/press/cost04/041264TrendsPricing2004_FINAL.pdf).

**Additional Information.** Data from IPEDS for 2004 will be available in July 2005.

The College Board also collects tuition cost information and conducts an in-depth analysis annually.

The College Board reported that between the beginning of September 2003 and September 2004, tuition and fees increased by 6.0 percent at four-year private institutions (average \$20,082) and by 10.5 percent at four-year public in-state institutions (average \$5,132). Despite the rising tuition and fees, in *Education Pays 2004*, the College Board stressed that while the cost of college may be imposing to many families, the cost associated with not going to college is likely to be much greater. Median annual earnings for year-round full-time workers with bachelor’s degrees are about 62 percent higher than those with only a high school diploma, and those with a master’s degree earn nearly twice as much as a high school graduate.

5.3.2 Borrower indebtedness (expressed as average borrower payments) for federal student loans as a percentage of borrower income	
Fiscal Year	Actual
1999	6.5
2000	6.4
2001	6.2
2004	<b>Not collected</b>
We did not collect data for 2004 because borrower indebtedness is no longer a commonly used statistic.	

**Source.** Department of Education, National Student Loan Data System records merged with income data from the Internal Revenue Service (IRS) (analysis conducted by the Department's Policy and Program Studies Service).

**Data Quality.** The Department of the Treasury validates IRS data, and the Office of Federal Student Aid and the reporting state agencies validate National Student Loan Data System data.

**Target Context.** In prior years, the Department considered 10 percent to be the upper limit for an acceptable level of debt. As explained below, this measure is no longer commonly used.

**Related Information.** Information on student aid as compiled by the College Board is available at <http://www.collegeboard.com/press/cost02/html/cost02b.html>.

**Additional Information.** In prior years, the banking community used 10 percent as a barometer for what constituted an acceptable level of debt, and the Department used this measure as well. In recent years, however, the banking community has embraced "credit scoring." We no longer have a meaningful benchmark by which to assess a reasonable debt ratio. This measure addresses only federal loan sources, not taking into account private sources. Thus, we plan to discontinue this measure.

#### OBJECTIVE 5.4: HBCUs, HSIs, AND TCUS

5.4.1 Percentage of HBCUs, HSIs, and TCUs with a positive fiscal balance	
Fiscal Year	Actual
2000	67
2001	71
2002	69
2003	<b>72</b>
2004	Target is 70.
We made progress toward our 2003 target of 79. Data for 2004 are pending.	

HBCUs = Historically Black Colleges and Universities  
 HSIs = Hispanic-Serving Institutions  
 TCUs = Tribal Colleges and Universities

**Source.** Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS).

**Data Quality.** Data are self-reported from institutions and estimate the total universe in this measure. Nearly all Historically Black Colleges and Universities, Hispanic-Serving Institutions (HSIs), and Tribal Colleges and Universities participate in the IPEDS Financial Report and are, therefore, represented by the data. The level of Hispanic and low-income student enrollment determines an institution's status as an HSI. These enrollment levels can fluctuate from year to year and cannot be exactly determined from IPEDS enrollment data. However, a reasonable approximation can be based on the IPEDS enrollment data.

**Target Context.** The Department modified the 2004 target in December 2003 because recent decreases in state contributions to higher education have resulted in declines in fiscal balance performance.

**Related Information.** Information on the White House Initiative on Historically Black Colleges and Universities is available at <http://www.ed.gov/about/inits/list/whhbcu/edlite-index.html>.

Information on the White House Initiative on Educational Excellence for Hispanic Americans is available at <http://www.yesican.gov/> and in Spanish at <http://www.yosipuedo.gov>.

The NCES report *Hispanic Serving Institutions Statistical Trends from 1990–1999* is available at <http://nces.ed.gov/pubs2002/2002051.pdf>.

Information on the White House Initiative on Tribal Colleges and Universities is available at <http://www.ed.gov/about/inits/list/whtc/edlite-index.html>.

IPEDS description and data are available at <http://nces.ed.gov/ipeds/>.

**Additional Information.** Data for 2004 will be available in October 2005.

This measure is closely tied to the economy. The financial situation of a school is largely related to the financial situation of the states as well as the financial situation of its graduates, who would make donations to the school.

5.4.2 Percentage of HBCUs, HSIs, and TCUs with evidence of increased technological capacity	
Fiscal Year	Actual
2003	39
2004	Target is 50.
We established a baseline in 2003. Data for 2004 are pending.	

HBCUs = Historically Black Colleges and Universities  
 HSIs = Hispanic-Serving Institutions  
 TCUs = Tribal Colleges and Universities

**Data Source.** Department of Education, Institutional Development and Undergraduate Education Service, Annual Performance Report.

**Data Quality.** Data are supplied by institutions, which certify the accuracy of the data. FY 2003 data reported here are a correction to the FY 2003 report, which stated that data had not been collected. However, we are unable to compare to a target for 2003 because the 2003 target was set in terms of an improvement over the 2002 value and we did not collect data for 2002.

**Target Context.** The targets for this measure were developed based on staff experience in administering the program.

**Related Information.** Information on the White House Initiative on Historically Black Colleges and Universities is available at <http://www.ed.gov/about/inits/list/whhbcu/edlite-index.html>.

Information on the White House Initiative on Educational Excellence for Hispanic Americans is available at <http://www.yesican.gov/> and in Spanish at <http://www.yosipuedo.gov>.

The NCES report *Hispanic Serving Institutions Statistical Trends from 1990–1999* is available at <http://nces.ed.gov/pubs2002/2002051.pdf>.

Information on the White House Initiative on Tribal Colleges and Universities is available at <http://www.ed.gov/about/inits/list/whtc/edlite-index.html>.

**Additional Information.** Data for 2004 will be available in September 2005.

## OBJECTIVE 5.5: LITERACY AND EMPLOYMENT OF AMERICAN ADULTS

5.5.1 Percentage of employed persons served by state VR agencies who obtain competitive employment	
Fiscal Year	Actual
1999	83.1
2000	86.0
2001	87.6
2002	92.7
2003	93.9
2004	Target is 86.8.
Data for 2004 are pending.	

VR = Vocational Rehabilitation

This measure was significantly modified in FY 2004.

**Source.** Department of Education, FY 2003 Rehabilitation Services Administration (RSA) 911 Case Service Report (July 2004).

**Final Report on Related FY 2003 Measure.** For FY 2003, the Department included a measure of the percentage of all consumers served by Vocational Rehabilitation (VR) agencies who obtained employment. At the time of the *FY 2003 Performance and Accountability Report*, the results for this measure were pending. The FY 2003 results for this measure were 58.4 percent, which did not meet the target of 63.5 percent.

**Data Quality.** For FY 2004, the Department replaced the measure that reported on all employment for VR consumers with the current measure, which reports only on competitive employment.

Data for this measure are derived from the RSA-911 Case Service Report. This report is submitted by the 80 state vocational rehabilitation agencies to the Rehabilitation Services Administration (RSA) by November 30 of each year. Editing takes place through the use of a computer program that is provided to each agency. RSA's expectation is that each agency will edit the data prior to submitting them; however, RSA staff edit each state agency's data submission, checking for omissions, validity errors, and issues of reasonableness to provide the state agency with feedback regarding errors and questions that need to be addressed. After all agencies' data are corrected to the extent possible, a national database is created, which provides the information for this measure.

**Target Context.** In December 2003, when the Department replaced the prior measure with the current one, trend data were recomputed, but the target was inadvertently not adjusted. However we will compare FY 2004 results, when they are available, with the target previously set for a parallel program-level measure.



**Related Information.** Vocational rehabilitation agency publications and reports are available at <http://www.ed.gov/about/offices/list/osers/rsa/research.html>.

**Additional Information.** Data for 2004 will be available in April 2005.

In recent years, RSA has placed increased emphasis on working with state agencies to assist individuals with disabilities to achieve high-quality employment outcomes. Therefore, competitive employment—that is, employment at or above the minimum wage in integrated settings—has become increasingly valued. Thus, rather than looking at the numbers achieving employment, RSA is more interested in examining the numbers of individuals who achieve competitive employment outcomes. To this end, RSA has promulgated regulations that eliminate extended employment—i.e., employment in segregated settings in which individuals may be paid less than the minimum wage—as a successful program outcome.

Over the past year, RSA has decided to evaluate state agency performance rather than outcomes for individuals with disabilities. Therefore, for FY 2005, the Department plans to change this measure to assess the percentage of general and combined state agencies that assist at least 72.6 percent of individuals with employment outcomes to achieve competitive employment and the percentage of state agencies for the blind that assist at least 50 percent of individuals with employment outcomes to achieve competitive employment. This measure was derived from the Evaluation Standards and Performance Indicators established by section 106 of the Rehabilitation Act.

#### **OBJECTIVE 5.6: CAPACITY OF U.S. POSTSECONDARY EDUCATION INSTITUTIONS TO TEACH WORLD LANGUAGES, AREA STUDIES, AND INTERNATIONAL STUDIES**

5.6.1 Percentage of international postsecondary consortia projects that are institutionalized after the conclusion of the grant period	
Fiscal Year	Actual
2004	Target is 44.
Data for 2004 are pending.	

This measure was first established for FY 2004.

**Source.** Department of Education, Office of Postsecondary Education, Fund for the Improvement of Postsecondary Education, internal data.

**Data Quality.** Data are reviewed for accuracy by Department of Education staff.

**Target Context.** The Department established an ambitious target based upon current program experience.

**Related Information.** Information about the Consortia Programs can be found at <http://www.ed.gov/about/offices/list/ope/fipse/index.html>.

**Additional Information.** Data will be available in December 2004 for the first of the consortia programs.

5.6.2 Number of foreign-language course offerings by Title VI institutions	
Fiscal Year	Actual
2004	24,737
We established a baseline in 2004.	

This measure was first established for FY 2004.

**Source.** Department of Education, International Education Programs Service, Evaluation of Exchange, Language, International and Area Studies (EELIAS) Performance Report Program Data.

**Data Quality.** Grantees submit program performance data annually. The data are self-reported but subject to program staff reviews for accuracy.

**Target Context.** Because trend data were not available, the Department is using 2004 data to establish a baseline.

**Related Information.** See <http://www.ed.gov/about/offices/list/ope/iegps/index.html>.

5.6.3 Percentage of Title VI graduates who find employment in higher education, government service, and national security	
Fiscal Year	Actual
2004	Target is to set a baseline.
Data for 2004 are pending.	

This measure was first established for FY 2004.

**Source.** Department of Education, International Education Programs Service, EELIAS Performance Report Program Data.

**Data Quality.** Grantees submit program performance data annually. The data are self-reported but subject to program staff reviews for accuracy.

**Target Context.** Because trend data were not available, the Department will use 2004 data to establish a baseline.

**Related Information.** See <http://www.ed.gov/about/offices/list/ope/iegps/index.html>.

**Additional Information.** Data for 2004 will be available in April 2005.

5.6.4 Number of comprehensive instructional resources (assessments, publications, curricular materials, etc.) produced at Title VI institutions of higher education	
Fiscal Year	Actual
2004	Target is to set a baseline.
Data for 2004 are pending.	

This measure was first established for FY 2004.

**Source.** Department of Education, International Education Programs Service, EELIAS Performance Report Program Data.

**Data Quality.** Grantees submit program performance data annually. The data are self-reported but subject to program staff reviews for accuracy.

**Target Context.** Because trend data were not available, the Department will use 2004 data to establish a baseline.

**Related Information.** See <http://www.ed.gov/about/offices/list/ope/iegps/index.html>.

**Additional Information.** Data for 2004 will be available in April 2005.

5.6.5 Number of K–12 teachers trained through the Title VI and Fulbright-Hays Programs	
Fiscal Year	Actual
2004	Target is to set a baseline.
Data for 2004 are pending.	

This measure was first established for FY 2004.

**Source.** Department of Education, International Education Programs Service, EELIAS Performance Report Program Data.

**Data Quality.** Grantees submit program performance data annually. The data are self-reported but subject to program staff reviews for accuracy.

**Target Context.** Because we do not have trend data, the target for FY 2004 is to establish a baseline.

**Related Information.** See <http://www.ed.gov/about/offices/list/ope/iegps/index.html>.

**Additional Information.** Data for 2004 will be available in April 2005.

**OBJECTIVE 6.1: FINANCIAL INTEGRITY AND MANAGEMENT AND INTERNAL CONTROLS**

6.1.1 Achievement of an unqualified audit opinion	
Fiscal Year	Actual
1999	Qualified
2000	Qualified
2001	Qualified
2002	Unqualified
2003	Unqualified
2004	<b>Unqualified</b>
We met our 2004 target of an unqualified audit opinion.	

**Source.** Independent Auditors’ FY 2004 Financial Statement and Audit Report.

**Data Quality.** Independent auditors follow professional standards and conduct the audit under the oversight of the Office of Inspector General.

**Target Context.** Prior to FY 2002, the Department had not received an unqualified audit opinion since FY 1997. Receiving and maintaining an unqualified audit opinion was one of Secretary Paige’s top management priorities when taking office in 2001. The Department was able to achieve an unqualified audit opinion in FY 2002 and plans to maintain this status in the future.

**Related Information.** The *FY 2003 Performance and Accountability Report* is available at <http://www.ed.gov/about/reports/annual/2003report/index.html>.

The *FY 2004 Performance and Accountability Report* is available at <http://www.ed.gov/about/reports/annual/2004report/index.html>.

**Additional Information.** The Department received its third consecutive clean financial statement opinion in FY 2004. This recognition by external sources provides assurance that the Department is able to produce timely and accurate financial information. It also demonstrates that the Department can meet mandated deadlines with reliable information and Department management can effectively rely on the information to assess performance and appropriately allocate resources.

6.1.2 Number of audit recommendations from prior year financial statement audits remaining open	
Fiscal Year	Actual
1999	48
2000	18
2001	19
2002	8
2003	3
2004	<b>1</b>
We did better than our 2004 target of 2.	

**Source.** Department of Education, Audit Accountability and Resolution Tracking System.

**Data Quality.** Data are drawn from the electronic system identified above. Managers with responsibility for the affected areas provide updates to the status of all open audit recommendations in this system. When the corrective actions have been implemented and the manager determines that the recommendation has been completed, the Office of the Chief Financial Officer makes a final determination that the recommendation can be closed.

**Target Context.** The Department has made a concerted effort over the last several years to reduce the number of recommendations made in the financial

statement audit and to implement the audit recommendations from prior year financial statement audits. Once the recommendations are known each year, the Department not only prepares a corrective action plan, but also prepares a work plan for how to complete each of the corrective actions. The targets for completing recommendations are then set based on those work plans.

**Additional Information.** During FY 2004, the Department completed the three remaining open recommendations from the FY 2002 financial statement audit and seven of the eight recommendations from the FY 2003 financial statement audit.

Examples of significant achievements resulting from closure of these audit recommendations include the following:

Established a Credit Reform Workgroup with Office of Postsecondary Education, Office of the Chief Financial Officer, Office of Federal Student Aid, and Budget Service representatives, who meet monthly to examine credit reform issues.

Revised the business process for developing, documenting, reviewing, and achieving consensus on key credit reform assumptions.

Reviewed current student loan assumptions to ensure that they reflect the best available information regarding the effect of loan consolidations, income contingent loan repayment terms, and fixed-rate consolidation offers.

Developed simplified cash flow analysis based on major assumptions to validate and support credit reform modeling techniques.

6.1.3 Number or percentage of performance-based contract actions		
Fiscal Year	Actual Number	Actual Percentage
1999	72	
2000	110	
2001	414	
2002		44
2003		45
2004		47.5
We exceeded our 2004 target of 45.		

6.1.4 Percentage of eligible dollars in performance-based contract actions	
Fiscal Year	Actual
1999	20
2000	43
2001	52
2002	59
2003	60
2004	67
We exceeded our 2004 target of 60.	

**Source.** Department of Education, Central Automated Processing System (EDCAPS) and Federal Procurement Data System.

**Data Quality.** FY 2004 data are based on contract actions taken between October 1, 2003, and August 31, 2004. Data are drawn from Department systems. The Department began computing the percentage of actions in 2002. Prior data are available only for the number of actions. Contract dollars include only new contracts and modifications to existing Performance-Based Service Contracting contracts awarded in the year identified.

**Target Context.** The targets were initially based on the governmentwide objective to apply performance-based contracting to at least 50 percent of annual acquisition dollars by FY 2005. Since the Department has exceeded the governmentwide target for percentage of dollars awarded through performance-based contracts, the Department now bases its targets on an analysis of the type of work to be conducted by the Department and of that work, the percentage of the work that can be achieved through a performance-based contract.

**Additional Information.** Of 1,173 contract transactions, 557 (47.5 percent) were performance based. Of \$1.281 billion spent on contracts, \$858 million was spent on performance-based contracts.

Since FY 2001, the Department has consistently exceeded the governmentwide objective to apply performance-based contracting to at least 50 percent of its annual acquisition dollars. The Department is also improving the performance measures being used in these contracts to focus on more challenging results.

6.1.5 Percentage of erroneous payments	
Fiscal Year	Actual
2003	Set benchmark of 2.5.
2004	Target is less than 2.5.
Data for 2004 are pending.	

**Source.** Department of Education, Office of the Chief Financial Officer.

**Data Quality.** The Department is in the process of creating a risk model to determine the attributes that

may lead to erroneous payments to or by a recipient of grant funds. The data model will be completed by December 2004.

**Target Context.** Based on OMB’s guidance for the implementation of Public Law (PL) 107–300, the Improper Payments Information Act of 2002, significant erroneous payments are defined as annual erroneous payments in a program exceeding both 2.5 percent of program payments and \$10 million. Based on this definition, the Department determined that using 2.5 percent as the baseline for erroneous payments was the most pragmatic and efficient means to obtain a starting point. The Department is not able to provide more specific targets until additional analysis is done and trend data become available.

**Related Information.** OMB guidance on implementing the Improper Payments Information Act of 2002 can be found at <http://www.whitehouse.gov/omb/memoranda/m03-13.html>.

**Additional Information.** The percentage of erroneous payments for FY 2004 will be available in January 2005.

In addition to creating a risk model to determine erroneous payments in the Department’s grant programs, the Department uses data mining (an analysis of existing data to identify patterns) to identify potential misuse/abuse of both purchase and travel cards. Software applications are used to seek and identify weekend purchases, inappropriate purchases, and use of the travel card and/or ATM withdrawals when employees are not in travel status. In addition, the span of control for purchase cards was reduced; travel card limits were lowered across the board; and travel cards that have not been used in more than one year are being deactivated. The Department has also entered into a recovery-auditing contract, which is reviewing all vendor payments back to FY 1998. The contractor will receive 16 percent of any erroneous payments actually recovered. The Department expects its first report on the extent of vendor erroneous payments in September 2004.

6.1.6–6.1.7 Federal administrative analysis per grant transaction		
Fiscal Year	Discretionary Grants	Formula Grants
2003	\$ 6,781	\$ 5,065
2004	\$ 6,507	\$ 5,574
	We did better than our 2004 target of \$8,128.	We did not meet our 2004 target of \$4,065.

**Source.** Department of Education, Budget Formulation Database.

**Data Quality.** The calculation performed by the Department reflects budgetary estimates of the cost per

grant award. The calculation is not limited to a single transaction in the grant award process; it includes time spent on the Planning, Reviewing, and Pre-Award and Award functions of discretionary and formula grants. Also, the calculation does not make a distinction between new awards and continuation awards. Finally, the calculation does not include grants that are provided under the Student Financial Assistance programs.

**Target Context.** FY 2003 was the first time that the Department estimated the cost of awarding grants. Without trend data, the Department is unable to estimate the future targets beyond current levels. As more data become available, the Department will refine its targets.

The 2003 figures reported in the *FY 2003 Performance and Accountability Report* were based on estimates of the number of grants awarded during FY 2003. The 2003 numbers provided above have been recalculated based on the actual number of grants awarded during FY 2003. The 2004 figures provided above were calculated based on the actual number of grants awarded during FY 2004.

**Additional Information.** During FY 2004, the Department expended approximately \$122 million to award 19,965 grants totaling \$44.1 billion. The Department determined that in FY 2004 one full-time equivalent (FTE) produces approximately 30 discretionary grants or 31 formula grants. In FY 2003, the Department determined that one FTE produced approximately 27 discretionary grants or 34 formula grants.

The estimate of discretionary grants produced by one FTE increased primarily because the staff working on grant awards decreased at a greater rate (16 percent) than the decrease in awards (10 percent). The estimate of formula grants produced by one FTE decreased primarily because the staff working on grant awards increased at a greater rate (11 percent) than the increase in the number of grants (3 percent). The Department is continuing its efforts to streamline the grant award process for both discretionary and formula grants and expects to take advantage of the governmentwide grants.gov initiative to further reduce the cost of awarding grants.

6.1.8 Timeliness of major account reconciliations, expressed as the number of days after month end	
Fiscal Year	Actual
2004	15 (est)
We did better than our 2004 target of 30.	

est = estimated, preliminary, or partial data  
This measure was first established for FY 2004.

**Source.** Department of Education, Internal System Reports.

**Data Quality.** Data are based on reconciliation efforts during March through August 2004. Internal quality control and auditing procedures are followed to ensure that the data are correct.

**Target Context.** The Department aligned its target with the governmentwide accelerated audit reporting requirements. Federal agencies must finalize their financial audit statements within 45 days of year end.

**Additional Information.** For March through August 2004, the Office of the Chief Financial Officer completed *all* major account reconciliations by the 15th of each month, with most of the reconciliations being completed between the 10th and the 13th of the month.

## OBJECTIVE 6.2: MANAGEMENT OF HUMAN CAPITAL

6.2.1 Percentage of principal offices that have identified recruitment needs in their principal office recruitment plan	
Fiscal Year	Actual
2003	89
2004	<b>94</b>
We made progress toward our 2004 target of 95.	

**Source.** Department of Education, Office of Management (OM), Human Resources Service, analysis of 2004 recruitment plans submitted as of July 31, 2004.

**Data Quality.** The calculation is based on the percentage of offices that identified recruitment needs. Offices undergoing major reorganizations are excluded from the calculation.

**Target Context.** The Department expects *all* offices to develop recruitment plans that help them focus on skill gaps that may result from vacancies in critical positions.

**Additional Information.** The Department made progress on the completion of recruitment plans. Seventeen of 18 offices have recruitment plans; one office is currently completing its recruitment plan.

Two offices, the Office of the Deputy Secretary (ODS) and the Office of the Under Secretary (OUS), are currently undergoing major reorganizations and will complete recruitment plans after implementation of the reorganizations. Both offices have been excluded from the calculation this year, but will be included next year.

6.2.2 Percentage of principal offices that are taking actions to fill critical positions with needed skills	
Fiscal Year	Actual
2004	<b>50</b>
We made progress toward our 2004 target of 60.	

**Source.** Department of Education, Office of Management (OM), Human Resources Service, analysis of FY 2003 recruitment plans.

**Data Quality.** The calculation is based on the percentage of offices that took action to fill critical positions identified in the current year recruitment plan. Only offices that identified recruitment needs in their recruitment plans are included in the calculation. For an office to meet the “taking action” criteria, it must complete 75 percent of the planned actions regarding critical vacancies identified in its recruitment plan. The 75 percent threshold was set to promote planning for critical vacancies and allow for changes that offices and managers need to make to effectively and efficiently manage their human capital resources.

**Target Context.** The Department expects *all* offices to take action to fill critical positions. The FY 2004 target of 60 percent was set prior to establishing a baseline. Improvement is expected in the second year of recruitment planning (i.e., FY 2005).

**Additional Information.** Eight of the 19 offices that submitted recruitment plans in FY 2003 had critical vacancies identified in their office recruitment plan. Four of these eight offices completed the planned actions detailed in their recruitment plans. In an effort to increase the number of offices that are completing their planned actions, human resource specialists are meeting with managers who are hiring to provide individual assistance, such as assistance in developing quality recruitment announcements.

While offices that had no critical vacancies identified in their recruitment plans were not included in the calculation, we consider these offices to be acting in accordance with their recruitment plans.

6.2.3 Percentage of performance, cash, and time-off awards that are given to employees with ratings in the top three rating levels in the EDPAS system	
Fiscal Year	Actual
2003	100
2004	<b>100</b>
We met our 2004 target of 100.	

EDPAS = Education Department Performance Appraisal System

**Source.** Department of Education, Federal Personnel and Payroll System (FPPS), Education Department Performance Appraisal System (EDPAS), ratings of record and award data.

**Data Quality.** Data reflect awards granted during FY 2004.

**Target Context.** It is the Department’s expectation that employees performing quality work at or above the Successful level may receive awards. Employees performing below the Successful level are not expected to receive awards.

**Additional Information.** Of 3,238 awards, 3,232 (99.8 percent, which was rounded to 100 percent) were given to employees who were rated successful

or higher. No awards were given to employees rated at the unacceptable level. Six awards went to employees rated minimally successful.

This measure will be modified in the future. It will become part of an index of quality human capital performance management activities that measures the Department’s focus on ensuring clarity of results in performance plans, differentiating performance through fair and accurate evaluations, and paying for exceptional performance. With regard to paying for exceptional performance, the Department will begin measuring the percentage of awards paid to employees with the highest performance rating (i.e., outstanding).

<b>6.2.4</b> Percentage of personnel in the lowest two EDPAS rating levels who have performance improvement activities under way	
<b>Fiscal Year</b>	<b>Actual</b>
2003	55
2004	<b>75</b>
We exceeded our 2004 target of 70.	

EDPAS = Education Department Performance Appraisal System

**Source.** Department of Education, Federal Personnel and Payroll System (FPPS), and data submitted by principal offices.

**Data Quality.** Data are based on the performance period ending April 30, 2004.

**Target Context.** The Department expects that supervisors will take appropriate action to support the improvement of personnel who have less than fully satisfactory performance ratings. The target represents a high level of improvement activities; with only 30 percent or less of affected employees not participating in performance improvement activities because they are involved in other actions such as retirement, removal, reassignment, or extended leave.

**Additional Information.** As of August 17, 2004, the Federal Personnel and Payroll System identified 75 employees with ratings of Minimally Satisfactory or Unacceptable. Two of these employees have since left the Department. Of the 73 remaining employees, 55 (75 percent) now have performance improvement activities under way. In 15 of the remaining 18 cases, supervisors of the impacted employees have been contacted and informed of their obligation to withhold within-grade increases and to improve employee performance. Improvements are to be made through development of Individual Development Plans, training, counseling, and/or closer supervision.

<b>6.2.5</b> Percentage of EDPAS employees who have documented ratings of record in FPPS within 90 days of the close of the rating cycle	
<b>Fiscal Year</b>	<b>Actual</b>
2003	86
2004	<b>92</b>
We exceeded our 2004 target of 80.	

EDPAS = Education Department Performance Appraisal System

**Source.** Department of Education, Federal Personnel and Payroll System (FPPS) ratings for the Education Department Performance Appraisal System (EDPAS).

**Data Quality.** Data reflect information in the Federal Personnel and Payroll System as of July 29, 2004, and is based on the rating period beginning May 1, 2003, and ending April 30, 2004.

**Target Context.** The target reflects the Department’s high expectation that managers will hold employees accountable for their performance and make meaningful distinctions in performance using the EDPAS appraisal system. It is based on historic information regarding supervisory participation in the automated performance appraisal data system.

**Additional Information.** As of July 29, 2004, 3,774 of 4,122 eligible employees (92 percent) had been evaluated and had received performance ratings that had been entered into the Federal Personnel and Payroll System within 90 days of the close of the rating cycle.

<b>6.2.6</b> Number of business functions reviewed for strategic sourcing	
<b>Fiscal Year</b>	<b>Actual</b>
2004	<b>8</b>
We met our 2004 target of 8.	

This measure was significantly modified for FY 2004.

**Source.** Department of Education, Office of the Chief Financial Officer.

**Data Quality.** The number of reviews is based on reviews conducted under the direction of the Department’s Strategic Sourcing Plan.

**Target Context.** Targets were set based on the number of process improvement reviews planned for the year. Future targets will be aligned with the Department’s Competitive Sourcing Plan developed in conjunction with the Office of Management and Budget.

**Additional Information.** Reviews of the following business functions were initiated during FY 2004:

**System Development Life Cycle (SDLC)**—SDLC refers to the coordination of activities associated with the implementation of information technology systems from conception through disposal. This includes the related

activities/processes that impact system implementation (e.g., capital planning and investment control, enterprise architecture, procurement, and information assurance).

**IT Asset Management (ITAM)**—ITAM refers to the function that tracks equipment through its entire life cycle. The ITAM process is used to procure, receive, and deliver inventory and dispose of IT assets.

**Record Retention & Management (RM)**—Records contain information and are a component of all business processes and provide the Department the ability to conduct daily operations, ensure accountability, and mitigate risk. RM is the business function by which the Department accounts for and effectively uses its information.

**Operational Efficiencies—Desktop & Telecom (OE Desktop)**—OE Desktop refers to the processes by which resources are deployed through the Help Desk to respond to EDNET account user desktop and telecom issues. The Desktop and Telecom processes enable the Department's daily operations by ensuring the proper functionality of IT equipment and resources.

**Operational Efficiencies Server (OE Server)**—OE Server refers to the process by which the Department controls and manages the acquisition and maintenance of servers.

**Information Collection (IC)**—IC refers to the coordination of the activities associated with the design, collection, analysis, and reporting of information. Information collection clearance is classified by the Office of Management and Budget under seven purposes: (1) application for benefits, (2) program evaluation, (3) general purpose statistics, (4) audit, (5) program planning or management, (6) research, and (7) regulatory or compliance.

**Web site Operations (WO)**—WO refers to the back-end support necessary to maintain Web sites, including backup and recovery (system administration). WO is broken down into four distinct categories: policy, software licensing, support staff, and hardware/software.

**Grant Competition Logistics**—Grant Competition Logistics refers to the work needed to identify, secure, and pay peer reviewers. It also includes preparing webcasts and conference calls to answer applicant questions and provide reviewer orientation, drafting project abstracts for projects selected for funding, and preparing unfunded applications for archiving.

### OBJECTIVE 6.3: INFORMATION TECHNOLOGY

6.3.1 Percentage of grant programs providing online application capability	
Fiscal Year	Actual
2000	5
2001	20
2002	29
2003	57
2004	77
We exceeded our 2004 target of 65.	

**Source.** Office of the Chief Financial Officer, Grant Administration and Payment System (GAPS).

**Data Quality.** The data are based on discretionary grant programs.

**Target Context.** The FY 2004 target was based on trend data from previous years. Subsequent targets will be aligned with the Department's plan to participate in the governmentwide grants.gov initiative.

**Related Information.** Information regarding the governmentwide grants.gov initiative can be found at <http://www.grants.gov/>.

**Additional Information.** In FY 2004, 122 of the 158 (77 percent) discretionary grant competitions provided an electronic application.

During FY 2004, the total number of e-applications increased by 47 percent over FY 2003 figures. The increase has resulted, in part, from the Department's goal to provide applicants the opportunity to apply for *all* discretionary grant programs electronically. In fact, in FY 2004, several program offices used electronic applications for nearly all of their discretionary grant competitions.

6.3.2 Percentage of currently identified Tier 3 and 4 systems that complete Certification and Accreditation	
Fiscal Year	Actual
2004	84.6
We made progress toward our 2004 target of 100.	

This measure was first established for FY 2004.

6.3.3 Percentage of currently identified Tier 1 and 2 systems that complete Certification and Accreditation	
Fiscal Year	Actual
2003	10
2004	96.7
We exceeded our 2004 target of 50.	

**Source.** Department of Education, Office of the Chief Information Officer, program files.

**Data Quality.** The Department recently refined its system inventory process based on final National Institute of Standards and Technology (NIST) guidance

(Special Publication 800-60). As a result, the number of Tier 3 and 4 systems has been reduced from 18 to 13.

**Target Context.** The Department’s target is based on its FY 2004 Federal Information Security Management Act (FISMA) Plan of Action and Milestones.

**Related Information.** Additional information on the certification and accreditation process is available at <http://csrc.nist.gov/sec-cert/ca-process.html>.

**Additional Information.** As a result of the reclassification of systems in accordance with NIST guidance, two systems that had previously been classified as Tier 2 were reclassified as Tier 3 systems. These two systems newly classified as Tier 3 have not completed certification and accreditation. The certification and accreditation of each of these systems will be completed by December 31, 2004.

The Department’s Office of Inspector General (OIG) raised two issues concerning certain aspects of the Department’s certification and accreditation review process. Specifically, the OIG noted the Department’s certification and accreditation process did not thoroughly identify certain residual risks, and that as a result, a potential impact could exist on the risk assertions of some Departmental officials at the time of system certification and accreditation. Additionally, the OIG stated that the Department’s certification and accreditation process did not adequately identify the residual risks that Department officials were accepting, and that officials lacked access to information essential for developing and supporting risk assertions at the time of system certification and accreditation. The Department supports the OIG’s work in this area, recognizing it helps assure the Department obtains full value from the final scanning portion and the reporting of this review process.

To resolve the two above-referenced issues, the Department decided to validate and enhance several key lower-level processes that support the overall certification and accreditation assertions utilizing Tier 3 and Tier 4 scans. This approach is consistent with best practices and demonstrates our commitment to exercising prudent systems management.

To provide an additional level of assurance, the Department decided to scan all high- and medium-risk systems, and have the raw scan results reviewed by a recognized technical expert. The expert will assure in writing that the reviews completed for all low-, medium-, and high-risk systems meet or exceed federal standards; do not omit any major findings; and provide quality supporting data. Procedures are being developed so that compensating controls and residual system risks are identified for system vulnerabilities that are not fully mitigated. Additionally, Department officials will be fully informed of residual system risks when formally certifying and accrediting systems.

6.3.4 Percentage of major IT investments that achieve less than a 10% variance of cost goals	
Fiscal Year	Actual
2002	94.4
2003	100
2004	100 (est)
We exceeded our 2003 target of 90 and our 2004 target of 91.	

IT = Information Technology  
est = estimated, preliminary or partial data

6.3.5 Percentage of major IT investments that achieve less than a 10% variance of schedule goals	
Fiscal Year	Actual
2002	83.3
2003	96.2
2004	90.5 (est)
We exceeded our 2003 target of 90. We did not meet our 2004 target of 91.	

IT = Information Technology  
est = estimated, preliminary, or partial data

**Source.** Department of Education, Office of the Chief Information Officer, Earned Value Management System Workbook.

**Data Quality.** The FY 2004 data are based on information as of July 31, 2004. The data are collected as part of the Information Technology (IT) Investment Management process Select and Control phases. Project managers provide cost and schedule information for their development milestones and operational expenditures. The project managers formulate estimates of remaining work based on actual costs to date, the percentage of milestones completed, their own knowledge of the initiative, and contractor feedback where applicable.

**Target Context.** The Department’s targets are in line with the governmentwide expectations set through the *President’s Management Agenda*.

**Additional Information.** All of the Department’s major information technology systems were within 10 percent of planned costs for FY 2003 and 2004.

As of September 30, 2003, only one of the Department’s major IT investments had schedule variances in excess of 10 percent:

ELoans had a schedule variance of 36.71 percent.

As of July 31, 2004, two of the Department’s major IT investments had schedule variances in excess of 10 percent:

Common Origination and Disbursement had a schedule variance of 16.98 percent.

Educational Resources Information Center (ERIC) had a schedule variance of 96.59 percent.



The Department will continue to work with project managers to ensure that all available resources are used to ensure projects remain on schedule.

6.3.6 Percentage of completed FISMA Plan of Actions and Milestones	
Fiscal Year	Actual
2004	93.3 (est)
We exceeded our 2004 target of 55.	

FISMA = Federal Information Security Management Act  
 est = estimated, preliminary, or partial data  
 This measure was first established for FY 2004.

**Source.** Federal Information Security Management Act (FISMA) Plan of Action and Milestones Database.

**Data Quality.** The data are based on progress as of September 1, 2004.

**Target Context.** As of fourth quarter FY 2002, the Department had more than 1,500 identified Federal Information Security Management Act weaknesses. The Department's FY 2004 target is based on trend data and work plans established to correct all identified weaknesses.

**Additional Information.** At the beginning of FY 2004, the Department had 655 identified Federal Information Security Management Act weaknesses that had not been addressed. As of September 1, 2004, the Department has only 44 outstanding weaknesses.

**OBJECTIVE 6.4: STUDENT FINANCIAL ASSISTANCE PROGRAMS**

6.4.1 Student Financial Assistance programs will leave the GAO high risk list and will not return	
Fiscal Year	Actual
2002	Completed 94% of the High Risk Plan
2003	The audit opinion is clean; SFA programs remained on the GAO high risk list.
2004	<b>The audit opinion is clean; the Department addressed 97% of audit recommendations and met integration goals in the FY 2004 FSA Performance Plan.</b>
We met our 2004 target of a clean audit opinion. We exceeded our 2004 target of completing 95% of audit recommendations. We met our integration goals in the FY 2004 FSA Performance Plan.	

FSA = Office of Federal Student Aid  
 SAF = Student Financial Assistance Programs  
 GAO = Government Accountability Office

**Source.** Department of Education, Office of Federal Student Aid (FSA) High Risk Plan and progress reports.

Independent Auditors' FY 2004 Financial Statement and Audit Report.

**Data Quality.** Independent auditors follow professional standards and conduct the audit under the oversight of the Office of Inspector General. In addition, internal quality control procedures are followed to ensure that the data are correct.

**Target Context.** The Government Accountability Office's (GAO) next release of its high risk list is planned for January 2005. The Department's targets are based on leaving the list as of January 2005.

**Additional Information.** The Department and FSA each received a clean opinion on their financial statements for FY 2002, FY 2003, and FY 2004. The clean opinions are important milestones in the Department's efforts toward creating a permanent culture of accountability and are crucial to FSA's efforts to have the Student Financial Assistance (SFA) programs removed from GAO's High Risk List.

GAO reviews the programs it designates as high risk on a biennial basis. The past assessment was conducted in FY 2002 with publication in January 2003. The most recent assessment opportunity occurred in FY 2004 with publication of the final report in January 2005. FSA has made considerable progress in FY 2004 in building on its foundation for management. Improvements have been made in financial management, in program integrity, and in the strategic management of human capital. In addition, FSA is improving its management of information technology resources to improve services for customers and partners and is moving forward with its modernization of its programs to improve their integrity. FSA has worked with GAO staff to ensure that they are informed of our progress toward resolving Department management issues and sustaining improvement in our programs.

6.4.2 Default recovery rate in percent (percentage of FSA's collections, excluding consolidations)	
Fiscal Year	Actual
1999	8.0
2000	7.5
2001	7.8
2002	7.6
2003	9.5
2004	10.1
We exceeded our 2004 target of 9.5.	

FSA = Office of Federal Student Aid

6.4.3 Overall default recovery rate (percentage of FSA and GAs' collections excluding consolidations)	
Fiscal Year	Actual
2004	11.2
We exceeded our 2004 target of 11.0.	

FSA = Office of Federal Student Aid  
 GAs = Guaranty Agencies  
 This measure was first established for FY 2004.

**Source.** Department of Education, Debt Collection Management Systems (DCMS) Management Information System (MIS) reports.

**Data Quality.** Internal quality control and auditing procedures are followed to ensure that the data are correct.

**Target Context.** Targets are based on trend data and performance measures established for private collection agencies providing debt collection services to the Department.

6.4.4–6.4.6 Percentage of Pell Grants erroneous payments			
Fiscal Year	Overpayments	Underpayments <sup>1</sup>	Erroneous Payments <sup>2</sup>
2001	3.4		
2002	3.3		
2003	3.1		4.9
2004	<b>2.8</b>	<b>1.8</b>	<b>4.5</b>
	We did better than our 2004 target of 3.1.	We met our 2004 target of 1.8.	We did better than our 2004 target of 4.9.

<sup>1</sup>This measure was first established for FY 2004.

<sup>2</sup>This measure was first established for FY 2003.

**Source.** Analysis of sampled Internal Revenue Service income data compared to data reported on the Department of Education’s Free Application for Federal Student Aid (FAFSA) reported by the Office of Federal Student Aid (FSA) and the Common Origination and Disbursement (COD) system.

**Data Quality.** The overpayment measure is determined by dividing the estimated dollar amount of overpayments by the total dollar value of Pell Grants awarded in academic year 2003–04. The underpayment measure is determined by dividing the estimated dollar amount of underpayments by the total dollar value of Pell Grants awarded in academic year 2003–04. The erroneous payments measure is determined by totaling the dollar amount of estimated overpayments and underpayments and dividing by the total dollar value of Pell Grants awarded in academic year 2003–04.

Overpayment and underpayment percentages are rounded. The actual percentage for overpayments is 2.75 percent, and the actual percentage for underpayments is 1.75 percent.

**Target Context.** Targets are based on trend data and were established in an effort to meet the governmentwide target of 2.5 percent. However, until FSA has the statutory authority to use IRS data matching, the governmentwide target of 2.5 percent cannot be met.

**Related Information.** Information on the Improper Payments Information Act of 2002 can be found at <http://www.whitehouse.gov/omb/memoranda/m03-13-attach.pdf>.

**Additional Information.** Based on recent estimates, federal agencies make more than \$35 billion in improper payments each year. An improper payment occurs when federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, or the

recipient uses the funds in an improper manner. Eliminating such payments is central to efforts to improve financial performance governmentwide, enhance the integrity of federal programs, and ensure that limited federal resources are used for their intended purpose. The Improper Payments Information Act (IPIA) of 2002 establishes a framework for improved performance on the measurement and reduction of improper payments.

FSA has implemented numerous strategies for reducing erroneous payments in the Federal Pell Grant Program. We continue to use applicant data from the Central Processing System (CPS), Pell payment data from the Common Origination and Disbursement (COD) system, and IRS data to refine and improve our verification selection criteria to better identify applicants who are likely to have made income-reporting errors on their Free Application for Federal Student Aid that would result in significant overawards in the Pell Grant Program. In addition, we continue to review management information system reports, as well as customized queries of the Central Processing System, to identify and analyze fields on the application that are frequently corrected and, therefore, potentially most error prone. In combination with these efforts, we continue to conduct usability testing on the application form to identify questions that applicants and their families have difficulty understanding. These questions have been reworded on the 2004–05 application to be clearer and, therefore, easier for applicants to answer accurately. We have also added additional logic to our Web applications that is designed to detect and point out to applicants potential mistakes before application data are transmitted to the Central Processing System. FSA has also taken additional steps to inform students and parents who estimate income information on the application that they must compare their answers to their tax returns once they have completed them and to promptly make any necessary changes to their application data to avoid losing or having to repay federal student aid they have received. In May 2004, FSA sent approximately

250,000 e-mail notices to student aid applicants (and their parents) who indicated on their applications that the income information they provided was estimated. The e-mails asked students and parents to update their application income information if it was different than what they reported on their income tax returns. In 2005–06, FSA will expand this initiative to include many more applicants and parents (several million) and will also put in place a system for analyzing the effectiveness of this initiative. We are also continuing to work with OMB and Treasury in support of proposed legislation to revise the IRS Code to authorize the matching of Title IV FSA applicant data to tax return data. In preparation of the passage of this legislation, the office has begun the evaluation of five possible approaches for implementing an income verification match. FSA has ranked the evaluation of the five approaches using several criteria, including overall risk to successful implementation, cost, and customer satisfaction. Once legislation passes, FSA will be in a good position to begin discussions with IRS to implement an income verification match.

6.4.7 Timeliness of FSA major system reconciliations to the general ledger, expressed as the number of days after month-end close	
Fiscal Year	Actual
2002	45
2003	Oct–Mar: 35 days Apr–Sept: 24 days
2004	<b>19 days</b>
We did better than our 2004 target of 30 days.	

FSA = Office of Federal Student Aid

**Source.** Department of Education, internal system reports.

**Data Quality.** The FY 2004 data are an average based on data from September 2003 through August 2004. Internal quality control and auditing procedures are followed to ensure that the data are correct.

**Target Context.** The Department aligned its target with the governmentwide accelerated audit reporting requirements. Federal agencies must finalize their financial audit statements within 45 days of year-end.

**Additional Information.** In FY 2004, the Office of Federal Student Aid (FSA) never exceeded the 30-day target. On average, major accounts were reconciled within 19 days.

6.4.8 Number of material weaknesses and reportable conditions in FSA financial audit statements	
Fiscal Year	Actual
2000	4
2001	3
2002	2
2003	1
2004	Target is 1.
Data for 2004 are pending.	

FSA = Office of Federal Student Aid  
This measure was first established for FY 2004.

**Source.** Independent Auditors' FY 2004 Federal Student Aid Financial Statement and Audit Report.

**Data Quality.** Independent auditors follow professional standards and conduct the audit under the oversight of the Office of Inspector General.

**Target Context.** The Office of Federal Student Aid has made a concerted effort over the last several years to reduce the number of recommendations made in the financial statement audit and to implement the audit recommendations from prior year financial statement audits. The targets reflect efforts to date and trend data.

**Related Information.** The *FY 2003 Performance and Accountability Report* is available at <http://www.ed.gov/about/reports/annual/2003report/index.html>.

The *FY 2004 Performance and Accountability Report* is available at <http://www.ed.gov/about/reports/annual/2004report/index.html>. (Link will be live after November.)

**Additional Information.** Although this performance measure was established for the first time in FY 2004, the number of material weaknesses and reportable conditions from prior FSA financial audit statements is included for reference.

Final information on the number of material weaknesses and reportable conditions in the FY 2004 FSA financial audit statement will be available in November 2004.

6.4.9 Integration of FSA processes and systems that work together to support FSA program delivery functions	
Fiscal Year	Actual
2002	100
2003	Met 100% of the targets in FSA's sequencing plan; updated integration plan through the data strategy effort.
2004	<b>Met 100% of targets in FSA's sequencing plan.</b>
We met our 2004 target of achieving 100% of the targets in FSA's sequencing plan.	

FSA = Office of Federal Student Aid

**Source.** Department of Education, internal Office of Federal Student Aid (FSA) progress reports.

**Data Quality.** Internal quality control and auditing procedures are followed to ensure that the data are correct.

**Target Context.** Targets are based on work plans to support FSA’s sequencing plan.

**Additional Information.** FSA’s sequencing plan enables FSA to make changes to operations, systems, and contracts without adversely affecting day-to-day operations. The sequencing plan identifies milestones for activities that will be completed each fiscal year.

FSA has made considerable progress in furthering its integration goals. Notable accomplishments for FY 2004 include the following:

- Implemented Phase One of Common Services for Borrowers (CSB).

- Continued development of Enterprise Data Strategy.

- Implemented a pilot for the Standard Student Identification Methodology (SSIM).

- Implemented the Institutional Student Information Record (ISIR) Data Mart.

- Implemented Forms 2000 enhancements.

- Developed FSA Security and Privacy Architecture pilot.

- Developed Performance Test Architecture to certify new applications or enhancements to applications for deployment in the Virtual Data Center.

- Awarded a contract to perform the conceptual design and development of the Integrated Partner Management (IPM) Solution.

- Supported the implementation of Oracle Federal Financials Release 11i.

6.4.10-6.4.13 FSA Customer Service (measures of service levels of targeted FSA transactions with public)				
Fiscal Year	FAFSA on the Web	Direct Loan Servicing	Common Origination and Disbursement (COD)	Lender Reporting System (LaRS)
2003	86	77	66	71
2004	81	78	72	73
	We did not meet our 2004 target of 86.	We exceeded our 2004 target of 77.	We exceeded our 2004 target of 70.	We made progress toward meeting our 2004 target of 74.

FSA = Office of Federal Student Aid  
 FAFSA = Free Application for Federal Student Aid

**Source.** FY 2004 American Customer Satisfaction Index (ACSI) survey.

**Data Quality.** ACSI is indexed from 1 to 100. ACSI provides a national, cross-industry, cross-public, and private sector economic indicator produced by a partnership of the National Quality Research Center (at the University of Michigan Business School), CFI Group, and the American Society for Quality. The ACSI uses a widely accepted methodology to obtain standardized customer satisfaction information.

**Target Context.** Targets are based on trend data.

**Additional Information.** Every year the Office of Federal Student Aid (FSA) conducts customer surveys of its most high-profile, highly used products and services: FAFSA on the Web, Direct Loan Servicing, Common Origination and Disbursement, and the Lender Reporting System.

FSA’s ACSI scores (indexed from 1 to 100) are generally good and are in the range of national benchmarks including the national ACSI average score of 74, the federal agency average score of 71, and the banking industry average score of 75.

*FAFSA on the Web* is the Web-based product that applicants complete to determine their eligibility for federal student aid. In FY 2004, about 10.8 million out of a total of 13.5 million applications were filed electronically with slightly over three-quarters using FAFSA on the Web. The FY 2004 FAFSA on the Web ACSI score dropped to an 81 from last year’s 86. Customers are reporting lower satisfaction levels across most of the FAFSA on the Web service components; however, some of the biggest changes noted are in customer comparisons of the current service to an “ideal” and “to their expectations.” These two factors are critical components in the calculation of the ACSI score. We believe as users continue to become more and more familiar with Web-based applications, we will continue to experience some challenges in these areas. However, FSA plans to further analyze the results of the survey and look for additional opportunities for improvement.

Although our score has declined, the FAFSA on the Web remains a highly rated product, exceeding the scores of the national benchmarks noted above and is on par with the highest rated products within ACSI’s E-commerce Index. Additionally, FAFSA on the Web remains one of the highest rated E-government Web

sites. In ACSI's recent E-government survey released in September 2004, only three agencies report higher scores than FSA's FAFSA on the Web and no other e-government Web site in the e-Commerce/Transaction Index reported a higher score.

*Direct Loan Servicing* is the process by which loans are repaid and includes the issuing of monthly statements; collecting of loan balances; and offering customer-service help and web-based help and information. The Direct Loan Servicer is handling about 6.6 million borrower accounts. The FY 2004 Direct Loan Servicing ACSI score is 78, up one point from last year's score of 77. Customers using the electronic debit capabilities to repay their Direct Loans, as well as those receiving paper statements, report extremely high levels of satisfaction with those processes; however, the automated voice response services are rated significantly lower. The ACSI has noted low automated voice response results in many of the industries it measures.

*The Common Origination and Disbursement (COD)* system is the mechanism that schools use to receive and account for federal funds used in the Direct Loan and Pell Grant Programs. More than 5,200 schools participating in the Pell and/or Direct Loan Program used the COD during FY 2004. Altogether, \$25.9 billion in loans and grants were processed through the system. The FY 2004 COD ACSI score of 72 is up six points from last year's 66, and it exceeded the goal of 70 that was set by FSA's Management Team. Specifically, customers noted large improvements in our ability to help them with inquiries and with the accuracy of our data.

*The Lender Reporting System (LaRS)* is the mechanism that lenders and servicers use to receive interest and special allowance payments from the Department on their active Federal Family Education Loan (FFEL) Program loan portfolios. Approximately 3,500 lenders and or their servicers use the LaRS. The overall ACSI score for LaRS is 73, up two points from last year's 71, and just one point shy of FSA's goal of 74. While we continue to receive high marks for our LaRS technical assistance, customers report some issues in navigating the system and in making corrections to previously reported data. The office plans to further analyze the results of the survey and look for additional opportunities for improvement.

**OBJECTIVE 6.5: BUDGET AND PERFORMANCE INTEGRATION**

<b>6.5.1</b> Percentage of Department programs reviewed under the PART process that demonstrate effectiveness (discontinued effective FY 2004)	
Fiscal Year	Actual
2002	22
2003	33
We did not meet our 2003 target of 40.	

PART = Program Assessment Rating Tool

<b>6.5.2</b> Percentage of Department program dollars associated with programs reviewed under the PART process that demonstrate effectiveness	
Fiscal Year	Actual
2002	55
2003	52
2004	Target is 56.
We did not meet our 2003 target of 60. Data for 2004 are pending.	

PART = Program Assessment Rating Tool

**Source.** Department of Education, analysis of Program Assessment Rating Tool (PART) findings.

**Data Quality.** PART analysis began in 2002 and is conducted annually. Results become available in February of each year, with the release of the President's budget. By February 2004, the Department completed PART reviews of 33 programs. By February 2005, the Department will have completed PART reviews of 60 programs. Over the five-year period 2002 through 2006, the Department will conduct PART analyses of all programs.

The Department bases these measures on programs that are reviewed by the Office of Management and Budget under PART. The Department defines effective programs as those ranked *effective*, *moderately effective*, or *adequate* through the PART process. The measure compares the effective programs to all programs that were reviewed under the process. For FY 2003, the data reflect FY 2003 appropriations and programs that had PART reviews conducted during or prior to FY 2003. FY 2004 data will reflect FY 2004 appropriations and programs that had PART reviews conducted during or prior to FY 2004. Programs that do not receive congressional appropriations and are subject to annual re-estimates are rated by PART, but excluded from the calculation for objective 6.5.2. Excluded accounts are the Federal Direct Student Loans Subsidies and Family Federal Education Loan Program and Liquidating accounts. For many programs that do not demonstrate effectiveness, the Department has not yet collected sufficient performance data. No conclusion should be drawn that programs that did not meet this standard for *effective* are ineffective.

**Target Context.** The target maintains the percentage of dollars associated with programs rated effective from baseline, while each year a significantly higher

percentage of the Department’s total program portfolio is included in the analysis. Measure 6.5.1 was discontinued effective FY 2004 and is included here for reporting FY 2003 results, which were previously pending.

**Related Information.** Information about the Office of Management and Budget PART process is available at <http://www.whitehouse.gov/omb/part/>.

**Additional Information.** Data for 2004 will be available in February 2005.

In an effort to improve performance, the Department is working to gather quality performance information on Department programs for which results cannot be demonstrated at this time. We expect to see improvements in performance information over the next two years as performance measures are improved, the Department receives Consolidated State Performance Reports of elementary and secondary education data, the Performance-Based Data Management Initiative becomes operational, and the findings of program evaluations become available. In addition, the Department is implementing legislative and program administration recommendations from PART analyses.

The Department has replaced the objective 6.5.1 measure for FY 2005. The new measure aligns with goals established for the *President’s Management Agenda*. Beginning in FY 2005, the Department will track the percentage of dollars associated with programs reviewed under the PART process that are rated *results not demonstrated* for more than two years.

**OBJECTIVE 6.6: FAITH-BASED AND COMMUNITY ORGANIZATIONS**

<b>6.6.1</b> Number of FBCOs that receive technical assistance concerning programs amenable to their participation through the Web site, attendance at a workshop, telephonic consultation, direct meeting, or receipt of materials	
<b>Fiscal Year</b>	<b>Actual</b>
2004	<b>20,000+</b>
We exceeded our 2004 target of 10,000.	

FBCOs = Faith-Based and Community Organizations  
This measure was first established for FY 2004.

**Source.** Department of Education, Office of the Secretary, Center for Faith-Based and Community Initiatives.

**Target Context.** Targets are based on outreach and technical assistance plans established in conjunction with the White House Center for Faith-Based and Community Initiatives.

**Additional Information.** The Center for Faith-Based and Community Initiatives provided the following technical assistance opportunities in FY 2004:

Conducted two workshops with state officials on implementing the supplemental services pilot project.

Conducted nationwide video conference in 11 locations providing technical assistance on mentoring and community technology grants.

Sent 45 e-mail blasts to database of 20,000+ contacts on funding opportunities.

Provided technical assistance, including webcast, sample quality proposal, and question-and-answer teleconference, for each program amenable to participation by faith-based and community organizations.

Met with state and local leaders of faith-based and community organization centers to boost state and local collaboration with the Department’s center.

<b>6.6.2</b> Percentage of programs amenable to participation by FBCOs in which novice applicant reform is implemented	
<b>Fiscal Year</b>	<b>Actual</b>
2002	62
2003	100
2004	<b>87.5</b>
We did not meet our 2004 target of 100.	

FBCOs = Faith-Based and Community Organizations

**Sources.** Migrant Education High School Equivalency Program (CFDA: 84.141).

Migrant Education College Assistance Program (CFDA: 84.149).

Safe and Drug Free Schools—Mentoring Programs (CFDA: 84.184).

Migrant Education—Even Start (CFDA: 84.214).

Community Technology Centers (CFDA: 84.341).

Carol M. White Physical Education Program (CFDA: 84.215F).

21st Century Community Learning Centers (CFDA: 84.287).

Adult Education and Family Literacy Act (CFDA: 84.002).

**Data Quality.** There are no data limitations.

**Target Context.** Targets developed in line with governmentwide targets.

**Related Information.** Information on initiatives of the Center for Faith-Based and Community Initiatives at the Department of Education is available at <http://www.ed.gov/faithandcommunity/>.

**Additional Information.** Novice applicant priority was implemented in seven of the eight Department programs amenable to participation by faith-based and community organizations. Novice applicant priority was not

implemented in the Safe and Drug Free Schools-Mentoring Program, where school/community-based organization partnership preference was substituted for novice priority. The Center for Faith-Based and Community Organizations at the Department will continue to work with program offices to increase awareness of novice applicant priority and will work to ensure all programs amenable to participation by faith-based and community organizations implement novice applicant reform.

<b>6.6.3</b> Number of grant applications from FBCOs for federal discretionary grant programs	
<b>Fiscal Year</b>	<b>Actual</b>
2003	<b>372</b>
2004	Baseline + 10%.
We set a baseline in 2003. Data for 2004 are pending.	

FBCOs = Faith-Based and Community Organizations

**Source.** Department of Education, Office of the Secretary, Center for Faith-Based and Community Initiatives.

**Data Quality.** There are no data limitations.

**Target Context.** Future targets will be set based on trend data.

**Additional Information.** In FY 2003, 372 faith-based and community organizations received grants from the four Department programs amenable to participation by faith-based and community organizations.

The FY 2004 data will be available in December 2004.

<b>6.6.4</b> Percentage of FBCOs that successfully apply for federal discretionary grant programs	
<b>Fiscal Year</b>	<b>Actual</b>
2003	<b>FBCO success rate is 20%, non-FBCO success rate is 21%.</b>
2004	Target is that the success rate of FBCOs is within 10% of non-FBCOs.
Data for 2004 are pending.	

FBCOs = Faith-Based and Community Organizations  
This measure was first established for FY 2004.

**Source.** Department of Education, Office of the Secretary, Center for Faith-Based and Community Organizations.

**Data Quality.** There are no data limitations.

**Target Context.** Target established based on the governmentwide goal to provide equal opportunity to faith-based and community organizations.

**Additional Information.** Although this performance measure was established for the first time in FY 2004, the Department calculated the success rate for faith-based and community organizations based on the FY 2003 grant cycle. The FY 2003 data indicate that the faith-based and community organization success rate is within one percentage point of the success rate of

non-faith-based and community organizations. These data demonstrate that there is equal opportunity for faith-based and community organizations in the Department's amenable discretionary grant programs.

The FY 2004 data will be available in December 2004.

<b>6.6.5</b> Number of FBCOs approved by states as supplemental educational service providers under No Child Left Behind	
<b>Fiscal Year</b>	<b>Actual</b>
2004	<b>159 (est)</b>
We exceeded our 2004 target of 90.	

FBCOs = Faith-Based and Community Organizations  
est = estimated, preliminary, or partial data  
This measure was first established for FY 2004.

**Source.** Department of Education, Office of the Secretary, Center for Faith-Based and Community Initiatives.

**Data Quality.** Data are based on information as of September 2004.

**Target Context.** Future targets will be based on trend data.

**Additional Information.** Since January 2003, the number of faith-based and community organizations providing tutoring and other supplemental academic enrichment services under the No Child Left Behind Act has increased from 11 to 159, an increase of 1,445 percent.

**OBJECTIVE 6.7: PRESIDENT'S QUALITY AWARD**

<b>6.7.1</b> President's Quality Award	
<b>Fiscal Year</b>	<b>Actual</b>
2002	Applied for the award and gained insight.
2003	Applied for the award and gained insight.
2004	Target is to apply for and win the award.
Data for 2004 are pending.	

**Source.** Department of Education, Office of Management, application materials.

Office of Personnel Management (OPM).

**Data Quality.** The Office of Personnel Management reports award status. Final status of our application is not expected until after the publication of this document.

**Target Context.** The Department's targets were developed knowing that the Department would need to gain insight to the application process. The Department gained experience in the application process as a result of the FY 2002 and FY 2003 cycles and expects to submit a successful application for FY 2004.

**Additional Information.** The final status of our application will be available in December 2004.

The Department's FY 2004 application for the President's Quality Award is based on the Department's

significant progress in providing accurate, reliable, and timely financial information that is useful for assessing performance and allocating resources.



# Appendix B Performance Data Quality and Timeliness

## PERFORMANCE DATA QUALITY AND TIMELINESS

Timely, accurate, and reliable data are essential for effective decision-making; without high-quality data, decisions cannot be made effectively or reliably. The Department has had a consistent focus on improving the quality of the data we use to administer our programs and to develop policy. We are proud of our accomplishments to date and the ongoing processes we have in place that will continue to enhance data timeliness, accuracy, and reliability. In this appendix, we present some of our initiatives and activities to improve the quality and utility of our data.

In fiscal year (FY) 2004, our data improvement activities focused upon two primary areas:

- Enhancing our data collection activities with states and programs to increase the accuracy, timeliness, and utility of our data.
- Continuing to implement the *President's Management Agenda* by more closely integrating our budget and performance data systems and optimizing program performance measures so that appropriations and the concomitant policy decisions are more closely tied to program performance.

### Changing How We Work with States to Collect Data— Performance-Based Data Management System

The Performance-Based Data Management Initiative is a collaborative effort among the Department, state educational agencies, and industry partners to improve the quality and timeliness of education information. This initiative provides a common method of acquiring and exchanging data with the states, which will ultimately enable the Department to acquire data at the state, school, and district levels. It also organizes collection activities in a way that minimizes the burden on state educational agencies, which must provide the Department with statistical information.

This initiative is establishing a central database for Department K–12 data, including those data mandated for collection by the No Child Left Behind Act. This

central database, the Education Data Exchange Network (EDEN), is an electronic exchange system for performance information on federal K–12 education programs. It will have data analysis and reporting capabilities, which will allow users to obtain information about the status and progress of education in the states, districts, and schools.

Beginning in spring 2005, Department users and the public will have access to data through the Data Analysis and Reporting System. The Education Data Exchange Network uses Extensible Markup Language (XML) to assist in structuring data within this reporting system. Consequently, state educational agencies, local educational agencies, and schools will find this system useful for benchmarking and for identifying best practices. The Department's Office of Elementary and

#### ***Extensible Markup Language Improves Data Capabilities***

Extensible Markup Language provides a set of rules for describing the structure of data. Field descriptors or "tags" give meaning to the encoded content, and hierarchical combinations of tags allow increased utility of the data. XML allows groups of people or organizations to create their own customized markup applications for exchanging information in a particular domain. XML encoded data are used for a wide variety of applications, including information exchange and system integration.

These are areas in which the Department is improving its data handling capabilities and for which we are implementing XML in our operations. The Performance-Based Data Management Initiative is creating a customized XML mark-up application with encoded data for K–12 education data, and the Office of Federal Student Aid is working with the Postsecondary Electronics Standards Council and other organizations to create an XML standard for the education community. Both of these offices are working cooperatively with their state counterparts.

Secondary Education expects to begin using the database network for its data collections in 2005, and the Office of Special Education Programs has plans to begin using it in

2006. Another feature of EDEN is the Database Network Survey Tool that the Department's Office for Civil Rights is using for its 2004–05 annual survey on civil rights.

## Improving Data Systems—Office of Safe and Drug-Free Schools

The Department's Office of Safe and Drug-Free Schools is improving state data systems and linking those improvement activities to The Performance-Based Data Management Initiative. The No Child Left Behind Act requires that each state collect certain school crime and safety data elements and report the data collected to the public. Under the statute states must create a system for collecting and disseminating information for several data elements, including truancy and the incidence of violence and drug-related offenses leading to suspension and expulsion.

The Grants to States to Improve Management of Drug and Violence Prevention Program provides support to states to explore strategies that will address the challenges they face in collecting and using data, including the following:

- Lack of standardized collection instruments and definitions both within and across states.
- Lack of expertise related to collecting data about youth drug use and violence.
- Lack of time and other resources to support high-quality data collection and analysis in these areas.

Improved data collection systems that result from this program will allow state, district, and school administrators to develop, expand, and/or enhance the capacity of state and local educational agencies to collect, analyze, and use data to improve the quality of drug and violence prevention programs. In addition, they will be able to identify the needs of students and assess progress in addressing these important problems.

An innovative feature of the grant competition in 2004 was the requirement that applicants must design a program that complements the Department Performance-

Based Data Initiative. Specifically, project proposals had to be designed to:

- Be consistent with the state's PBDMI strategy and produce data that can be transmitted to the U.S. Department of Education via its Education Data Exchange Network Project.
- Include validation and verification activities at the state and substate recipient levels designed to ensure the accuracy of data collected and reported.

The first projects funded under this program were awarded in September 2004.

## Developing an Enterprise Data Strategy—Federal Student Aid

In FY 2003, the Office of Federal Student Aid, the Department's office that administers the student financial assistance programs for postsecondary students, embarked on a multiyear effort to develop an enterprise data strategy that will provide a consistent and integrated business intelligence infrastructure for all of our operations.

Specifically, during FY 2004, the office initiated a special data quality improvement effort with our trading partners to identify key data problems and prioritize their relative impact on student aid data quality. Further, the office established and worked with the Department's Data Quality Steering Committee to develop a detailed Data Quality Execution Plan. This plan defined the core elements that are the focus of the data quality cleanup and defined the process for maintaining the quality of these data standards. In addition, the office has collaborated with the Postsecondary Electronic Standards Council to harmonize, normalize, and standardize data used by the Department, operating partners, and the financial aid community. The result of this collaborative work is housed in the XML Registry and Repository for the education community, due for release in fall 2004.

## Timely and Reliable Monitoring Systems—Office of Postsecondary Education

The Department's Office of Postsecondary Education developed the e-Monitoring System, a flexible and fast software tool that uses grants award data from our Office of the Chief Financial Officer to enable program staffs to track both the fiscal and programmatic progress of each grant. Daily uploads as well as downloads between our Grants Administration and Payment and e-Monitoring systems will assure that program staff have current data at their desktops. The e-Monitoring System was developed in response to the need for fast, accurate, up-to-date information at all levels in the Office of Postsecondary Education about both the performance and the financial status of its grants and the need to better document project monitoring activities.

The e-Monitoring system assembles in one place core data that are common to all grants, such as grant award number, total amount, begin and end dates, and drawdowns of funds, and enables program staff to document grantee implementation problems from identification to resolution. The application can be modified to accommodate the unique monitoring requirements of any grant program. An evaluation of the office's use and benefits of the system is underway in 2004–05; if the system is successful, it will be made available to all Department program offices to increase the availability of accurate and timely grant award information to enhance program monitoring.

## Performance Budgeting—Integrating Budget and Performance Data

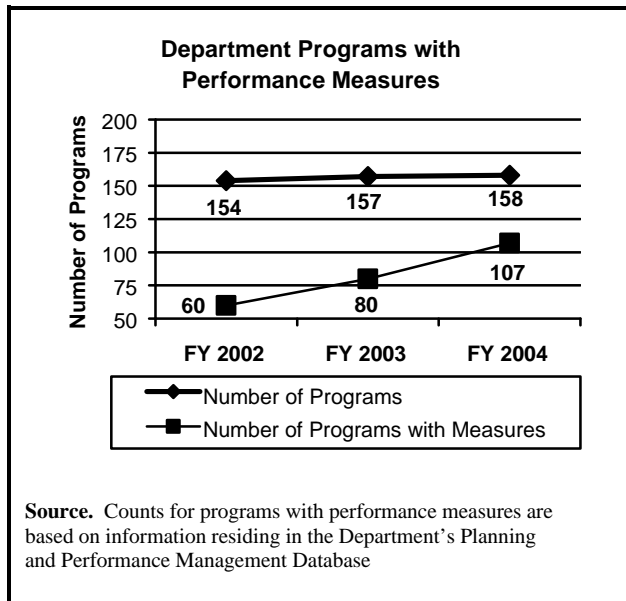
Ensuring that data are high quality is not solely the responsibility of our grantees that report data to us. The Department itself also develops and uses data. One of the most visible areas in which this occurs is the annual budget development process. The central focus of our budget process is to align goals, objectives, performance measures, and program funding levels to develop a performance budget. One of the five governmentwide elements of the *President's Management Agenda* is the

integration of budget and performance, which focuses on making budget decisions based on results. Although immediate connections between specific performance and funding levels are sometimes challenging to make, the Department is developing significant and reliable performance data to inform budget decisions.

A performance budget, the foundation to effective operations, is an integrated annual performance plan and annual budget that shows the relationship between program funding levels and expected results. It indicates that a certain set of goals should be achieved at a given funding level. Including program performance information in the budget justifications helps provide a strong basis for the budget policy.

The Department has been using two sets of measures to report under the Government Performance and Results Act—strategic-level measures that assess overall progress, and program measures that assess progress at the individual program level. In future years, with the implementation of a Department-wide data management system, and with the centralization of performance measures under the Department's Budget Service in 2004, we plan to identify key valid, reliable, and important measures from the program measures and feature them as our strategic measures.

The number of specific programs for which the Department has performance measures is increasing. The graph below shows the increase from 2002 to 2004. Beginning in FY 2006, there will be a further increase in the number of discrete programs for which we have specific program-related performance measures that can be used in the budget process.



## Challenges in Timely Performance Reporting

The Department works in partnership with schools, local educational agencies, state educational agencies, and postsecondary institutions to provide data about national education progress. In many cases, the information we provide has been gathered by schools, amassed at the district level, reported to states, and then forwarded to the Department for our use. For a school year ending in June, it is close to impossible for the Department to get this information in time to include it in the same year's *Performance and Accountability Report*.

For the school year ending June 2004, for example, schools report final year-end data to their districts in summer 2004. In the early fall, districts complete the process of forwarding data to their state departments of education. State agencies review, edit, and begin to aggregate the information. They follow up with those data providers that are late. They comply with their state-specific laws and policies about summing, reporting, and providing data to the U.S. Department of Education. Generally speaking, we begin to get their data in late fall and early winter. We follow up on missing data and perform our own edit checks and

analysis in late winter and early spring. It is not until near the end of school year (SY) 2004–05 that we have complete information about SY 2003–04. Institutions of higher education have a similar staged process for reporting postsecondary statistics.

Discretionary grantees report their final grant results directly to us, but regulations provide 60 to 90 days after the end of the award period (which may be multiple years) for them to submit their final reports. After receipt of the final reports, the Department checks and analyzes the data before performance results are compared to performance targets.

This time lag in reporting national education data is frustrating to the Department and to those to whom we report data. In the majority of cases, we report in this *Performance and Accountability Report* that 2004 education data are not yet available. Although the *FY 2004 Performance and Accountability Report* is designed to report the accomplishments of the FY 2004 year, we report the most recent data we have available and identify when data for the next cycle are expected. The Performance-Based Data Management Initiative and other Department efforts described in this appendix will reduce the data lag and improve data quality, but we do not foresee a feasible solution to reporting school-level data within five months of the school year-end.

In those cases where the Department collects data directly, such as the National Assessment of Education Progress (NAEP) and measures of our internal financial processes, we have more control over timing. We have reduced the data lag for NAEP from two years down to eight months for the last administration of the assessment, which was conducted in March 2003 and reported in November 2003. And we are able to report final or near-final data for all of our financial measures within 45 days of year-end.

The Department is operating with high-quality data and continues to work to improve the accuracy, reliability, and timeliness of data that we collect and to increase our effective use of the information. We continue to make substantial annual improvements in this area.



# Appendix C

## Sample Program

### Performance Report

## SAMPLE PROGRAM PERFORMANCE REPORT

Department of Education Programs with performance measures publish performance reports on the Department's Web site at <http://www.ed.gov/about/reports/annual/2004report/index.html>. Lists of the Department's programs are on pp. 59–60, 73, 81, and 94–95. A sample program performance report as it appears on the Web site is provided below.

### ESEA: Impact Aid Basic Support Payments and Payments for Children with Disabilities - 2004

**Program Goal: To provide appropriate financial assistance for federally connected children who present a genuine burden to their school districts**

**Objective 8.1 of 2: Make payments in a timely manner**

**Indicator 8.1.1 of 1: Timeliness of payments: The percent of eligible applicants who receive initial Basic Support and Children With Disabilities payments within 60 days after the enactment of an appropriation.**

Targets and Performance Data			Assessment of Progress	Sources and Data Quality
<i>Percentage of applicants paid within 60 days of appropriation.</i>			<p><b>Status:</b> Target exceeded</p> <p><b>Progress:</b> The Impact Aid Program continues to exceed the performance target in making timely payments to eligible applicants.</p> <p><b>Explanation:</b> Program managers have implemented performance standards for Impact Aid Program staff that support this performance target, supporting continued successful performance.</p>	<p><b>Frequency:</b> Annually.  <b>Collection Period:</b> 2004  <b>Data Available:</b> March 2004  <b>Validated By:</b> No Formal Verification.</p>
Year	Actual Performance	Performance Targets		
1997	75			
1998	87			
1999	13	90		
2000	96	90		
2001	73	90		
2002	63	90		
2003	98	90		
2004	95	90		
2005		90		

**Objective 8.2 of 2: Make accurate payments**

**Indicator 8.2.1 of 1: Overpayment forgiveness requests: The number of requests to forgive overpayments of Basic Support Payments, and payments for Children With Disabilities.**

Targets and Performance Data			Assessment of Progress	Sources and Data Quality
<i>Number of requests to forgive overpayments of Basic Support Payments</i>			<p><b>Status:</b> Target exceeded</p> <p><b>Progress:</b> The Impact Aid Program continues to improve payment accuracy, resulting in a reduced number of requests for overpayment forgiveness</p> <p><b>Explanation:</b> Review procedures have been implemented in recent years that have reduced the number of payment errors.</p>	<p><b>Frequency:</b> Annually.  <b>Collection Period:</b> 2003 - 2004  <b>Data Available:</b> October 2004  <b>Validated By:</b> No Formal Verification.</p>
Year	Actual Performance	Performance Targets		
1999	5	10		
2000	2	10		
2001	10	10		
2002	4	10		
2003	3	10		
2004		10		
2005		10		



# Appendix D Improper Payments Act of 2002

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## IMPROPER PAYMENTS IMPROVEMENT ACT REPORTING DETAILS

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### Student Financial Assistance Programs

Federal Student Aid (FSA) operates and administers the majority of Higher Education Act (HEA) Title IV student aid programs for the Department of Education. In fiscal year (FY) 2003, \$62 billion in aid was provided to students and families.

To ensure the integrity of the Title IV HEA programs, FSA has implemented an integrated control process, including system upgrades. FSA's oversight and monitoring of payments to students, schools, lenders, and Guaranty Agencies is effective and appropriately balances data integrity and accuracy with timeliness of payments.

Overall, FSA's program integrity controls, audit findings, and program review liability data suggest that the overall risk of improper payments in the Title IV HEA programs is relatively low. For example, in FY 2003, \$131 million in audit and program review liabilities were assessed. This is one-fifth of one percent of the funds provided to postsecondary students.

### Eligibility and Payment Oversight

To receive Title IV HEA funds, applicants must first establish their eligibility by submitting a Free Application for Federal Student Aid (FAFSA) to the Department. The FAFSA information is processed by the Department's Central Processing System (CPS), which performs a number of data matches to establish an applicant's eligibility. In addition, a subset of applicants is selected for verification. The verification process criteria are reviewed annually.

CPS provides the results of its processing to the postsecondary institutions (schools) designated by the applicant. Schools use this information to determine the type and amount of aid an applicant is eligible to receive. In addition, schools are required to collect additional documentation from those applicants selected for verification to substantiate the information provided on the FAFSA.

In the Direct Loan Program, schools draw funds via the Grants Administration and Payments System (GAPS) and either disburse those funds directly to students or credit their accounts. In the Federal Family Education Loan (FFEL) Program, funds are provided by private lenders to the schools. Institutions are held liable for the cost to government for subsidies and default reinsurance on loans made improperly on account of school error or malfeasance. In certain cases, schools are not allowed to directly draw funds. This allows FSA to provide additional controls over fund disbursement.

In the FFEL Program, guarantors request payment by using Forms 2000 and lenders use the Lender Reporting System. The information is processed by FSA's Financial Management System (FMS), which creates a payment file that goes to Treasury and an accounting file to post the entry into the Department's general ledger.

To assist in tracking funds, FSA maintains the National Student Loan Data System (NSLDS), a central database for student aid that includes data provided by schools, Guaranty Agencies, the Direct Loan program, the Pell Grant Program, and other student aid programs. NSLDS produces a centralized, integrated view of the Title IV HEA loans and Pell grants and tracks student aid from approval through closure.

### Initiatives and Oversight Activities

One of FSA's key initiatives for preventing improper payments is obtaining an effective data match with the Internal Revenue Service (IRS) to verify the income tax information reported by the applicant. A data match with the IRS was authorized as part of the reauthorization of the HEA in 1998. However, the match could not be implemented because tax return information cannot be disclosed unless authorized by the Internal Revenue Code itself. To enable the match, the Office of Management and Budget (OMB), Treasury, and the Department drafted legislation to amend Section 6103 of the Internal Revenue Code.

Such a match is important because the current process for determining the type and amount of aid an applicant can receive generally depends on the information

provided by the applicant. While FSA performs several data matches to verify some of this information, it cannot, under current legislation, perform a match with the IRS to verify reported income.

FSA has incorporated additional processes to prevent improper payments, including stricter controls for death and disability discharges of federal student loans, FAFSA-on-the-web edits to reduce data entry errors, restricting the ability of some schools to draw funds, Common Origination and Disbursement (COD) system edits to detect errors in new loan originations, and improved controls in the Guaranty Agency and lender payment processes such as enhancements to front-end reasonability edits and separation of duties.

In addition, to detect improper payments and to ensure compliance with program requirements, FSA requires all schools, lenders, and Guaranty Agencies to submit annual independent compliance audit reports.

Additionally, the Department's Office of Inspector General also audits a number of these entities each year. FSA staff review these audits and take appropriate follow-up actions. FSA staff also perform a certain number of program reviews at schools, lenders, and Guaranty Agencies each year. The liability information obtained from these activities plays an important part in FSA's assessment of improper payment risk to the Title IV HEA programs.

FSA's oversight efforts have resulted in improved compliance with Title IV HEA disbursement requirements. In 1994, there were approximately 8,500 postsecondary schools participating in the Title IV HEA programs; today only 6,160 postsecondary schools participate in the programs. Many schools lost their ability to participate in the Title IV HEA programs because of high loan default rates. However, other oversight tools also contributed to removing poorly performing schools from the programs. For example, all schools are required to submit independent audited annual financial statements. Those that fail certain regulatory standards are required to post letters of credit or are placed on reimbursement or heightened cash monitoring. All schools are also required to undergo a recertification process periodically. In addition, all new schools are placed on a one-year provisional

certification, and schools that change ownership are placed on a three-year provisional certification.

FSA also takes an active role in helping schools comply with regulations by conducting technical assistance visits and providing self-assessment tools. In addition, in an effort to further the continued decline of the national Cohort Default Rate (CDR), FSA provides a one-stop, on-line forum for schools, lenders, and Guaranty Agencies to share new ideas and information. Best practices and creative ideas in default prevention are posted.

The chart on p. 236 presents the improper payments estimates for FSA programs.

## Title I

The Department also performed a risk assessment of the Title I Program during FY 2004. The assessment documented that the risk of improper payments under the current statutory requirements is very low. However, one area that the Department is closely monitoring, in conjunction with the U.S. Department of Agriculture (USDA), is the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under USDA's National School Lunch Program, for this purpose. In many districts, these data are the only indicator of poverty available at the individual school level.

USDA has raised concerns about the reliability of these data. USDA is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

## Improper Payment (IP) Reduction Outlook FY 2003 - FY 2007

(Dollars in millions)

	Disbursement Amount	FY 2003		Improper Payment %				
		IP \$ Overawards	IP \$ Underawards	Estimated FY 03	Projected Estimate			
				FY 04	FY 05	FY 06	FY 07	
<b>Group I Payments to Students/Borrowers</b>								
Pell Grants	\$12,680	\$393	\$228	4.90%	4.90%	4.90%	4.90%	4.90%
<b>Campus-Based Programs</b>								
Work Study	1,203							
SEOG	962							
Perkins Loans	1,201							
LEAP	170							
<b>Guaranteed Student Loans</b>								
Stafford Loans	15,618							
Unsubsidized Stafford Loans	14,186							
PLUS	3,987							
<b>Direct Loans</b>								
Stafford Loans	5,790							
Unsubsidized Stafford Loans	4,519							
PLUS	1,660							
<b>Consolidation</b>								
FFEL	34,935							
Direct Loans	6,657							
Non-Program Specific Liabilities/Errors		145						
<i>Subtotal</i>	<b>\$103,568</b>	<b>\$538</b>	<b>\$228</b>	<b>0.74%</b>	<b>0.66%</b>	<b>0.68%</b>	<b>0.66%</b>	<b>0.63%</b>
<b>Group II Payments to Partners</b>								
<b>Administrative Payments to Schools</b>								
Pell Grants	\$26							
Work Study	75							
SEOG	39							
Perkins Loans	48							
<b>Payments to Guarantors and Lenders</b>								
FFEL Interest Benefits	1,224							
FFEL Special Allowance	452							
FFEL Default Claims	2,874							
FFEL Death, Disability, Bankruptcy	634							
Non-Program Specific Liabilities/Errors		31						
<i>Subtotal</i>	<b>\$5,372</b>							
<b>Total</b>	<b>\$108,940</b>	<b>\$569</b>	<b>\$228</b>	<b>0.73%</b>	<b>0.62%</b>	<b>0.63%</b>	<b>0.59%</b>	<b>0.55%</b>

*Note:* To be consistent with prior year the **Payments to Partners** section does not include FFEL Interest, Account Maintenance Fee, Loan Issuance and Processing Fee, new State Scholars Pilot, and Loan Forgiveness for Childcare. Projections based on the budget and moving averages.

## Remaining Grant Programs

The Department continues to refine its methods for assessing the potential risk of improper payments in its remaining grant programs. The Department routinely uses two reports that extract information from the Grant Administration and Payment System (GAPS). The *Excessive Drawdown Report* alerts Department staff to situations where grantees have drawn down cash, in any fiscal quarter, above established percentages of the total grant amount. Reviewing the pattern of such drawdowns enables program managers to quickly identify cases where, for example, grantees might be abusing federal funds through improper use or holding large amounts unnecessarily in private accounts.

The *Large Available Balance Report*, available in FY 2005, will identify projects where grantees have drawn little or no federal funds during the life of an award. This is a potential indicator of nonactivity and the risk of failing to perform under a grant. Department program managers have a variety of methods available for the management of grantees or projects that are determined to be at risk. For example, grantees can be required to get prior permission for certain types of expenditures that otherwise would not require Department approval. Another alternative is to require detailed quarterly financial reports to support close monitoring and oversight of a particular project or grant recipient.

Department program managers can also remove the grantees' ability in GAPS to draw down cash in advance of expenditure and place the grantee on a reimbursement-only method of payment. This permits program managers to review the expenditure prior to the disbursement of federal funds. Program managers also have the option to place a "stop payment" on awards temporarily until stated deficiencies are corrected. Another option available to program managers is the authority to deny grantees further funding by withholding award continuation under multi-year grants, or a grant can be suspended or terminated where warranted.

As another data source in this initial risk assessment, we reviewed the last two Office of Inspector General (OIG) Semiannual Reports (periods ending September 30, 2003, and March 31, 2004) to obtain data on the cost reported in OIG audits categorized as questioned or unsupported. These questioned or unsupported costs, if upheld during the audit resolution process, would represent improper payments.

The final data source used in this initial assessment was a listing of payments processed through the GAPS system that were for the same amount and made within one week of each other. The thought behind this listing is that investigating payments made to the same recipient in the same amount in the same week could lead to uncovering duplicate payments. A detailed review of the listing revealed that all of the payments were proper.

The following chart is a summary of the data gathered and the initial assignment of a relative risk rating.

Program	Percent on Stop Pay	Number of "Excessive" Drawdowns	Questioned or Unsupported Costs From Last Two OIG	Estimated FY 2004 Outlays*	Percent of Estimated Outlays	Relative Risk
Impact Aid	0%	-	-	1,347	-	Low
School Improvement Programs	.09%	4	3.2	8,957	.04%	Low
English Language Acquisition	0%	1	-	819	-	Low
Special Education	0%	-	0.1	9,107	.00%	Low
Rehabilitation Services & Disability Research	.15%	-	0.1	3,207	.01%	Low
Vocational & Adult Education	0%	-	0.3	1,932	.01%	Low
Higher Education	.12%	2	4.8	2,173	.22%	Low
Education Research, Statistics & Assessment	0%	1	-	598	-	Low

\* In millions of dollars

## Verification Plan

The Department realizes that the implementation of this initial risk assessment process draws on a limited data set and the assessment of the level of risk will need to be updated as the assessment process matures. In order to expand and strengthen the control process, the Department put in place a vehicle to complete a much more detailed risk assessment for these grants. We have established a memorandum of understanding with the Department of Energy’s Oak Ridge National Laboratory. They will perform data mining on information available in the Federal Audit Clearinghouse’s Single Audit Database, the Department’s GAPS database, the Department’s Audit Accountability and Resolution Tracking System and, potentially, other sources of data. The relevant data from these sources will be run through an algorithm to assign a relative level of risk to the Department’s non-FSA grant programs and recipients. This effort is to be completed by the end of the current calendar year. Any programs that this effort indicates to have an unacceptable level of risk will be targeted for additional sampling and verification efforts.

## Recovery Auditing Progress

To effectively address the risk of improper administrative payments, the Department executed a formal agreement for recovery auditing work on contract payments.

All vendor payment transactions made since 1998 were reviewed. Information from the Recovery Audit Contractor’s September 30, 2004, report for FY 2002 and FY 2003 is provided in the chart below. It is anticipated that the final amount to be collected will be less.

Fiscal Year	Number of Payments Reviewed	Total Payment Dollars Reviewed	Percent Potential Improper Payment Dollars
2002	14,642	1,141,146,000	0.0230%
2003	14,111	1,171,345,000	0.0264%

FY 2004 payments will be reviewed during FY 2005.

Our purchase and travel card programs continue to be subject to monthly data mining to identify potential misuse or abuse.

## Manager Accountability

As part of the Department’s agreement with Oak Ridge National Laboratory to assess and measure the risk of improper payments in the Department’s grant programs, a two-day improper payment workshop was held for Department managers. The goal was to increase the overall awareness of the requirements of the Improper Payments Information Act and gather manager feedback regarding the available methods and data available to effectively and efficiently measure the risk and amount of improper payments.

The Department also plans to develop manager’s internal control training that will focus on controls to eliminate improper payments. Managers will be required to attend a one-day seminar that will provide a framework for managing the Department’s improper payment controls program utilizing applicable regulations, guidelines, and best practices. Part of this one-day training will focus on the utilization of the risk assessment criteria to properly assess the risk of improper payments in the Department’s programs.

## Planned Corrective Actions

In addition, to the actions previously outlined under the Federal Student Aid Programs and Title I sections, the Department will configure our corrective action plans based on the results of the initiatives outlined above. The Department will record and maintain corrective action plans as required. These will include due dates, process owners, and task completion dates.

## Information Systems and Infrastructure

The Department has requested \$350,000 for FY 2005 and \$450,000 for FY 2006 in our budget submission. The funds will be used to continue the installation of a software-based risk model that provides the Department

with lists of items and entities to statistically sample for errors. It is also anticipated that the Department will incur costs related to migration activities.

In summary, the Department of Education is continuing its efforts to comply with the Improper Payments Information Act of 2002. The Department is focused on

identifying and managing the risks of improper payments problems and mitigating risk in this area with adequate control activities. With the implementation of our current and anticipated actions, we will maintain an effective program for reducing improper payments Department-wide.





# Appendix E Management Challenges



# MANAGEMENT CHALLENGES

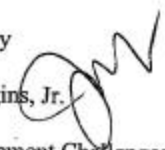


## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

### MEMORANDUM

DATE: September 17, 2004  
TO: The Secretary  
FROM: John P. Higgins, Jr.   
SUBJECT: 2004 Management Challenges of the Department of Education

Pursuant to the Reports Consolidation Act of 2000, we provide the attached management challenges for the Department for 2004. We look forward to continuing to work with the Department to improve the efficiency and effectiveness and to protect the integrity of its programs and operations.

Attachment

cc: Senior Officers

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*

Pursuant to the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) of the Department of Education identifies the following management challenges of the Department. These challenges are long-term management issues that require the continued focus and commitment of the Department. They are not a compilation of our recent audit findings, but rather issues that arise from our audit, inspection, and investigation work, our knowledge of the Department's and the Administration's initiatives, and our understanding of the statutory requirements imposed by Congress. As required by the statute, we also discuss the Department's progress in meeting these challenges.

### **CHALLENGE 1: HUMAN CAPITAL MANAGEMENT**

Comprehensive human capital planning that includes effective planning for future needs, recruitment, hiring, and development of its current workforce is a management challenge for the Department. When the Government Accountability Office (GAO) placed this issue on its high-risk list in 2001, it identified the fundamental problem facing federal agencies as the long-standing lack of a consistent strategic approach to managing and maintaining the workforce necessary for a more effective and efficient government.

#### ***Department's Progress***

In May 2004, the Under Secretary articulated five human capital expectations for the Department: effective and efficient hiring processes; performance standards that clearly articulate expected results; performance evaluations that differentiate among performance; pay for performance; and customized development and succession plans. Subsequently, the Department initiated steps to develop a comprehensive human capital plan, intending to complete the task by September 2004. Federal Student Aid (FSA) released its final human capital plan in July 2004. Also in July 2004, the Chief Human Capital Officer initiated an effort to see that each employee's performance plan includes standards that reflect clarity of results, focus on the Department's strategic goals, and communicate the five priorities expected from the employee during the performance period.

### **CHALLENGE 2: FINANCIAL MANAGEMENT**

The Department faces financial management challenges in implementing erroneous payments requirements and a new financial management system. The Improper Payments Information Act of 2002 greatly expanded the requirements for agencies to identify and reduce erroneous payments in the government's programs and activities. In addition, the Office of the Chief Financial Officer (OCFO) and FSA plan to re-implement the Oracle Federal Financials system as version 11i to take advantage of available enhancements and to stay current with Oracle-supported products. This implementation will consolidate the Department's and FSA's general and subsidiary ledgers and eliminate the need for complex system interfaces. A systems implementation of this magnitude is a significant and complex undertaking that must be carefully planned and diligently executed.

***Department's Progress***

The Department's and FSA's fiscal year (FY) 2003 financial statements received an unqualified audit opinion, and the FY 2003 Performance and Accountability Report (PAR) was submitted to the Office of Management and Budget (OMB) by the accelerated due date of November 15, one year ahead of the statutory implementation deadline for accelerated reporting. The Department also became the first cabinet level agency to receive a green score for financial management on its President's Management Agenda scorecard. The Department has issued the FY 2004 quarterly financial statements required by OMB. In addition, the Department plans to submit its FY 2004 PAR on or before November 15, 2004. These are major accomplishments toward strengthening financial management.

The Department has stated that it has completed its risks assessments of FSA and the Title I programs, has moved forward with assessing the risk of its remaining grant programs, and is expanding on its initial assessment of its grant programs. The Department also entered into a memorandum of understanding with the Oak Ridge National Laboratory to perform data mining on information from various sources.

The Department's target date to go live with the Oracle 11i system is October 2006. The Department has developed a four-tier approach for implementing the system: conduct impact assessments, develop an upgrade strategy and approach, develop a detailed implementation plan, and implement version 11i.

**CHALLENGE 3: FEDERAL STUDENT AID PROGRAMS**

The Department's challenges related to its annual \$65 billion student financial assistance programs, and its outstanding loan portfolio of over \$300 billion, are oversight and program review, reducing improper payments in the Pell grant program, and encouraging innovative educational program delivery without jeopardizing program integrity.

FSA is responsible for oversight of about 6,000 schools, three dozen guaranty agencies, more than 3000 lenders, and many third-party servicers retained by these entities. A challenge is for FSA to provide adequate oversight and program review of these institutions to reduce abuse in these programs.

The Department estimated that \$365 million in Pell grants was improperly disbursed in FY 2003 because applicants understated their income. The 1998 amendments to the Higher Education Act (HEA) appeared to provide FSA the authority to verify applicant income with the IRS, but did not make corresponding changes to the Internal Revenue Code to authorize disclosure of confidential tax information to FSA. Until the Internal Revenue Code is amended to allow for an income match with income reported on the FAFSA, the challenge remains for the Department to use alternative methods to reduce improper payments in the Pell Grant program.

Advances in technology and the growth of the Internet have led to an increasing number of students pursuing distance education. The Department's challenge is to encourage innovative educational program delivery while ensuring accountability of taxpayer dollars and preserving the integrity of the student aid programs.

#### ***Department's Progress***

FSA is in the initial stages of developing an improved electronic management system to provide case teams electronic access to all information on a school, which should improve its process for reviews of statutorily required audits and school recertifications. FSA also is in the process of implementing a corrective action plan to address the weaknesses identified by OIG related to guaranty agency oversight.

The Department has made a commitment to address factors that resulted in the student aid programs' placement on GAO's high-risk list and has made progress in reducing risk in these areas. On August 9, 2002, in a joint letter to Congress, Secretary Paige, Treasury Secretary O'Neill, and OMB Director Daniels submitted a legislative proposal to amend the Internal Revenue Code to allow for a very limited disclosure of certain taxpayer information, but only after a series of safeguards designed to protect taxpayer confidentiality were implemented. Legislation that would permit this income match is pending before Congress.

The 1998 reauthorization of the HEA created the Distance Education Demonstration Program. The Department is charged with administering the program and monitoring the participants.

#### **CHALLENGE 4: INFORMATION TECHNOLOGY**

The Department faces information technology (IT) challenges, including the need to adequately manage and safeguard IT assets and meeting electronic-government requirements. The Department's more than 70 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to develop a mature IT investment management capability, a well-defined enterprise architecture, and a robust system acquisition/development life cycle methodology. It also needs to ensure that these systems are secure, in accordance with the Federal Information Security Management Act of 2002, to protect the data they contain and the operations they support.

The Department faces a challenge in managing a transition to government-wide system solutions because of their potential to dramatically change the "back-office" operating environment. For example, OMB's Lines of Business initiatives are directed at financial management, grant management and human resources, and encompass other Executive Branch electronic-government initiatives. In addition, to reduce the risk of program fraud, waste, and abuse that could arise from possible misuse, the Department needs to

employ appropriate Personal Identification Number (PIN)-based electronic authentication.

#### ***Department's Progress***

The Department has continued its efforts to strengthen and detail enterprise architecture artifacts, so that they can consistently be used as an effective IT governance tool. The Department also has devoted considerable time and resources to enhance security for its systems, including formally certifying most of its general support systems and major applications. We noted that the process did not adequately identify the residual risks that Department officials were accepting at the time of system certification, and the Department developed a corrective action plan, which it anticipates completing by December 2004. During FY2004, the Department also completed its *Critical Infrastructure Protection Mission Essential Infrastructure Interdependency Study*, and plans to use the results of this study to test critical interdependencies during its annual Disaster Recovery testing.

The Department has embarked on several modernization efforts that have the potential to increase business efficiency and significantly improve customer service. These are in various stages of conceptualization and development. The Department is also implementing PINs in FSA.

### **CHALLENGE 5: PROGRAM PERFORMANCE AND ACCOUNTABILITY**

The Department's management challenges in program performance and accountability are to ensure data reliability and to conduct adequate monitoring. A major focus of the No Child Left Behind Act of 2001 is the need for states to report on performance in areas such as teacher quality and student achievement. The utility of this reporting will depend on the collection of reliable data. The same is true for other Department programs, such as Migrant Education, that also rely upon data from the states to make important program decisions.

We continue to identify significant accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas. In addition, we continue to identify other entities, including school districts, to the Department for consideration of high-risk status and appropriate special conditions. An increased awareness by program managers about their responsibility to oversee programs carefully, rather than focus exclusively on technical assistance, would help protect program integrity.

#### ***Department's Progress***

The Department is responding to data reliability problems. The Office of Elementary and Secondary Education (OESE) stated that it is using its Title I monitors and state contacts to monitor progress on report submissions and working with states on data quality issues as part of its monitoring process. OESE is also updating its monitoring guide to include

questions about controls over scoring of state assessments, and it plans to publish a summary from its monitoring visits for the past year. The Office of Special Education and Rehabilitative Services stated that it is developing corrective actions in conjunction with an outside consultant hired by the Rehabilitation Services Administration. The Office of Vocational and Adult Education stated that it is implementing enhancement efforts for technical assistance and revising its reporting instrument to require states to provide additional information to support their attestation that data are accurate, complete, and reliable.

The Department's inter-office Insular Affairs Committee is undertaking projects to address accountability and compliance issues identified by our work. The Department has placed several grantees on high-risk status with special conditions placed on future funding. In the past year, the Department also has increased its site visits to these entities. The Department's recent initiative to reengineer its grants monitoring process reflects the importance it is placing on improving its monitoring process.

### **CHALLENGE 6: PROCUREMENT**

Improving contractor oversight to ensure that contract terms and conditions are met and that high-quality goods and services are received is a management challenge for the Department. GAO lists acquisition as a major management function that is key to high-performing organizations. The Department contracts for many services that are critical to its operations, at a value of over \$800 million in FY 2003. Implementation of the Federal Activities Inventory Reform Act of 1998 and the Administration's emphasis on competitive sourcing are likely to lead to additional contracts for services now performed by Department staff. The Department needs to improve its monitoring of these contracts.

#### ***Department's Progress***

The Department recently reissued its directive, Contract Monitoring for Program Officials (the previous version was from 1987), without substantial change from the prior policy. FSA recently issued an Audit Review Guide to assist with monitoring of its private collection agency contractors.



# Glossary of Acronyms

## GLOSSARY OF ACRONYMS

AARTS	Audit Accountability and Resolution and Tracking System	EDPAS	Education Department Performance Appraisal System
ACSI	American Customer Satisfaction Index	EELIAS	Evaluation of Exchange, Language, International, and Area Studies
AEFLA	Adult Education and Family Literacy Act	ERDDI	Educational Research, Development, Dissemination and Improvement Act
AID	Aid for Institutional Development	ERIC	Education Resources Information Center
AP	Advanced Placement	ESEA	Elementary and Secondary Education Act
APEB	Act to Promote the Education of the Blind	ESL	English as a Second Language
ATA	Assistive Technology Act	ESRA	Education Sciences Reform Act
AYP	Adequate Yearly Progress	FAFSA	Free Application for Federal Student Aid
C&A	Certification and Accreditation	FASAB	Federal Accounting Standards Advisory Board
CBS	Common Services for Borrowers	FBCO	Faith-Based and Community Organization
CDR	Cohort Default Rate	FECA	Federal Employees Compensation Act
CFDA	Catalog of Federal Domestic Assistance	FERS	Federal Employees Retirement System
CHAFL	College Housing and Academic Facilities Loans	FFB	Federal Financial Bank
CHL	College Housing Loans	FFEL	Federal Family Education Loan
COD	Common Origination and Disbursement	FFMIA	Federal Financial Management Improvement Act
C-PAL	Community Partnership for Adult Learning	FIE	Fund for the Improvement of Education
CPS	Central Processing System	FIPSE	Fund for the Improvement of Postsecondary Education
CRA	Civil Rights Act	FISMA	Federal Information Security Management Act
CREO	Council for Reform and Educational Options	FMFIA	Federal Managers' Financial Integrity Act
CSB	Common Services for Borrowers	FPPS	Federal Personnel and Payroll System
CSRS	Civil Service Retirement Systems	FSA	Office of Federal Student Aid
DCIA	Debt Collection Improvement Act	FTE	Full-Time Equivalent
DCMS	Debt Collection Management Systems	FY	Fiscal Year
DM	Department Management	GAAP	Generally Accepted Accounting Principles
DEOA	Department of Education Organization Act	GAO	Government Accountability Office
DOEAA	Department of Education Appropriations Act	GAPS	Grant Administration and Payment System
EDA	Education of the Deaf Act	GED	General Educational Development
EDCAPS	Education Department's Central Automated Processing System		
EDEN	Education Data Exchange Network		

GEAR UP	Gaining Early Awareness and Readiness for Undergraduate Programs	MECEA	Mutual Educational and Cultural Exchange Act of 1961
GEO	Greater Educational Opportunities	MIS	Management Information Systems
GISRA	Government Information Security Reform Act	MVHAA	McKinney-Vento Homeless Assistance Act
GPRA	Government Performance and Results Act	NAEP	National Assessment of Educational Progress
GSA	General Services Administration	NCER	National Center for Educational Research
HBCUs	Historically Black Colleges and Universities	NCES	National Center for Education Statistics
HEA	Higher Education Act	NCLB	No Child Left Behind Act
HEFL	Higher Education Facilities Loans	NCVS	National Crime Victimization Survey
HEP	Higher Education Programs	NHES	National Household Education Survey
HKNCA	Helen Keller National Center Act	NIDDR	National Institute of Disability and Rehabilitation Research
HOUSSE	High, Objective, Uniform State Standard of Evaluation	NIST	National Institute of Standards and Technology
HSIs	Hispanic-Serving Institutions	NLA	National Literacy Act
IB	International Baccalaureate	NSF	National Science Foundation
IC	Information Collection	NSLDS	National Student Loan Data System
IDEA	Individuals with Disabilities Education Act	OCFO	Office of the Chief Financial Officer
IES	Institute of Education Sciences	OCR	Office for Civil Rights
IG	Inspector General	ODS	Office of the Deputy Secretary
IHEs	Institutions of Higher Education	OE	Operational Efficiencies
IP	Improper Payments	OELA	Office of English Language Acquisition
IPEDS	Integrated Postsecondary Education Data System	OESE	Office of Elementary and Secondary Education
IPIA	Improper Payments Information Act	OIG	Office of Inspector General
IPMS	Integrated Partner Management Solution	OII	Office of Innovation and Improvement
IRS	Internal Revenue Service	OM	Office of Management
ISIR	Institutional Student Information Record	OMB	Office of Management and Budget
IT	Information Technology	OPE	Office of Postsecondary Education
ITAM	IT Asset Management	OPM	Office of Personnel Management
IUS	Internal Use Software	OSDFS	Office of Safe and Drug-Free Schools
LaRS	Lenders Reporting System	OSEP	Office of Special Education Programs
LEA	Local Educational Agency	OSERS	Office of Special Education and Rehabilitative Services
Local-Flex	Local-Flexibility Demonstration Program	OUS	Office of the Under Secretary

*Glossary of Acronyms*

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OVAE	Office of Vocational and Adult Education	SRSA	Small, Rural School Achievement
PAR	Performance and Accountability Report	SSIM	Standard Student Identification Methodology
PART	Program Assessment Rating Tool	SSS	Student Support Services
PBDMI	Performance-Based Data Management Initiative	State-Flex	State-Flexibility Authority
Perkins III	Carl D. Perkins Vocational and Technical Education Act	STAR	<b>ST</b> udent <b>A</b> chievement in <b>R</b> eadin <b>G</b>
PL	Public Law	SY	School Year
Project SERV	School Emergency Response to Violence	TASSIE	Title I Accountability Systems and School Improvement Efforts
RA	Rehabilitation Act	TCUs	Tribal Colleges and Universities
REAP	Rural Education Achievement Program	TRIO	A group of grant programs under the HEA, originally three programs; not an acronym
RERC	Rehabilitation Engineering Research Center	USDA	U.S. Department of Agriculture
RM	Record Retention and Management	USC	United States Code
RSA	Rehabilitation Services Administration	VR	Vocational Rehabilitation
SAMHSA	Substance Abuse and Mental Health Services Administration	VTEA	Vocational and Technical Education Act
SBR	Statement of Budgetary Resources	WISCI	Walking Index for Spinal Cord Injury
SDLC	System Development Life Cycle	WO	Web Site Operations
SEA	State Educational Agency	WWC	What Works Clearinghouse
SFA	Student Financial Assistance	XML	Extensive Markup Language
SLM	Student Loan Model	YRBSS	Youth Risk Behavior Surveillance System
SOF	Statement of Financing		





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