FY 2019

AGENCY FINANCIAL REPORT

U.S. DEPARTMENT OF EDUCATION

U.S. Department of Education
Betsy DeVos
Secretary

Office of Finance and Operations
Denise Carter
Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

November 15, 2019

This report is available at **http://www.ed.gov/about/reports/annual/index.html**.

NOTICE OF AVAILABILITY OF ALTERNATE FORMATS

On request, the report also is available in alternative formats, such as Braille, large print, or compact disc. For more information, please contact our Alternate Format Center at 202-260-0852 or the 504 coordinator via e-mail at **om_eeos@ed.gov**.

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If you have difficulty understanding English, you may request language assistance services, free of charge, for this Department information by calling 1-800-USA-LEARN (1-800-872-5327) (TTY: 1-800-877-8339), or by e-mailing us at **Ed.Language.Assistance@ed.gov**.

For Fiscal Year 2019, in addition to the *Agency Financial Report* (AFR), the Department will post to its website the *Annual Performance Report* (APR). The APR and the Congressional Budget Justification will be posted on the Department's website at **http://www.ed.gov/about/reports/annual/index.html** with the FY 2021 budget.

Please submit your comments and questions regarding this report, and any suggestions to improve its usefulness to **AFRComments@ed.gov** or write to:

Office of Finance and Operations
U.S. Department of Education
Washington, D.C. 20202-0600

ABOUT THIS REPORT

The purpose of the United States Department of Education's (the Department) Fiscal Year (FY) 2019 *Agency Financial Report* (AFR) is to inform Congress, the President, other external stakeholders, and the American people on how the Department used the federal resources entrusted to it to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department accomplishes its mission and the related strategic goals and objectives by administering programs that range from preschool education through postdoctoral research; enforcing civil rights laws to provide equal access and treatment; and supporting research that examines ways that states, schools, districts, and postsecondary institutions can improve America's education system. As evidenced by the information contained in this AFR, the Department has demonstrated that it is a good steward of financial resources and has put in place well-controlled and well-managed business and financial management systems and processes.

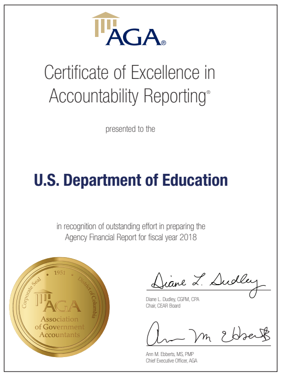
The AFR also provides high-level financial and performance highlights, assessments of controls, a summary of challenges, and a demonstration of the Department's stewardship. This report is required by legislation and complies with the requirements of the Office of Management and Budget's (OMB) Circulars A-11, *Preparation, Submission, and Execution of the Budget*; A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*; and A-136, *Financial Reporting Requirements*. The report satisfies the reporting requirements contained in the following legislation:

- ***Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA)**
- ***Improper Payments Elimination and Recovery Act of 2010* (IPERA)**
- ***Government Performance and Results Act (GPRA) Modernization Act of 2010***
- ***Federal Information Security Management Act of 2002***
- ***Reports Consolidation Act of 2000***
- ***Federal Financial Management Improvement Act of 1996***
- ***Government Management Reform Act of 1994***
- ***Chief Financial Officers Act of 1990***
- ***Federal Managers' Financial Integrity Act of 1982***
- ***General Education Provisions Act***
- ***Department of Education Organization Act of 1979***

Federal Student Aid (FSA), a principal office of the Department and a designated Performance-Based Organization, also produces a separate *Annual Report* that details their financial and program performance. Summary level information about FSA activities can be found in the applicable sections of this report. For more detail on FSA's performance and financial information, refer to **StudentAid.gov**.

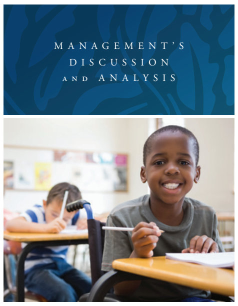
CERTIFICATE OF EXCELLENCE

The Department won its 15th prestigious Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its FY 2018 AFR. Additionally, the Department was awarded with a Best-in-Class award in recognition of its articulation of future challenges.



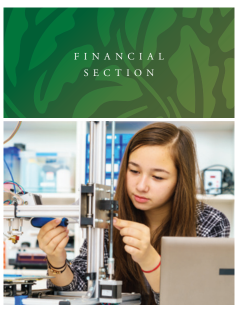
HOW THIS REPORT IS ORGANIZED

The AFR is designed to focus on use of federal resources provided to or distributed by the Department to support its mission, with an emphasis on the challenges ahead.



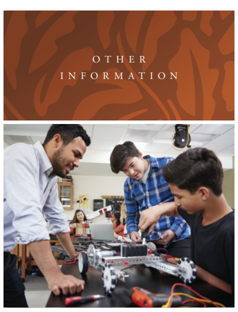
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides information about the Department's mission and organizational structure as well as its high-level performance results, financial highlights, management assurances regarding internal controls, and forward-looking information.



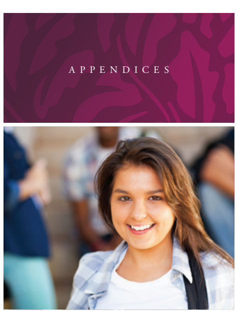
FINANCIAL SECTION

This section provides a message from the Chief Financial Officer, the financial statements and notes, required supplementary information and supplementary stewardship information, and the report from the independent auditors.



OTHER INFORMATION

This section provides the Office of Inspector General's Management and Performance Challenges for FY 2020, a summary of financial statement audit and management assurances, payment integrity reporting details, a fraud reduction report, a summary of the Department's efforts to implement the reduce the footprint policy, and the civil monetary penalty adjustment for inflation.



APPENDICES

This section provides a listing of selected Department web links, education resources, and a glossary of acronyms and abbreviations.

KEY ACCOMPLISHMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In January 2019, the Department went through a reorganization as a part of an Administration-wide commitment to making government more efficient, effective, and accountable. To view the new organization chart, see page 4.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In February 2019, FSA awarded the first major element in the multistage procurement process for Next Gen FSA, the Digital and Customer Care contract. To read more, see page 26.

FINANCIAL SECTION

Effective January 2019, Denise Carter was delegated the authority to perform the functions and duties of the position of Chief Financial Officer (CFO). Find her CFO letter, which highlights the Department's financial progress, on page 31.

FINANCIAL SECTION

There are two new notes to the financial statements for FY 2019, see pages 67 and 69.

OTHER INFORMATION

The Department performed improper payment risk assessments for 266 grant activities (formula grants and discretionary grant competitions) under approximately 120 program authorities and did not identify any grant programs that are susceptible to significant improper payments.

OTHER INFORMATION

In FY 2019, FSA implemented a statistically valid methodology to estimate improper payment rates for the Pell Grant (Pell) and Direct Loan (DL) programs. The updated approach is compliant with OMB requirements and produced more accurate improper payment rate estimates of 2.23% and 0.52% for the Pell and DL programs, respectively.

APPENDICES

A new acronym has been added to the Glossary this year: OFO, which stands for the newly created Office of Finance and Operations.

APPENDICES

The Projection of Education Statistics link has been updated to reflect 2027 projections.

MESSAGE FROM THE SECRETARY

November 15, 2019

As this Administration continues to focus on improving student achievement, I would like to note the Department's accomplishments this past fiscal year and plans for the next year. We continue our focus on putting students' needs first. All students are unique and deserve access to personalized education opportunities which help them achieve their full potential. By keeping students at the center of all we do, we are able to better execute the Department of Education's mission to promote student achievement and preparation for global competitiveness by fostering educational excellence.

I'd like to highlight a few ways in which we've empowered students and their families as well as state and local leaders and invite you to learn more about the Department's annual operations in this report. This year, the Department unveiled our Education Freedom Scholarships (EFS) proposal. This historic investment in America's students would establish a $5 billion federal tax credit to encourage voluntary donations to state law-based scholarship granting organizations for elementary and secondary students. Students receiving scholarships would be empowered to choose the learning environment and style that best meets their unique needs. The policy would not rely on any funds currently allocated to public education, nor would it create a new federal education program. Participation would be voluntary for students, schools, and states. Education Freedom Scholarships will finally give students the opportunity to learn in places and grow in ways that have too often been denied to them.

Students and their unique needs are also at the heart of the Department's implementation of the *Every Student Succeeds Act (ESSA)*. ESSA is an acknowledgment that the federal government doesn't know best when it comes to educating our nation's students. Our focus is on returning power where it belongs, to those closest to students: parents, states, and local leaders. The flexibilities included in ESSA are wide-ranging, and we continue to encourage state and local leaders to embrace them to better serve students.

We believe teachers need flexibility and autonomy as well. That's why in the President's proposed budget for fiscal year 2020 we included an innovative approach to empowering teachers with greater freedom to chart professional development journeys of their own choosing. These "teacher vouchers" would free teachers to improve and innovate for their students on their own terms, funded by a proposed $300 million investment in Education Innovation and Research Grants. Additionally, our proposed $200 million investment in Teacher and School Leaders Incentive Grants would help ensure teachers have access to high-quality mentoring and residency programs.

As a part of our effort to rethink higher education and encourage students of all ages to find the right education fit for them, we proposed reforms related to accreditation, distance education and innovation, Teacher Education Assistance for College and Higher Education (TEACH) Grants, and faith-based institutions. Our proposed accreditation reform modernizes the Department's standards and eliminates the artificial divide between regional and national accreditors—a divide which harms students, limits opportunities, and misleads students about academic quality. The distance education regulation clarifies requirements for technologies that enable personalized learning and ensures that college credits mean the same thing from one institution to the next. It does so while allowing space for nontraditional technologies to measure learning in ways not strictly tied to time spent behind a desk.

We've also proposed changes to the TEACH Grant Program. These changes would simplify program requirements and minimize the number of grants that are inadvertently converted to loans, helping to ensure that TEACH Grant recipients who go on to teach in high-need fields at low-income schools get the credit they deserve for their service.

In addition, our rulemaking effort for faith-based institutions will help ensure institutions are not forced to abandon the tenets of their faith to receive federal support.

Over the past year, our Office of Federal Student Aid has worked diligently to transform the delivery of financial aid to millions of students and their families through our Next Generation (Next Gen) Financial Services Environment. Upon completion, this major transformation will modernize technology and operational components that support federal student aid programs—from application to repayment. We launched the *myStudentAid* app, which allows students and parents to easily complete the Free Application for Federal Student Aid (FAFSA®). We also improved the College Scorecard to include information on 2,100 certificate-granting institutions in addition to 3,700 degree-granting institutions. The Scorecard now contains preliminary information on student loan debt by field of study. And, in support of our veterans, the President signed a memorandum to automatically forgive federal student loan debt for those veterans who are totally and permanently disabled.

In rethinking career, technical, and adult education, we focused on expanding the Second Chance Pell experiment by allowing new higher education institutions to participate. This important experiment has already provided many students with new opportunities that prepare them for success upon reentry, and adding additional students and institutions to the experiment will help to improve the Department's ability to evaluate the program's effectiveness.

We've also made a concerted effort to engage more closely with state and local leaders by launching a State Education Leadership Conference series. This initiative gave Department leaders the opportunity to engage firsthand with state and local officials who are on the front lines of education decision making in their respective states. We held productive sessions with officials from Georgia, Kentucky, Tennessee, and North Carolina.

Finally, we launched the Federal Commission on School Safety website, which features the final report of the Commission along with recommendations for keeping students, teachers, and faculty safe at school. The website also includes a Frequently Asked Questions page that consolidates previously issued guidance and technical assistance into a single resource to help raise schools' and districts' awareness of supports available to them. Further, to carry out one of the key recommendations of the final report, the Departments of Education, Homeland Security, Health and Human Services, and Justice, will launch a much-anticipated school safety clearinghouse website—a useful resource to state and local school officials, law enforcement authorities, mental health professionals, and others to help keep students safe.

Sound stewardship of taxpayer funds is a priority for our Department, and I have been assured that the financial data included in this *Agency Financial Report* are complete and reliable in accordance with federal requirements. The financial report includes information and assurances about the Department's financial management systems and controls as well as control and compliance challenges noted by the Department. Similarly, the Department's related *Annual Performance Report and Annual Performance Plan (Report and Plan)* provides information on the overall performance of the Department as a federal agency. Each year this Report and Plan accompanies the Department's annual budget submission and links performance goals with resources for achieving targeted levels of performance.

This year, the Department received an unmodified or "clean" opinion on its FY 2019 financial statements. Last year, the internal control report identified one material weakness, "Controls over the Reliability of Information Used in the Modeling Activities Need Improvement," for which the Department has developed corrective action plans that have been implemented over the past year. Nonetheless, a material weakness for this area was again included in this year's audit report. The Department remains committed to addressing this material weakness.

None of these during the past year would be possible without the hard work and dedication of Department staff. Together, we have made significant strides in promoting student achievement and preparing students for success.

Betsy DeVos

Betsy DeVos

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CONTENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THE MANAGEMENT'S DISCUSSION AND ANALYSIS

The U.S. Department of Education (the Department) continued to enhance the content quality, report layout, and public accessibility of the Fiscal Year (FY) 2019 *Agency Financial Report* (AFR) by refining graphics and providing more useful, balanced, and easily understood information about the Department's loan programs, including additional cost and risk information. Additionally, we chose relevant web content to provide users with additional information about the Department's operations and performance. To take advantage of the hyperlinks embedded in the report, the Department recommends reading it **on the Internet**. To help us continue to improve the quality and usefulness of information provided in our AFR, we encourage our public and other stakeholders to provide feedback and suggestions at **AFRComments@ed.gov**.

This section highlights information on the Department's performance, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address select challenges.

MISSION AND ORGANIZATIONAL STRUCTURE

This section provides information about the Department's mission, an overview of its history, and its structure. The active links include the organization chart and principal offices and a link to the full list of **Department offices** with a description of selected offices by function.

THE DEPARTMENT'S APPROACH TO PERFORMANCE

This section provides a brief summary of the Department's performance goals and results for FY 2019. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2019 will be provided in the Department's *Annual Performance Report* to be released online at the same time as the President's FY 2021 Budget in February 2020. For more information, prior year performance reports can be found on the Department's website. We also urge readers to seek programmatic data as it is reported in the Congressional Budget Justification, as well as on the web pages of individual programs. Any questions or comments about the Department's performance reporting should be e-mailed to **PIO@ed.gov**. For more details on performance, please refer to the Department's budget and performance web page at **www.Performance.gov**.

FINANCIAL HIGHLIGHTS

The Department expends a substantial portion of its budgetary resources and cash on multiple loan and grant programs intended to support state and local efforts to improve learning outcomes for all prekindergarten through 12th grade (P–12) students in every community and to expand postsecondary education options and improve outcomes to foster economic opportunity and informed, thoughtful, and productive citizens. Accordingly, the Department included more high-level details about sources and uses of the federal funds received and net costs by program.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Department's internal control framework and its assessment of controls, in accordance with Office of Management and Budget (OMB) Circular A-123, ***Management's Responsibility for Enterprise Risk Management and Internal Control***, provide assurance to Department leadership and external stakeholders that financial data produced by the Department's business and financial processes and systems are complete, accurate, and reliable.

FORWARD-LOOKING INFORMATION

The Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on Enterprise Risk Management (ERM), Direct Loans, Next Gen Federal Student Aid (FSA), Leveraging Data as a Strategic Asset, and Technology Business Management Solutions (TBMS).

ABOUT THE DEPARTMENT

OUR MISSION

The U.S. Department of Education's mission is *to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*

Who We Are. In 1867, the federal government recognized that furthering education was a national priority and created a federal education agency to collect and report statistical data. The Department was established as a cabinet-level agency in 1980. Today, the Department supports programs in every area and level of education from preschool through postdoctoral research.

The **Department** makes funds and information available to individuals pursuing education, colleges and universities, state education agencies, and school districts by engaging in four major types of activities:

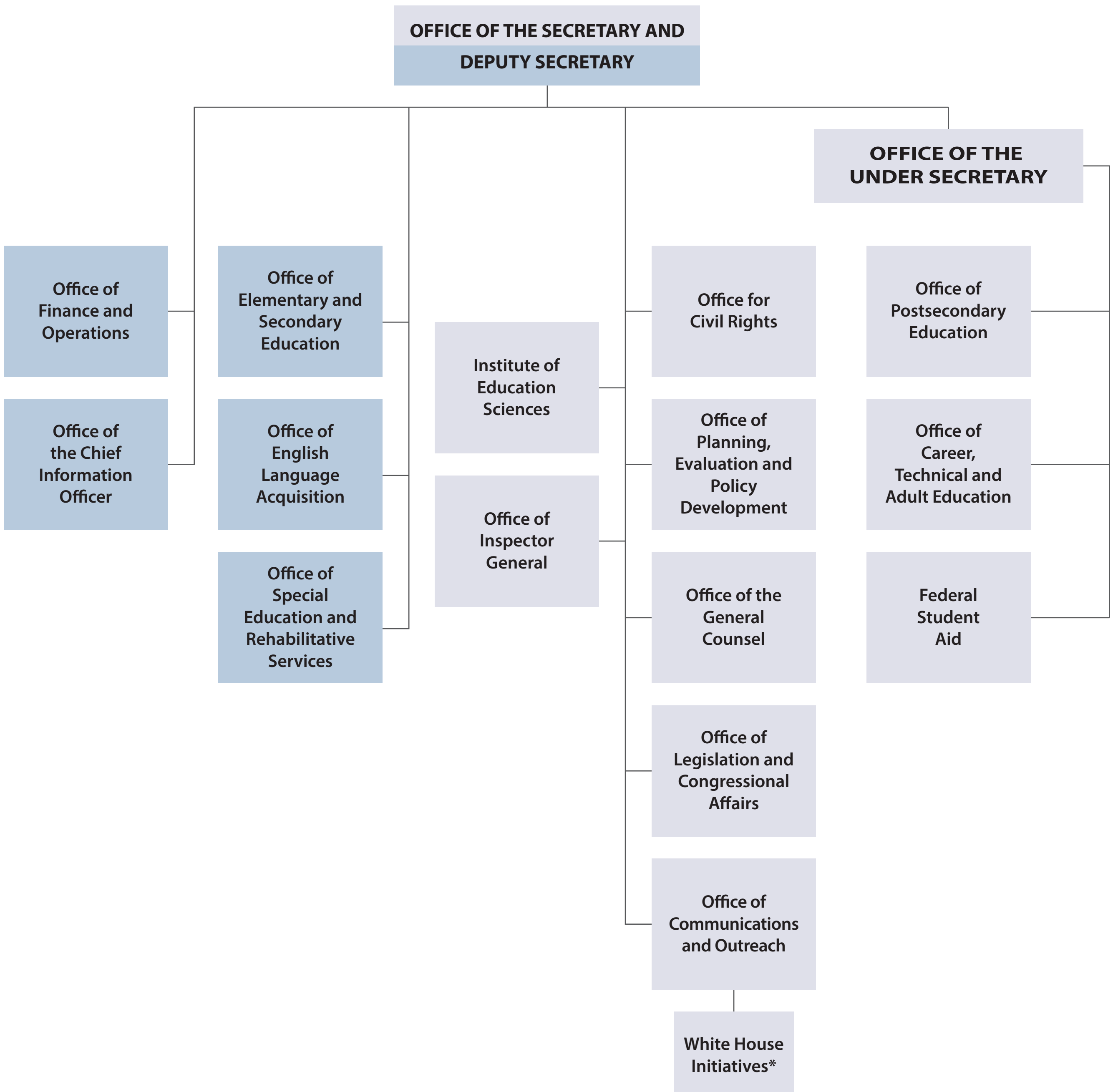
- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds;
- Supporting data collection and research on America's schools;
- Identifying major issues in education and focusing national attention on them; and
- Enforcing federal laws promoting equal access and prohibiting discrimination in programs that receive federal funds.

Our Public Benefit. The Department executes the laws passed by Congress to promote student academic achievement and preparation for global competitiveness. The Department works with students, parents, educational institutions, school districts, and states to foster educational excellence and to ensure equal access to a high quality education for all students. While recognizing the primary role of states and school districts in providing high quality education, the Department is committed to helping ensure students throughout the nation develop skills to succeed in school, pursue postsecondary options, and transition to the workforce. The Department's vision is to improve educational outcomes for all students.

Many of the Department's programs involve awarding grants to state and local educational agencies and providing grants and loans to postsecondary students. The Department's largest outlays are for its portfolio of student loans (see the **Financial Highlights** and **Notes** sections). Grant programs constitute the second-largest driver of outlays. The grant programs include: student aid to help pay for college through Pell Grants, Work Study, and other campus-based programs; grants awarded based on statutory formulas mostly for elementary and secondary education; and competitive grant programs to promote innovation. The Department also supports research, collects education statistics, and enforces civil rights statutes. We manage and spend financial resources on programs designed to support parents, teachers, principals, school leadership, institutions, and states in the pursuit of instilling knowledge and transferring skills to students.

OUR ORGANIZATION IN FISCAL YEAR 2019

This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2019 coordinating structure of the Department is available.



* The White House Initiatives are Center for Faith and Opportunity Initiatives, White House Initiative on American Indian and Alaska Native Education, White House Initiative on Educational Excellence for Hispanics, and White House Initiative on Educational Excellence for African Americans.

THE DEPARTMENT'S APPROACH TO PERFORMANCE

PERFORMANCE MANAGEMENT FRAMEWORK

In accordance with the *GPRA Modernization Act of 2010*, the Department's framework for performance management starts with the four-year *Strategic Plan*, including its two-year Agency Priority Goals (APGs), which serve as the foundation for establishing and implementing long-term priorities and performance goals, objectives, and measures by which the Department can gauge achievement of its stated outcomes. Progress towards the Department's strategic goals and its APGs is measured using data-driven review and analysis. Additional information on performance management is available in the *Annual Performance Plans and Annual Performance Reports*.

The *FY 2018–22 Strategic Plan* is comprised of four strategic goals and four FY 2018-19 APGs. The *Strategic Plan* aims to align the Administration's yearly budget requests and the Department's legislative agenda, supported by the considerable experience and resources available from its internal staff. The Department continues to welcome input from Congress, state and local partners, and other education stakeholders about the *Strategic Plan*. Questions or comments about the *Strategic Plan* should be emailed to **PIO@ed.gov**.

FY 2018–22 Strategic Goals and Strategic Objectives[1]

Strategic Goal 1: Support state and local efforts to improve learning outcomes for all prekindergarten–grade 12 students in every community.	
Strategic Objective 1.1	Increase high-quality educational options and empower students and parents to choose an education that meets their needs.
Strategic Objective 1.2	Provide all prekindergarten - grade 12 students with equal access to high-quality educational opportunities.
Strategic Objective 1.3	Prepare all students for successful transitions to college and careers by supporting access to dual enrollment, job skills development and high-quality science, technology, engineering and mathematics (STEM).
Strategic Objective 1.4	Support agencies and institutions in the implementation of evidence-based strategies and practices that build the capacity of school staff and families to support students' academic performance.
Strategic Goal 2: Expand postsecondary educational opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful and productive citizenry.	
Strategic Objective 2.1	Support educational institutions, students, parents and communities to increase access and completion of college, lifelong learning and career, technical and adult education.
Strategic Objective 2.2	Support agencies and educational institutions in identifying and using evidence-based strategies or other promising practices to improve educational opportunities and successfully prepare individuals to compete in the global economy.
Strategic Objective 2.3	Support agencies and educational institutions as they create or expand innovative and affordable paths to relevant careers by providing postsecondary credentials or job-ready skills.
Strategic Objective 2.4	Improve quality of service for customers across the entire student aid life cycle.
Strategic Objective 2.5	Enhance students' and parents' ability to repay their federal student loans by providing accurate and timely information, relevant tools and manageable repayment options.
Strategic Goal 3: Strengthen the quality, accessibility and use of education data through better management, increased privacy protections and transparency.	
Strategic Objective 3.1	Improve the Department's data governance, data life cycle management and the capacity to support education data.
Strategic Objective 3.2	Improve privacy protections for, and transparency of, education data both at the Department and in the education community.
Strategic Objective 3.3	Increase access to, and use of, education data to make informed decisions both at the Department and in the education community.
Strategic Goal 4: Reform the effectiveness, efficiency and accountability of the Department.	
Strategic Objective 4.1	Provide regulatory relief to educational institutions and reduce burden by identifying time-consuming regulations, processes and policies and working to improve or eliminate them, while continuing to protect taxpayers from waste and abuse.
Strategic Objective 4.2	Identify, assess, monitor and manage enterprise risks.
Strategic Objective 4.3	Strengthen the Department's cybersecurity by enhancing protections for its information technology infrastructure, systems and data.
Strategic Objective 4.4	Improve the engagement and preparation of the Department's workforce using professional development and accountability measures.

[1] The FY 2019 Statement of Net Cost and related notes align with the *FY 2018–22 Strategic Plan*.

THE DEPARTMENT'S AGENCY PRIORITY GOALS (APGs)

The Department identified four APGs for FY 2018–19. Improving education starts with allowing greater decision-making authority at the state and local levels and empowering parents and students with educational options. These APGs aimed to increase educational choice, improve the customer service the Department provides student aid borrowers, ensure protections of student privacy, and reduce red tape. The Department will identify APGs for FY 2020–21 in the *FY 2021 Annual Performance Plan*. The effective implementation of the Department's APGs will depend, in part, on the effective use of high-quality and timely data, including evaluations and performance measures. The *Annual Performance Plan* and quarterly updates for the APGs are available on **www.Performance.gov/education/education.html**.

APG	Related Strategic Objective
Improve the access to, and the quality and transparency of, school choice options for kindergarten - grade 12 students. By September 30, 2019, the Charter School Program (CSP) will support the creation and expansion of 300 new charter schools nationally. The CSP will also support the enrollment of 50,000 students in new charter schools. Additionally, by September 30, 2019, the Department will disseminate eight resources, at least one per quarter, on evidence-based and promising practices related to school choice.	**Strategic Objective 1.1:** Increase high-quality educational options and empower students and parents to choose an education that meets their needs.
Improve borrowers' access to quality customer service. By September 30, 2019, the Office of Federal Student Aid (FSA) will advance the adoption of the Next Generation Financial Services Environment, enabling over 1.8 million customers to submit their Free Application for Federal Student Aid through the FSA mobile platform and 30,000 customers to use the mobile platform to check on their loan balances.	**Strategic Objective 2.4:** Improve quality of service for customers across the entire student aid life cycle.
Improve student privacy and data security at Institutions of Higher Education (IHEs) through outreach and compliance efforts. By September 30, 2019, the Department will increase information security program outreach activities to IHEs by 40% in order to help protect IT systems and data privacy and commence audits of IHEs subject to the Single Audit and *Gramm-Leach-Bliley Act* (GLBA), resulting in 36 IHEs (from a baseline of zero) completing an audit of GLBA-related information security safeguards with no significant findings.	**Strategic Objective 3.2:** Improve privacy protections for, and transparency of, education data both at the Department and in the education community.
Provide regulatory relief to education stakeholders. By September 30, 2019, the Department will reduce the regulatory burden on education stakeholders by submitting to OMB no less than 25 deregulatory actions (against a baseline of zero (0) for FYs 2015 and 2016).	**Strategic Objective 4.1:** Provide regulatory relief to educational institutions and reduce burden by identifying time-consuming regulations, processes and policies and working to improve or eliminate them, while continuing to protect taxpayers from waste and abuse.

Goal 1. Support state and local efforts to improve learning outcomes for all P–12 students in every community.

Strategic Goal 1 focuses on outcomes related to the transition from the *No Child Left Behind Act* to implementation of the *Every Student Succeeds Act* (ESSA), which reauthorized the *Elementary and Secondary Education Act* in December 2015. The hallmark of the ESSA is the flexibility it provides for states to do what is best for children while preserving important protections for economically disadvantaged students, children with disabilities, English learners, and other vulnerable students. The law requires that states take steps to ensure all students have access to excellent teachers and positive, safe learning environments that equip them for college and career success.

The FY 2018–19 APG associated with Strategic Goal 1 focused on expanding educational choice options for parents and students. Specifically, the APG aims to improve the access to, and the quality and transparency of, school choice options for kindergarten–grade 12 students.

APG for FY 2018–2019: Improve the access to, and the quality and transparency of, school choice options for K–12 students.

By September 30, 2019, the Charter School Program (CSP) will support the creation and expansion of 300 new charter schools nationally. The CSP will also support the enrollment of 50,000 students in new charter schools. Additionally, by September 30, 2019, the Department will disseminate eight resources, at least one per quarter, on evidence-based and promising practices related to school choice.

In FY 2019, the Department focused on the implementation of the CSP, including conducting new competitions and providing technical assistance to current grantees. Through CSP, the Department supported seven charter school grant programs through monitoring calls and site visits. In FY 2019, the Department released three evidence-based and promising practices resources related to educational choice. The Department met the target of disseminating eight resources during the FY 2018–19 APG reporting period.

Goal 2. Expand postsecondary educational opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful and productive citizenry.

Strategic Goal 2 focuses on expanding the Department's efforts to support innovative and accessible paths to postsecondary credentials and job-ready skills training. In addition to supporting expanded postsecondary opportunities, the Department has a number of initiatives focused on affordability. These initiatives ensure borrowers have the best information available to make postsecondary program selection and associated borrowing decisions. The Department also continues to help students understand their financial aid options and repayment obligations. The FY 2018–19 APG associated with Strategic Goal 2 focused on improving borrowers' access to quality customer service.

APG for FY 2018–2019: Improve borrowers' access to quality customer service.

By September 30, 2019, the Office of Federal Student Aid (FSA) will advance the adoption of the Next Generation Financial Services Environment, enabling over 1.8 million customers to submit their Free Application for Federal Student Aid (FAFSA) through the FSA mobile platform and 30,000 customers to use the mobile platform to check on their loan balances.

In FY 2019, the Department focused on this APG to improve customers' experience throughout the entire student aid life cycle by first modernizing capabilities related to the FAFSA and the servicing and repayment of customer loans. With the Department's transition in FY 2018 to a new paradigm of student loan processing, Next Generation Financial Services Environment (Next Gen FSA), FSA is providing a new experience for borrowers, and FSA customers in general, as they seek to make informed decisions about applying for aid, attending school, and repaying their student loans. From October 2018 – February 2019, FSA made changes to improve the security, usability, and experience of *myStudentAid* app for customers based on customer feedback to enhance the student and parent experience. Through FY 2019, nearly 66,000 customers used the *myStudentAid* app to check loan balances, resulting in goal achievement for this fiscal year. In addition, the **fafsa.gov** site was redesigned to accommodate the screen size and shape of any device, including desktop or laptop computers and mobile devices such as smartphones or tablets.

Goal 3. Strengthen the quality, accessibility and use of education data through better management, increased privacy protections and transparency.

Strategic Goal 3 focuses on strengthening data-driven decision-making in education by focusing on the ways the Department manages and makes available education data, while protecting student privacy. The Department is committed to improving how staff and stakeholders access, use, and share meaningful data on education while protecting privacy. These improvements enable the Department and other stakeholders in the education community to better provide the public with the information necessary to make informed decisions on behalf of their communities, states, and local districts. The FY 2018–19 APG associated with Strategic Goal 3 focused on improving student privacy and data security at Institutions of Higher Education (IHEs) through outreach and compliance efforts.

APG for FY 2018–2019: Improve student privacy and data security at Institutions of Higher Education (IHEs) through outreach and compliance efforts.

By September 30, 2019, the Department will increase information security program outreach activities to IHEs by 40% in order to help protect IT systems and data privacy and commence audits of IHEs subject to the Single Audit and the *Gramm-Leach-Bliley Act* (GLBA), resulting in 36 IHEs (from a baseline of zero) completing an audit of GLBA-related information security safeguards with no significant findings.

In FY 2019, the Department focused on this APG through collaborative efforts involving training, outreach, monitoring, and reporting. New audit standards for GLBA-related information security safeguards were published in the June 2019 2 C.F.R. Part 200 Appendix IX Compliance Supplement and impact the requirement of IHEs to conduct and submit an audited assessment of data security programs. IHEs subject to the Single Audit have nine months from their fiscal year end to submit the audits to the Department; IHEs will not include the newly required standards in time to meet the Department's FY 2019 APG target. In Quarter 3 through Quarter 4, FSA engaged with 708 IHEs for technical assistance related to cybersecurity. FSA's contact with these institutions consisted of discussing industry best practices, mitigation strategies, guidance for improving processes, and documentation to improve their security postures. FSA and the Department's Privacy and Technical Assistance Center (PTAC) surpassed the FY 2018-19 APG target and collaborated to conduct 103 outreach activities targeting data privacy and IT security requirements of IHEs.

Goal 4. Reform the effectiveness, efficiency and accountability of the Department.

Strategic Goal 4 focuses in general on protecting taxpayers from fraud, waste and abuse. This involves improving internal decision-making and reducing regulatory burden on external stakeholders. The FY 2018-19 APG associated with Strategic Goal 4 aimed to provide regulatory relief to education stakeholders.

APG for FY 2018–2019: Provide regulatory relief to education stakeholders.

By September 30, 2019, the Department will reduce the regulatory burden on education stakeholders by submitting to OMB no less than 25 deregulatory actions (against a baseline of zero (0) for FYs 2015 and 2016).

The Department intends to reduce the regulatory burden on stakeholders through review, rescission, and modification of outdated, burdensome regulations and guidance. The Regulatory Reform Task Force (RRTF), which includes a wide cross section of the Department's senior leaders, was established under Executive Order 13777 to review and reduce regulatory inefficiencies. The 2018 RRTF Report highlights the Department's efforts to reduce regulatory burden through December 2018. In response to RRTF recommendations, several cross-office workgroups were established to focus on the Education Department General Administrative Regulations; a web portal for Departmental guidance documents; and an information collections workgroup to reduce paperwork burden. In 2019, the Department issued final regulations on issues such as Programs and Activities Authorized by the *Adult Education and Family Literacy Act* (Title II of the *Workforce Innovation and Opportunity Act of 2010*) and Program Integrity: Gainful Employment. The latter rule eliminates significant paperwork burden and administrative costs for applicable entities and is estimated to yield $160 million in annualized cost savings.

FINANCIAL HIGHLIGHTS

INTRODUCTION

This section provides summarized information and analyses about the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It also provides a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces complete, accurate, and timely financial information. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board and the format and content specified by OMB Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 18 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2019 are on pages 32–72 and the Independent Auditors' Report begins on page 82.

BALANCE SHEETS

The consolidated balance sheets present, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.

The Department's assets totaled $1,310.7 billion as of September 30, 2019. The vast majority of the assets relate to credit program receivables, $1,203.5 billion, which comprised 91.8 percent of all assets. Direct Loans comprise the largest share of these receivables. All other assets totaled $107.2 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,314.2 billion as of September 30, 2019. As with assets, the vast majority of the Department's liabilities are associated with credit programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with Direct Loans totaled $1,192.1 billion as of September 30, 2019.

Figure 1. Assets by Type

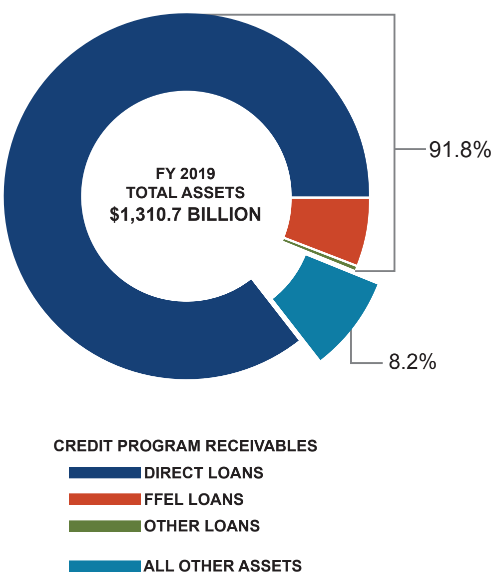


Figure 2. Liabilities by Type

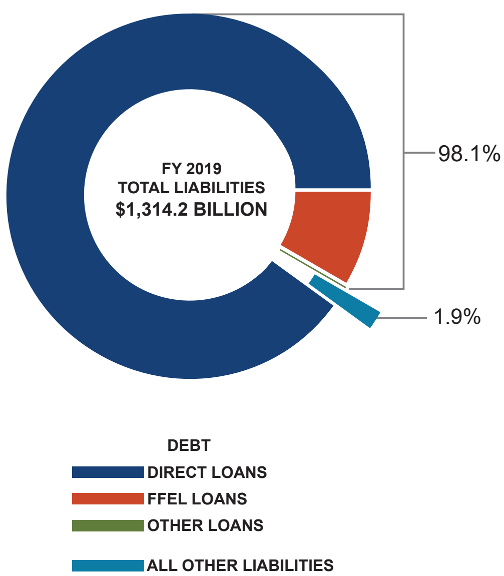
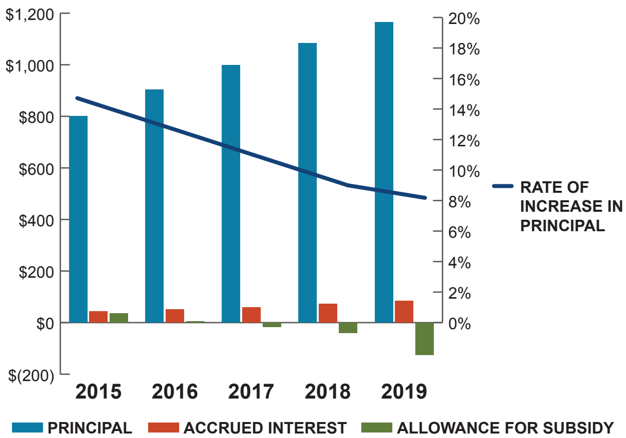


Figure 3. Components of Direct Loan Receivables, Net
(Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2015	2016	2017	2018	2019
Principal	**$ 800.8**	**$ 902.8**	**$ 998.8**	**$1,083.7**	**$1,164.9**
Rate of Increase in Principal	15.4%	12.7%	10.6%	8.5%	7.5%
Accrued Interest	$ 44.3	$ 50.8	$ 59.5	$ 72.0	$ 83.3
Allowance for Subsidy	$ 35.5	$ 5.3	$ (16.8)	$ (40.7)	$(124.4)
Total No. of Direct Loan Recipients (in Millions)	**29.9**	**31.5**	**33.0**	**34.2**	**35.1**

Figure 3 shows the changes in the Direct Loan receivables components over the past five years. The principal amount has continued to grow as the Direct Loan program has originated all new federal loans since July 2010, when originations of new Federal Family Education Loan (FFEL) loans ended. However, the rate of increase in principal has slowed, as the Direct Loan program has disbursed decreased amounts of new loans each year since FY 2015 as a result of stagnant and in some cases declining enrollment, while accrued interest amounts have increased as more loans have moved into active repayment statuses. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers now have more options to stretch out their repayment terms and reduce their monthly payments.

In accordance with the *Federal Credit Reform Act of 1990* (FCRA), the Department's financial statements report the value of direct loans (credit program receivables) at the net present value of their future cash flows, discounted at a fixed rate established based on Treasury securities. The difference between the recorded principal and interest balance and the net present value of the loans is referred to as the "allowance for subsidy," which can be positive or negative.

Prior years' positive allowance for subsidy balances represented estimates of funds expected to be recovered

Table 1. Payment Status of Direct Loan Principal and Interest Balances
(Dollars in Billions)

Loan Status	Fiscal Year				
	2015	2016	2017	2018	2019
Total No. of Direct Loan Recipients (in Millions)	**29.9**	**31.5**	**33.0**	**34.2**	**35.1**
Total Dollar Amount of Direct Loans Outstanding	**$ 845.1**	**$ 953.6**	**$1,058.4**	**$1,155.7**	**$1,248.1**
Current Repayment[1]	332.0	406.8	467.9	531.4	594.7
% Current Repayment	39.3%	42.7%	44.2%	46.0%	47.6%
In School, Grace Period, and Education Deferments	284.3	289.6	291.7	291.7	294.8
% In School, Grace Period, and Education Deferments	33.6%	30.4%	27.6%	25.2%	23.6%
Forbearance and Noneducation Deferments	103.0	106.5	122.5	121.9	133.2
% Forbearance and Noneducation Deferments	12.2%	11.2%	11.6%	10.5%	10.7%
Delinquent (Past Due 31-360 Days)	65.1	71.8	79.5	92.2	90.8
% Delinquent (Past Due 31-360 Days)	7.7%	7.5%	7.5%	8.0%	7.3%
Default/ Bankruptcy/ Other	60.7	78.9	96.8	118.5	134.6
% Default/ Bankruptcy/ Other	7.2%	8.2%	9.1%	10.3%	10.8%

[1] Loans in Current Repayment status include loans that are being repaid on-time. However, these on-time loans can include loans for which the amount of interest accruing is higher than payments that are being made, which can occur in the case of loans on income-driven repayment plans.

in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. These positive allowance for subsidy balances resulted primarily from the difference between the interest rates charged by the Department to borrowers and the interest rates charged to the Department on amounts borrowed from Treasury to make the loans. The reduction in the positive allowance since FY 2015 is due primarily to higher subsidy costs, the main cause being high participation in income-driven repayment (IDR) plans. As of FY 2017, the allowance for subsidy changed to a negative balance. In practical terms, this means that the present value of funds expected to be recovered is now less than the principal outstanding.

Participation in IDR plans has increased as (a) new plans have become available that are more advantageous to borrowers, (b) new plans have become available that expand the potential pool of borrowers, and (c) the Department has conducted targeted outreach to borrowers to make them aware of their potential eligibility for these plans.

Table 1 shows the payment status of the Direct Loan principal and interest balances outstanding over the past five years. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans being repaid pursuant to IDR plans.

Loans in the Delinquent category are past due anywhere from 31 to 360 days. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. While technical default is 271 days delinquent, default is defined as 361 days delinquent for reporting purposes. The percentage of loans in default continues to grow, even as delinquencies and new defaults have declined, because defaulted loans can be difficult to collect or rehabilitate. The percentage of the portfolio in current repayment, which rose from 39 percent in FY 2015 to 48 percent in FY 2019, has eclipsed payments temporarily postponed and has grown far faster than loans in default.

The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows. Figure 4 shows the Direct Loan program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan program financing process is displayed with related trend data as Figure 6 on page 12 of this report.

STATEMENTS OF NET COST

The consolidated statements of net cost report the Department's components of the net cost of operations for a given fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the cost of credit and grant programs, and operating costs. Exchange revenue is primarily interest earned on credit program loans. Figure 5 shows the Department's gross costs and earned revenue over the past five years.

Figure 4. Direct Loan Program Cumulative Financing Activity
(Dollars in Billions)

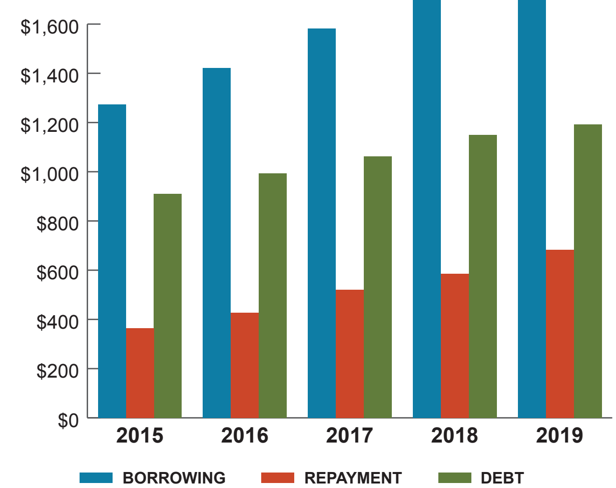


Figure 5. Gross Costs & Earned Revenue
(Dollars in Billions)

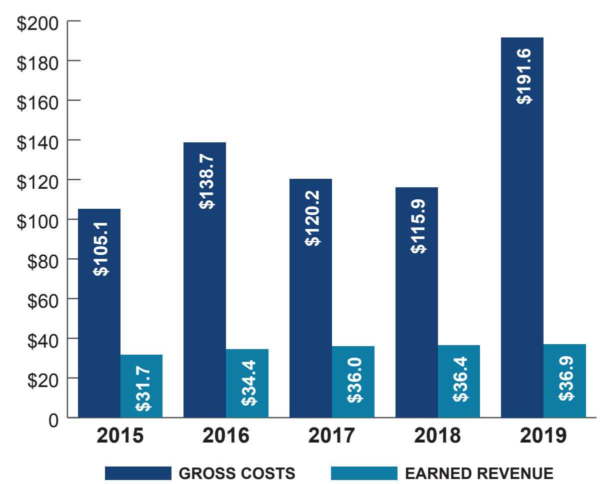
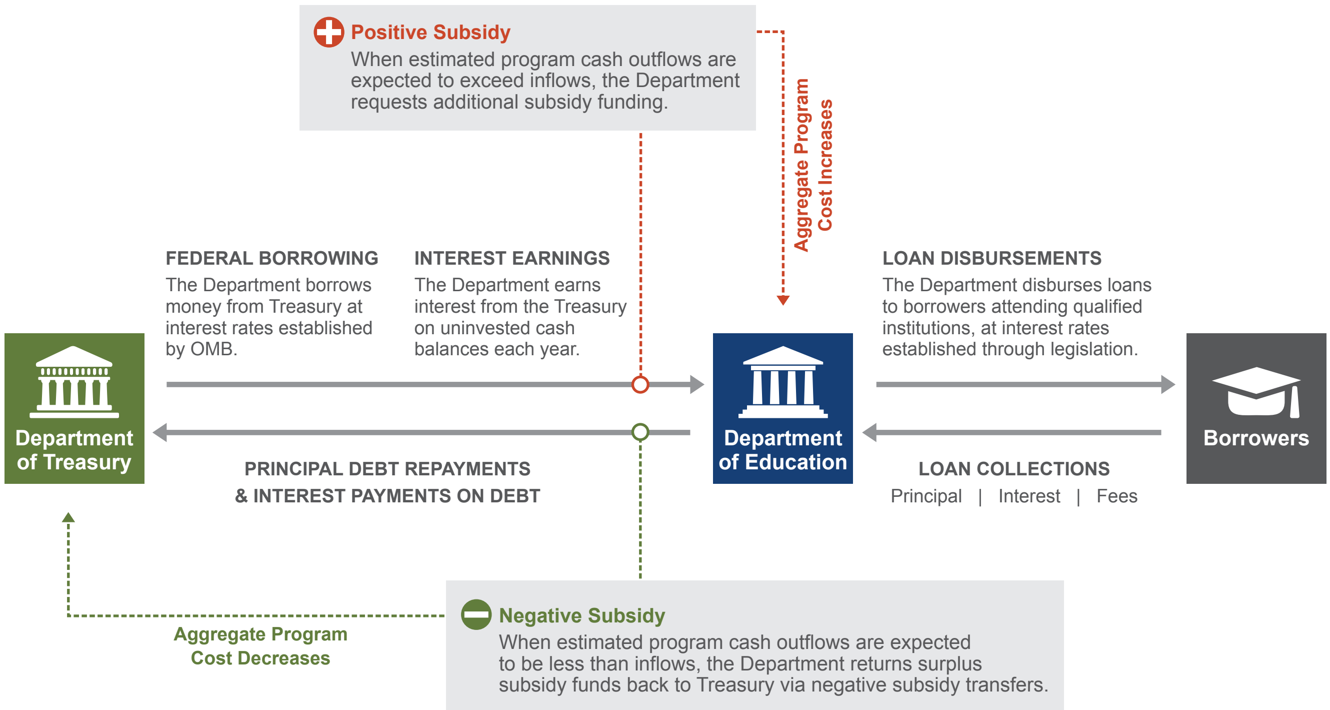


Figure 6. William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	2015	2016	2017	2018	2019
Net Borrowing	**90.9**	**84.4**	**67.3**	**89.1**	**41.5**
Borrowing from Treasury	159.7	147.0	160.5	155.3	137.6
Debt Repayments to Treasury	(68.7)	(62.6)	(93.2)	(66.2)	(96.1)
Interest Expense to Treasury	(27.6)	(30.5)	(31.3)	(32.3)	(33.8)
Interest Earned from Treasury	4.2	3.9	4.3	3.9	4.1
Cumulative Taxpayer Cost / (Savings)	(35.5)	(5.3)	16.8	40.7	124.4
Current Subsidy Expense (Revenue)	(0.9)	16.1	5.3	4.4	61.5

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2015	2016	2017	2018	2019
Loan Disbursements	**142.2**	**140.5**	**142.5**	**134.1**	**130.7**
Stafford Subsidized	24.0	23.8	23.4	20.3	20.0
Stafford Unsubsidized	52.7	52.3	51.4	49.0	48.1
PLUS	19.2	19.0	18.7	23.1	22.7
Consolidation[1]	46.4	45.5	49.0	41.6	39.8
Loan Collections[2]	**65.1**	**73.2**	**82.0**	**84.9**	**91.3**
Principal	50.0	55.9	62.6	63.5	67.0
Interest	13.4	15.5	17.6	19.5	22.4
Fees	1.8	1.8	1.9	1.9	1.9

* Numbers may not add up due to rounding.

[1] Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

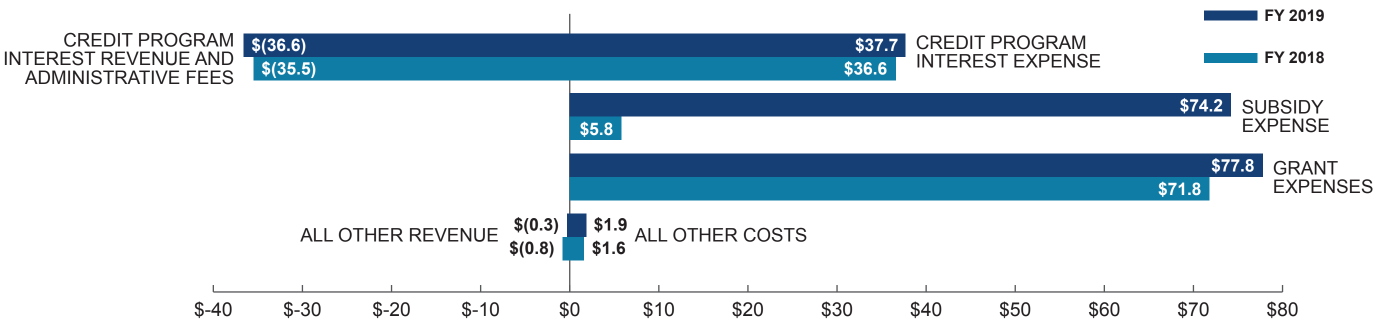
[2] Loan collections include prepayments, including prepayments in full due to consolidation of underlying Direct Loans.

GROSS COSTS AND EXCHANGE REVENUE BY TYPE

The Department's gross costs and earned revenue include three primary components:

- Credit program interest expense offset by credit program interest revenue and administrative fees as the result of subsidy amortization;
- Credit program subsidy expense (see **Analysis of Direct Loan Program Subsidy Expense** below); and
- Grant expenses (see Figure 9).

Figure 7. Primary Components of Gross Costs and Earned Revenue
(Dollars in Billions)

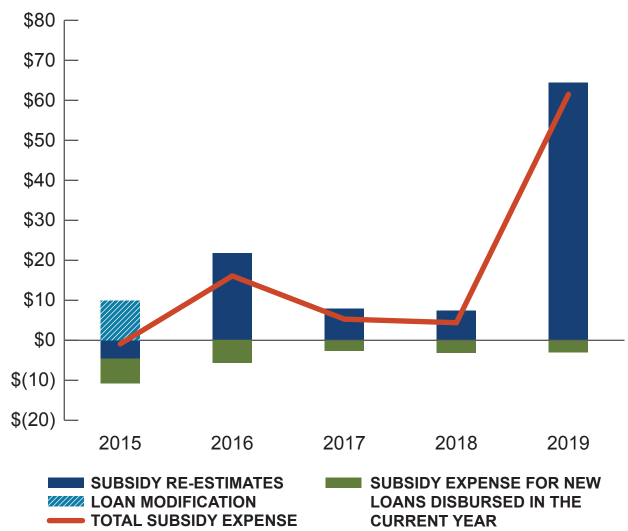


ANALYSIS OF DIRECT LOAN PROGRAM SUBSIDY EXPENSE

One of the components significantly impacting the Department's gross costs pertains to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. The increase in the subsidy expense for Direct Loans in FY 2019 accounts for 75.4 percent of the total increase in the Department's gross costs from FY 2018. Subsidy expense is an estimate of the present value cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using a set of econometric and financial models, as well as cash flow models.

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (subsidy modifications). Figure 8 shows these three components of the Direct Loan program subsidy expense for the past five years.

Figure 8. Direct Loan Program Subsidy Expense
(Dollars in Billions)



	2015	2016	2017	2018	2019
Subsidy Expense for New Loans Disbursed in the Current Year	$ (6.2)	$ (5.7)	$ (2.6)	$ (3.1)	$ (3.0)
Subsidy Re-estimates	(4.6)	21.8	7.9	7.4	64.5
Loan Modification	9.9	-	-	0.1	-
Total Subsidy Expense	**$ (0.9)**	**$ 16.1**	**$ 5.3**	**$ 4.4**	**$ 61.5**

Factors such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees and other costs, and assumptions concerning borrowers' selection of repayment plans impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy expense for new loans disbursed in the current year has been negative in recent years primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default.

The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2019 by $64.5 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2018. The re-estimate reflects the assumption updates and other changes described below.

- **IDR Model Changes.** During FY 2019, the Department enhanced the IDR model by examining the most current available IDR application data from NSLDS to supplement information previously used from the Department of Treasury's Office of Tax Analysis, in order to calibrate projected incomes. The Department's analysis determined a downward calibration was warranted, with the Departmental and FSA senior management concurrence. The impact of this calibration was the most significant factor in the IDR component of the re-estimate. The IDR update also reflects further refinement in the logic for switching borrowers among IDR plans and the appropriate balance to be paid off when they do switch. These updates led to a net upward re-estimate of $43.6 billion.

- **Deferment and Forbearance.** The Department made enhancements in the methodology for delinquency, to more precisely reflect interest accrual and the extension of the payment period than the method previously employed. These enhancements resulted in a lower rate of forbearance which led to an upward re-estimate of subsidy as less interest is accrued, capitalized, and collected. Deferment rates increased for PLUS loans eligible for in-school deferments. The combined effect of these changes, in addition to updated data from NSLDS, was a net upward re-estimate of $18.3 billion.

- **Maturity, Prepayment, and Loan Payoff.** The Department further enhanced the forecasting of amount of debt distributions and aligned all three sub-components of this assumption to enter repayment cohorts. The loan payoff component was improved as well by using a more precise method to estimate payoff for loans enrolled in graduated repayment plans. As mentioned above, the impact on repayment of delinquency was moved to the payoff maturity assumption to better reflect interest accrual and the extension of the payment period. These adjustments resulted in longer assumed terms, resulting in a longer stream of payments, more interest accrual and less subsidy. The combined effect of these changes led to a net downward re-estimate of $26.1 billion.

- **Financing Account Interest Adjustment.** Beginning in FY 2019, the Department implemented a process to calculate and execute a financing account interest adjustment to address differences between net financing account interest executed for cohorts each year and amounts earned based on final Treasury interest rates for those cohorts. This resulted in a net upward re-estimate of $6.3 billion.

- **Default.** The Department updated the data and made a change in methodology to a weighted fractional logit in order to more appropriately reflect the different sizes of the grouped data. The combined effect of these changes led to a net downward re-estimate of $1.0 billion.

- **Collections.** As a result of analyzing updated Debt Management and Collection System (DMCS) data, collection rate estimates were revised which resulted in a net upward re-estimate of $4.2 billion.

- **2018 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of $5.8 billion for these prior year changes attributable to the FY 2018 cohort.

- **Interest on the Re-estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate, if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of $9.7 billion.

- **Interactive Effects.** The re-estimate includes a net upward re-estimate of $3.2 billion attributed to the interactive effects of the assumption changes described above.

The Department has more than 100 grant and loan programs. The Department's FY 2019 expenses for grant programs totaled $77.8 billion. The three largest grant program areas are:

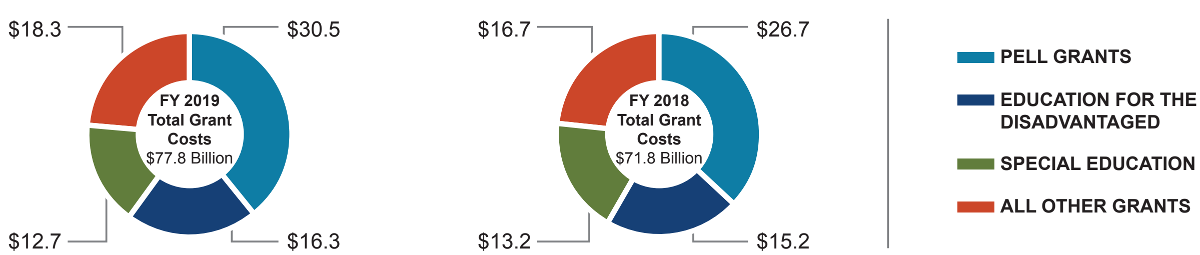
- **Pell Grants**—provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on: the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell grants are the single largest source of grant aid for postsecondary education.

- **Education for the Disadvantaged**—primarily consists of Title I grants that provide financial assistance through state educational agencies to local educational agencies and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides fund to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in State-run institutions, attending community day programs, and correctional facilities.

- **Special Education**—primarily consists of *Individuals with Disabilities Education Act* (IDEA) grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers from birth through age two and their families. Also provides discretionary grants to institutions of higher education and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training and information centers.

In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, with approximately 90 percent of non-student aid funds awarded by formula and 10 percent through competitive processes.

Figure 9. Grant Costs by Program Areas



STATEMENTS OF CHANGES IN NET POSITION

The consolidated statements of changes in net position report the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

STATEMENTS OF BUDGETARY RESOURCES

The combined statements of budgetary resources present information on how budgetary resources were made available and their status at the end of the fiscal year. Information in the statements is based on budgetary transactions as prescribed by OMB and Treasury.

The Department's budgetary resources totaled $358.2 billion for the period ended September 30, 2019, decreasing from $358.5 billion, or approximately 0.1 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $137.2 billion and non-budgetary credit reform resources of $221.0 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

The Department's gross outlays totaled $307.5 billion for the period ended September 30, 2019. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Credit program gross outlays were offset by $150.8 billion of collections—primarily principal, interest and subsidy collections.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the Department's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Figure 10. Budgetary Resources

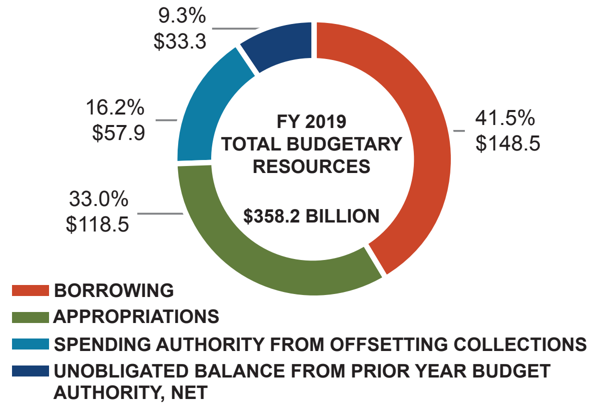
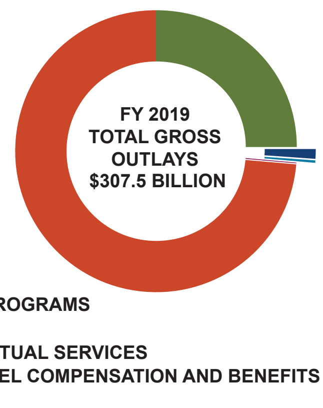


Figure 11. Gross Outlays by Type



	Billions	%
CREDIT PROGRAMS	**$ 226.8**	**73.8%**
DIRECT LOAN PROGRAM	208.0	67.6%
FFEL PROGRAM	18.4	6.1%
OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION	0.4	0.1%
GRANTS	**$ 76.9**	**25.0%**
PELL GRANTS	29.0	9.4%
EDUCATION FOR THE DISADVANTAGED	16.2	5.3%
SPECIAL EDUCATION - INDIVIDUALS WITH DISABILITIES EDUCATION ACT (IDEA) GRANTS	13.2	4.3%
ALL OTHER GRANTS	18.5	6.0%
CONTRACTUAL SERVICES	**$ 3.1**	**1.0%**
PERSONNEL COMPENSATION AND BENEFITS	**$ 0.6**	**0.2%**
OTHER	**$ 0.1**	**0.0%**
TOTAL	**$ 307.5**	**100.0%**

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

The Secretary of Education's 2019 Statement of Assurance provided below is the final report produced by the Department's annual assurance process. Although the Department has not identified any material weaknesses, the independent auditor identified a material weakness and significant deficiencies in the auditors' report, and the Office of Inspector General identified management challenges in the Office of Inspector General's Management and Performance Challenges For Fiscal Year 2020 report.

STATEMENT OF ASSURANCE
FISCAL YEAR 2019
November 15, 2019

The Department of Education (the Department) management is responsible for meeting the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) by establishing, maintaining, evaluating, and reporting on the Department's internal control and financial systems.

In accordance with Section 2 of FMFIA and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, management evaluated the effectiveness of the Department's internal controls to support effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations.

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) require management to ensure the Department's financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, management evaluated whether the Department's financial management systems substantially complied with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over financial reporting, including controls designed to prevent, detect, and recover improper payments, in accordance with Appendix A of OMB Circular A-123.

The Department has not identified any material weaknesses in operations, reporting, or compliance with applicable laws and regulations.

Based on the results of the Department's assessments described above, our system of internal controls provides Department management with reasonable assurance that the objectives of sections 2 and 4 of the FMFIA were achieved as of September 30, 2019.

Betsy DeVos

Betsy DeVos

INTRODUCTION

Strong risk management practices and internal controls help an entity run its operations efficiently and effectively, report reliable information about its operations and financial position, and comply with applicable laws and regulations. The FMFIA requires federal agencies to establish internal controls that provide reasonable assurance that agency objectives will be achieved. OMB Circular A-123, ***Management's Responsibility for Enterprise Risk Management and Internal Control*** implements FMFIA and defines management's responsibilities for ERM and internal control. The Circular provides guidance to federal managers to improve accountability and effectiveness of federal programs, as well as mission support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. The guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal controls:

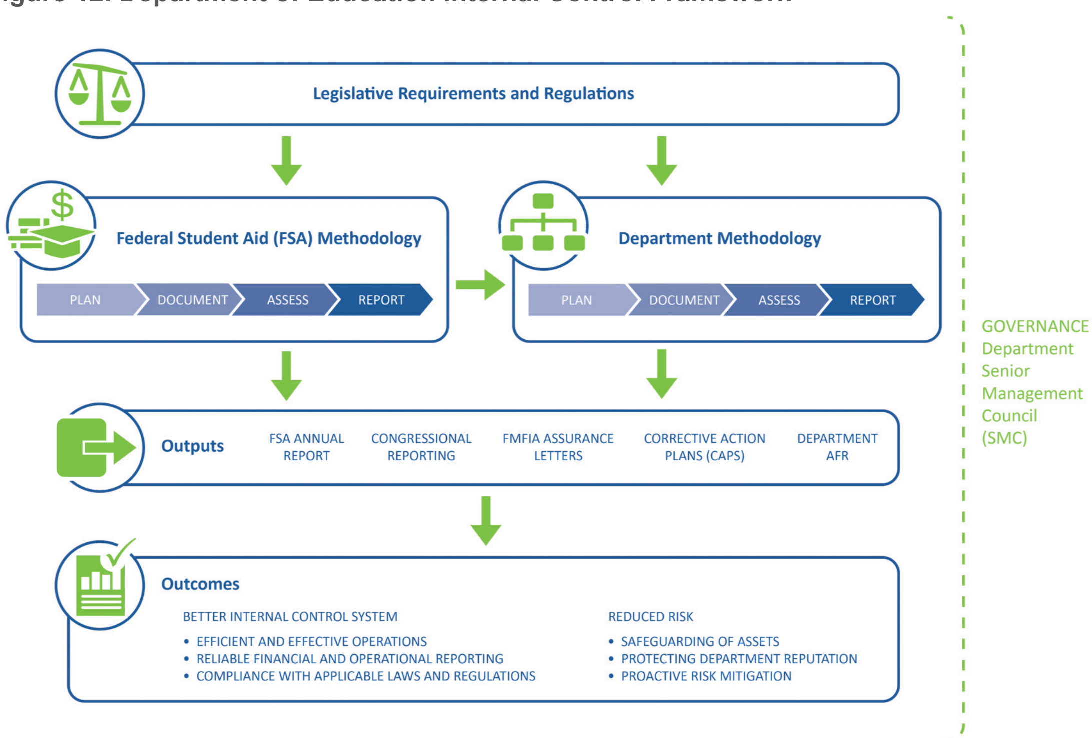
- *Operations*—Effectiveness and efficiency of operations;
- *Reporting*—Reliability of reporting for internal and external use; and
- *Compliance*—Compliance with applicable laws and regulations.

This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2019 to meet the three objectives.

Internal Control Framework

The Department's internal control framework helps to ensure that the Department achieves its strategic goals and objectives related to delivering education services effectively and efficiently, complies with applicable laws and regulations, and prepares accurate reports. The Department maintains a comprehensive internal control framework and assurance process as depicted in the following diagram.

Figure 12. Department of Education Internal Control Framework



The Department has a renewed focus on streamlining and coordinating internal control activities to ensure efficiency of operations, recognizing the connection points across areas, and enabling transparency of information across the Department. This framework enables increased visibility across compliance processes to allow for greater oversight and more informed monitoring of activities related to internal controls and risk management by all offices and governance bodies, including the Department's Senior Management Council. This framework also allows for the Department to obtain the outcomes of a better control system and a reduced risk landscape. Furthermore, this streamlined approach helps the Department provide reasonable assurance to internal and external stakeholders that the data produced by the Department is complete, accurate and reliable, that internal controls are in place and working as intended, and operations are efficient and effective.

ANALYSIS OF CONTROLS

Overall, the Department relies on annual assurances provided by the heads of its principal offices, supported by risk-based internal control evaluations and testing, and annual internal control training for all employees, to provide reasonable assurance that its internal controls are well designed and in place and working as intended. The Department's annual assurance process conforms to the requirements contained in the revised U.S. Government Accountability Office publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book") and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

In FY 2019, the Department identified no material weaknesses related to effective, efficient program operations and no areas of noncompliance with laws and regulations other than those noted in the Analysis of Legal Compliance section below. Although no material weaknesses were identified, the Department realizes that it has areas of control that need further strengthening, such as those disclosed in this report, the Independent Auditors' Report, and the major challenges identified by the Department's OIG in its OIG FY 2020 Management Challenges report. As an example, the creation of the Office of Grants Administration (OGA) in FY 2019 helped strengthen internal control in grants management at the Department. OGA provides guidance and oversight of the Department's discretionary and formula grants policy, training, audit resolution, and indirect cost negotiation.

In accordance with OMB Circular A-123, the Department also conducted an additional assessment of the effectiveness of the Department's internal control over reporting and compliance with key financial management laws and regulations as described below.

Internal Control over Reporting

The Department maintains processes and procedures to identify, document, and assess internal control over reporting, which includes:

- Comprehensive process documentation for the Department's significant business processes and subprocesses;
- Maintenance of an extensive library of key financial, operations, and Information Technology (IT) controls;
- Technical assistance provided to principal offices to help them understand and monitor key controls;
- A Data Quality Plan to improve reporting controls and data quality;
- A risk-based control testing strategy; and
- A process to develop corrective action plans when internal control deficiencies are found and to track progress against those plans.

The FY 2019 internal controls assessment detected some deficiencies, but none that would rise to the level of material weakness. Corrective actions have been initiated for the deficiencies identified.

ANALYSIS OF FINANCIAL MANAGEMENT SYSTEMS

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Appendix D to OMB Circular A-123, Compliance with the *Federal Financial Management Improvement Act of 1996*, and OMB Circular A-130, *Managing Federal Information as a Strategic Resource*, provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

The Department's vision for its financial management systems is to provide objective financial information to stakeholders to support data-driven decision-making, promote sound financial management, and to enhance financial reporting and compliance activities. The Department's core financial applications have been brought together under common management control under the umbrella of Education Central Automated Processing System (EDCAPS). EDCAPS is a suite of financial applications (subsystems), including commercial off-the-shelf and custom code and interfaces that encompass the Department's core financial management processes. Specifically, EDCAPS provides the following functions:

- General ledger - Preparation of financial statements and reconciliation of general ledger balances with subsystems maintained in program areas and Treasury;
- Funds management - Budget formulation, budget execution, and funds control;
- Grants pre- and post-award processing, including grant payment processing;
- Contract pre- and post-award processing;
- Receivable management;
- Cost management;
- Recipient management; and
- Administrative processes (e.g., purchasing, travel, and miscellaneous payments).

EDCAPS is composed of five main integrated components:

- Financial Management Support System (FMSS);
- Contracts and Purchasing Support System (CPSS);
- Grants Management System (G5);
- E2 Travel System; and
- Hyperion Budget Planning.

EDCAPS is serving approximately 5,300 Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States. EDCAPS is serving approximately 37,900 external users, mostly users of G5. In FY 2019, the Department conducted an annual risk assessment of EDCAPS and tested 82 IT security controls out of a baseline of 630 IT security controls. No significant deficiencies or material weaknesses were identified.

The Department designated the FMSS as a mission-critical system that provides core financial management services, and focused its system strategy on the following areas during FY 2019:

- Managing and implementing cross-validation rules throughout the fiscal year to prevent invalid accounting transactions from being processed;
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the **USASpending.gov** initiative as part of the *Federal Funding Accountability and Transparency Act of 2006*;
- Transmitting the entire Department's payments through the Department of Treasury Secure Payment System; and
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the DATA Act implementation.

Budget constraints limit funding for innovation and modernization, requiring the Department to direct available funding and resources to support the steady state of existing investments. However, in November 2018, the Department completed the upgrade of the FMSS Oracle E-Business Suite application to Oracle R12 to ensure continued vendor support, improved security, improved infrastructure, and enhanced functionality. The Department's primary objective is to stabilize Oracle R12, which is the Department's core financial system (FMSS), and any implications of the infrastructure upon which it is hosted (Portfolio of Integrated, Value Oriented Technologies – Hosting), with the goal of achieving a future state where core financial systems and related business systems, support services, and infrastructure have migrated to the maximum extent possible to standard applications and shared services.

The FMSS Oracle E-Business Suite application is behind the Department firewall and not external-facing. FMSS includes the following interfaces to multiple applications which are either not part of the Oracle suite of applications in the Enterprise Resource Planning or are outside the financial management segment:

- Hyperion Budget Planning module – currently only the license fees are included in FMSS investment;
- ED Facilities Loan System (Nortridge) – currently only the license fees are included in FMSS investment;
- The Invoice Processing Platform;
- FSA-FMS financial data;
- Lockbox;
- Department of the Treasury systems; and
- Department of Interior systems.

The Department's financial management systems are designed to support effective internal control and produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and the results of internal and external audits, the Department has not identified any material weaknesses in controls over these systems. The Department has also determined that its financial management systems substantially comply with FFMIA requirements. However, as noted below in the Analysis of Legal Compliance section, the Department continues to address issues and improve its controls over systems.

ANALYSIS OF LEGAL COMPLIANCE

The Department is committed to maintaining compliance with applicable laws and regulations. Below are some examples:

Debt Collection Improvement Act of 1996

The *Debt Collection Improvement Act of 1996* (DCIA), **Pub. L. 104-134**, 110 Stat. 1321-358, was enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*, **Pub. L. 104-134**, 110 Stat. 1321. The primary purpose of the DCIA is to increase the collection of nontax debts owed to the federal government. Additionally, the DATA Act, **Pub. L. 113-101**, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require referral of delinquent debt to Treasury's Offset Program within 120 days.

Due to unique program requirements of the *Higher Education Act of 1965* (HEA), the Department requested guidance from Treasury's Bureau of Fiscal Service, Office of General Counsel for the application of this revised DCIA requirement to Title IV debt. Treasury provided its interpretation of this requirement for Title IV debt in July 2015. Per Treasury General Counsel's July 2015 legal determination, compliance for Title IV debt requires that the Title IV debt be: 1) in technical default (i.e., 271 days delinquent per Title IV aging) and 2) a receivable of the federal government. Therefore, the DCIA Treasury Offset Program referral requirement for Title IV debt owned by FSA at the time of delinquency is 271 days delinquent and for debt acquired via a FFEL guarantee default claim or default Perkins Loan assignment is 120 days delinquent (per DCIA aging which begins upon acceptance of a defaulted debt). As of September 30, 2019, the Department and FSA were not in compliance with the DCIA Treasury Offset Program referral requirement for Title IV debt as interpreted by Treasury because FSA had not yet revised its loan servicing systems, procedures, and internal processes in response to this interpretation. During FY 2019, FSA continued to implement changes to its default loan servicing system and business process for referring eligible debts to the Treasury Offset Program sooner. In addition, FSA provided guidance to the Guaranty Agencies that will facilitate sending debts to Treasury sooner. FSA will build DCIA requirements into the NextGen FSA servicing platform. This area of noncompliance is noted in the independent auditor's report, exhibit C.

This determination of noncompliance with the DCIA does *not* represent a material weakness in the Department's internal controls.

Federal Information Security Modernization Act of 2014

The *Federal Information Security Modernization Act of 2014* (FISMA) requires federal agencies to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency and ensure the confidentiality, integrity, and availability of system-related information.

The Department's and FSA's information security programs completed several significant activities in FY 2019 to improve cybersecurity capabilities and functions, some of which included:

- OCIO publishes monthly Cyber Security Framework (CSF) Risk Scorecards as part of the Department's Information Security Continuous Monitoring (ISCM) efforts to identify cybersecurity risks, issues, and opportunities for improvements in our cybersecurity protections. The CSF Risk Scorecard provides a detailed analysis tool for Authorizing Officials, Information System Owners (ISOs), and Information System Security Officers (ISSOs) to prioritize and mitigate risks to the Department's information systems. The CSF Risk Scorecard was enhanced during FY 2019 to allow for automated risk scoring, improved accessibility, more granular and user-friendly data filtering capabilities, and enhanced data modeling. The continued use of the CSF Risk Scorecards enabled the Department to prioritize resources to resolve identified vulnerabilities. This prioritization led to the closure of all past due Plan of Actions & Milestones (POA&Ms) for the Department's High Value Assets. Overall, the Department has reduced total POA&Ms by more than 83% and delayed POA&Ms by 95%.
- Annually, all Department users are required to complete multiple computer security and privacy awareness training courses. The Department strictly enforces compliance with the training requirements and disables network accounts for users who fail to complete required trainings by established deadlines. In FY 2019, the Department employed increasingly complex phishing scenarios and established administrative mechanisms to enhance user education and awareness of the risks associated with their susceptibility to cyber threats. The Department experienced increases in the Department of Education Security Operations Center (EDSOC) reporting rates for phishing exercises.
- OCIO revised the Department's cybersecurity policy and guidance.
- The updated policy framework was revised to include a new review and approval process for cybersecurity policies, standards, and instructions. This process includes automated workflows, pre-defined review timelines, and delegated approval authorities which will improve the Department's agility in providing critical time-sensitive guidance and requirements to Department system stakeholders.
- OCIO developed and published Departmental Guidance/Standard Operating Procedures (SOPs) to assist the Department points of contact (POCs) with finalizing the quarterly and annual FISMA reporting requirements. OCIO developed and published both an internal OCIO review procedure and external guidance document for use by POCs. These documents collectively outline a new process for ensuring that the POCs are reporting accurately, and that reports are reviewed, approved and submitted in accordance with established timelines.
- OCIO identified and documented all FedRAMP Cloud Service Providers (CSPs) currently leveraged by the Department and established a Cloud Service Portfolio of CSPs that have been authorized for use. The activities enabled the Department to streamline the processes associated with selecting, assessing and authorizing CSPs. This prevents the acquisition of potentially redundant or duplicative cloud services and streamlines the process of obtaining new service offerings or migrating existing systems to cloud services.
- The Department has begun creating an externally hosted provider inventory to facilitate documentation of externally hosted providers currently leveraged by Department systems, similar to the efforts to strengthen security controls for CSPs. This inventory enables documentation of the various externally hosted providers being leveraged and allows for the imposition of security control inheritance for Department systems that are hosted externally.
- FSA completed a system Personally Identifiable Information (PII) risk assessment process to determine and evaluate how PII is identified, minimized, categorized, and safeguarded, and how incident responses are provided for PII security incidents. FSA also implemented a PII dashboard to report PII risk and developed mitigation strategies for PII risks identified through the initial risk assessment process.
- The Department conducted quarterly Contingency Plan Testing (CPT) and Incident Response Plan (IRP) tabletop exercises. This service allowed Department ISOs and ISSOs to complete the required annual contingency and incident response testing through a professionally facilitated workshop which exposes system stakeholders to new requirements, test scenarios and Department resources. As a result of this effort, CPT and IRP testing compliance across the Department increased from 63 percent to 92 percent.

FORWARD-LOOKING INFORMATION

This section summarizes information pertinent to the Department's future progress and success.

ENTERPRISE RISK MANAGEMENT

The Department is focused on improving enterprise risk management (ERM) to maximize the Department's value to students and taxpayers through achievement of the Department's strategic goals and objectives. The Department's implementation of ERM includes three critical strategies that are more fully described under Strategic Objective 4.2, *Identify, assess, monitor and manage enterprise risks*:

1. Creating a risk-aware culture that includes transparent discussions of risks.
2. Implementing an ERM framework and capability that leverages existing risk management activities and governance bodies.
3. Managing risks in a more coordinated and strategic manner.

In FY 2020, the Department envisions a streamlined, simplified approach to ERM implementation. Guiding principles supporting this vision include securing senior leadership buy-in and continued support and involvement with the ERM program through an established governance structure and routine engagement. The Department will revise its Risk Profile and other ERM deliverables and resources to capture only necessary and useful information. When the ERM framework is fully implemented, the Department plans to include risk information as a central consideration in all critical day-to-day and strategic decision-making activities, including resource allocations.

In FY 2019, the Department took further steps to set up a formal ERM program within the Office of Finance and Operations (OFO). In doing so, the Department continued to leverage expertise of colleagues in the Office of Federal Student Aid (FSA), as well as across the Federal Government through the ERM Community of Practice led by Treasury. Additionally, it ensured internal control activities are more efficiently focused on highest priority risks by adding a group of internal control experts to the ERM team.

The Department aims to develop a more risk-aware culture that facilitates increased focus on the range of risks the Department faces and fosters open discussions about how those risks might impact the accomplishment of the Department's mission and whether resources are aligned accordingly. In addition, the ERM program will expand enterprise capacity to achieve optimal performance and operational outcomes by leveraging data and analytical solutions to successfully identify and manage risks, strengthen internal controls through continuous process improvement, and inform strategic planning and decision-making. Finally, the ERM program will leverage partnerships across the agency to identify, measure, and assess challenges related to mission delivery in order to manage risk to a tolerable level and develop actionable response plans and assign owners.

DIRECT LOAN PROGRAM

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) program, provides students and their families with funds to help pay for their postsecondary education costs. The following is a discussion of (1) the steps the Department has taken to help make student debt more manageable and (2) the risks inherent in estimating the cost of the program.

Managing Student Loan Debt

Each year, federal student loans help millions of Americans obtain a college education—an investment that, on average, has high returns. While the average return to a college degree remains high,[1] some students leave school poorly equipped to manage their debt.

Traditionally, federal loans of this type have had flat 10-year repayment schedules, making it difficult for borrowers to pay at the start of their career when their salaries are lower. The recent expansion of income-driven repayment (IDR) plans grants students the opportunity for greater financial flexibility as it pertains to their monthly payment. For more details on these plans, visit FSA's **How to Repay Your Loans Portal**.

[1] **https://libertystreeteconomics.newyorkfed.org/2019/06/despite-rising-costs-college-is-still-a-good-investment.html**

Recent trends in student loan repayment data show that:

- More than 80 percent of Direct Loan recipients with loans actively in repayment are current on their loans.
- As of June 2019, nearly 7.7 million Direct Loan recipients were enrolled in IDR plans, representing an 8 percent increase from June 2018 and a 22 percent increase from June 2017.

The Department continues to work relentlessly to make student debt more manageable. Looking to the future, the Department will:

- Continue conducting outreach efforts to inform student loan borrowers of their repayment options.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Generation Financial Services Environment (Next Gen FSA), see page 26.
- Continue to support additional tools such as the College Scorecard and Financial Aid Shopping Sheet to increase transparency around higher education costs and outcomes, in an effort to help students and families make informed decisions before college enrollment.

Managing Risks and Uncertainty Facing the Direct Loan Program's Cost Estimates

Direct Loan program costs are estimated consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the Act, the future costs and revenues associated with a loan are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected given the inherent uncertainty involved in developing estimates. There are four types of inherent risk that make estimating lifetime program costs a difficult task.

Legislative, Regulatory, and Policy Risk

There are inherent risks from the possibility that the cost structure of the Direct Loan program may be altered through legislative, regulatory, or administrative action. In addition, recent legislative, regulatory, and policy action may be difficult to interpret with regard to effects on financial modeling and estimation, given the lack of actual trend data availability. Some examples of current risks include the following:

Income-Driven Repayment Plans: IDR plans tend to be more costly to the government than non-IDR plans; for the 2019 loan cohort, it is estimated that the government will recover 37 percent less for loans in IDR plans as compared to loans in standard plans. It is important to be careful in making such comparisons, however, as the underlying characteristics of borrowers selecting plans (and the corresponding dynamics of behavior driving selection in plans) also plays a role in driving the cost of loans enrolled in specific plans. In general, the proliferation of IDR plans has made IDR terms more generous (and more costly to the government) and made the plans available to a greater number of borrowers. Having more plans complicates repayment plan selection, since the tradeoffs between available plans vary by borrower and may not always be entirely clear. Selected comparisons between projected originations and borrower repayments under the different IDR plans are available on the **Department's website**. Future commitment to market and increased participation in these plans are areas of uncertainty. Future legislative and regulatory activity could also affect the underlying cost of IDR plans.

Public Service Loan Forgiveness: Enacted in 2007, the Public Service Loan Forgiveness (PSLF) program allows a Direct student loan borrower to have the balance of their Direct student loans forgiven after having made 120 qualifying monthly payments under a qualifying repayment plan, while working full time for a qualifying public service employer (such as government or certain types of nonprofit organizations). In general, forgiveness provided via PSLF raises the cost of the Direct Loan program; however, there is still uncertainty as to how many borrowers will take advantage of the program. Much of this uncertainty arises because borrowers do not need to apply for the program until after having made the 120 qualifying monthly payments.

Data on approved PSLF applications first became available in FY 2018, since borrowers first became eligible for PSLF starting October 1, 2017. As of September 30, 2019, the total number of borrowers who received forgiveness totaled 1,139. The value of this forgiveness totaled $71.90 million. Despite the relatively modest figures of approved applications to date, the number of borrowers who have certified their employment in a public service organization continues to increase. As of September 30, 2019, the number of borrowers with certified employment totaled 1,195,497. The low number of approved PSLF applications in relation to employment certifications may be partially due to the complicated nature of the program, in particular the determination of what constitutes a qualifying payment. Many borrowers who file employment certification forms early in their careers may also move into private sector employment before reaching the 10 years and thus may (a) never apply for forgiveness or (b) apply for forgiveness much later, after returning to public service work. In the *Consolidated Appropriations Act*, FY 2018, Congress provided $350 million in funding to forgive up to $500 million in loan balances which were ineligible for immediate PSLF solely due to having made a payment under a nonqualifying repayment plan. Congress provided an additional $350 million in funding for up to $500 million in face-value forgiveness in the *Department of Education Appropriations Act*, FY 2019. Future congressional action that may affect eligibility for PSLF will continue to be an area of uncertainty. Lastly, the Department continues to remain informed on, and manage the risk that may arise in relation to, the uncertainty about the effect of further borrower outreach on boosting participation in the PSLF program.

Total and Permanent Disability: On August 21, 2019, the President issued a memorandum directing the Department of Education to ease the processing of loan discharges for borrowers who have been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected condition. Previously, borrowers were required to sign and return the application to complete the process of applying for a total and permanent disability (TPD) discharge. The ultimate effect of the new process is an area of uncertainty until enough actual data can be observed to analyze their impact.

Estimation Risk

Actual student loan outcomes may deviate from estimated student loan outcomes, which is not unexpected given the long projection window of up to 40 years. The Direct Loan program is subject to a large number of future borrower-level events and economic factors that heavily impact the ultimate cost of issued loans. For example, estimates that need to be made for loans originating in FY 2019 include how long students will remain in school; what repayment plan will be chosen; whether the loan will be consolidated; whether the borrower will die, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed school, borrower defense, etc.); if the loan will go into deferment or forbearance; if the loan will go into default and, if so, what collections will be received on the defaulted loan; and, if the loan is in IDR, what the borrower's employment (public sector or not) and income and family status will be over the next 25 years. These types of projections are not only extremely difficult to make but also are subject to change if future student behaviors deviate from past experience. Changes in private student loan markets, such as the recent increase in refinancing of federal student loans into private student loans, also add a layer of uncertainty to student loan estimates. Lastly, the Direct student loan portfolio has grown from approximately $356 billion in FY 2011 to more than $1.2 trillion as of the end of FY 2019. This growth naturally results in larger re-estimates, since a re-estimate worth 1 percent of the portfolio today would be more than three times as large as a similar re-estimate in FY 2011 ($11.2 billion vs. $3.6 billion).

Macroeconomic Risk

The ultimate amount, timing and value of future borrower repayments under the Direct Loan program are heavily affected by certain economic factors, especially since the introduction of IDR repayment plans. Some examples include the following:

Interest Rates: Direct Loan subsidy estimates are very sensitive to changes in interest rates. Under the current program terms, the fixed borrower rates for direct loans are established in advance of the upcoming school year, while the Treasury fixed interest rate on borrowings to fund those loans is not set until after those awards are fully disbursed, which can be as much as 18 months later. Unexpected changes in interest rates during this time can significantly impact the subsidy cost of these loans.

Unemployment: The financial crisis of 2008 and ensuing spike in unemployment rates had a dramatic effect on both student loan volume and student loan performance. Student loan volume peaked along with unemployment, as many displaced workers sought higher education opportunities. Student loan performance suffered as many borrowers repaying their loans were left with much less disposable income with which to make their loan payments. For example, the cohort default rate for students was at a high of 14.7 percent for loans entering repayment in 2010, while the most recent rate is 10.1 percent for loans entering repayment in FY 2016. While recessions and economic downturns are cyclical phenomena, their exact timing and impact on the cost estimates remain an area of uncertainty.

Wage Growth: The estimated costs of IDR plans are largely dependent on trends in observed wage growth. To the extent that future wage growth deviates significantly from prior wage growth, actual costs of IDR plans may deviate from projected estimated costs. The Department continues to manage risks in this area by continuing to learn about its borrower base and remain informed on such labor market statistics.

Operational Risk

Unforeseen issues in administering and servicing student loans may impact the cost estimates. For example, in March 2017, a tool used to transfer automatically a family's tax information to both student aid applications and IDR plan applications was taken down due to security concerns. Incidents like this may happen without warning and disrupt not only student loan administration but also resulting cash flows. Hence, there is an inherent risk that future, unpredictable disruptions in the administrative status quo may impact student loan cost estimates.

NEXT GEN FSA

About FSA

As the nation's largest provider of financial aid for education beyond high school, FSA delivers more than $120 billion in aid each year to students and their families. Through programs authorized under the *Higher Education Act of 1965*, as amended, FSA provides grants, loans, and work-study funds for college or career school. FSA also oversees the approximately 6,000 postsecondary institutions that participate in the federal student aid programs. In every interaction with students and their families, FSA strives to be the most trusted and reliable source of student financial aid information and services in the nation.

The Vision

FSA has one of the largest consumer loan portfolios in the country at $1.5 trillion.[2] It is critical that we provide a customer experience that is on par with world-class financial services firms and establishes our organization as one of the most trusted brands in the student aid industry. The Next Generation Financial Services Environment (Next Gen FSA) will enable FSA to realize this vision by modernizing the way we connect with our customers and streamlining our student aid systems and processes. This broad effort will deliver an improved customer experience for millions of Americans across the entire student aid life cycle, from fostering greater awareness about the availability of financial aid, to applying for aid, to repaying loans.

Today's Environment

In the current federal financial aid process, students and families must negotiate a complex and fragmented landscape, interacting with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. Too often, this poor customer experience creates confusion, resulting in borrowers failing to understand their repayment options and the financial implications of their student debt, borrower indifference, and, ultimately, higher loan delinquency and default rates. Additionally, operational complexities and inefficiencies result in higher administrative costs and hinder effective oversight.

Next Gen FSA Environment

Multiple websites, mobile applications, contact centers, and other customer interfaces are being combined into a simplified, consistent, and engaging experience, which will be enhanced by standardized training and tools across vendors and partners. With a focus on mobile engagement, Next Gen FSA has already begun to meet customers where they are, letting them connect with FSA on the device of their choice. Customers will soon have additional access to a modernized, online portal with personalized information that helps them quickly understand their options and make informed decisions throughout the financial aid life cycle, including borrowing and loan repayment. While Next Gen FSA will cut through the information clutter and provide robust self-service, it also will seamlessly connect customers with additional support when needed.

In addition to an improved customer experience, Next Gen FSA will completely modernize FSA's back-end systems and infrastructure. This transformation will pave the way for improved processing and customer management at lower costs. Vendor and partner performance standards and accountability measures will be built into Next Gen FSA to ensure customers receive world-class service while protecting taxpayer dollars. Next Gen FSA will integrate state-of-the-art cybersecurity protections across every aspect of the student aid experience. Enterprise-wide data analytics will drive improved customer service, particularly for at-risk students and borrowers, while also enhancing our oversight of participating postsecondary schools and supporting vendors.

[2] Includes lender-held FFEL loans and school-held Perkins loans.

Solicitation and Procurement Process

The Next Gen FSA implementation plan was based, in part, on extensive market research with more than 60 industry leaders. This research-based approach enabled FSA to identify best-in-industry standards and technical benchmarks that continue to inform the procurement process. On February 20, 2018, FSA initiated a multistage procurement process designed to identify the commercial partners most capable of supporting the implementation of Next Gen FSA; FSA intends to select a pool of vendors to deliver the Next Gen FSA environment. The first major element of Next Gen FSA, the Digital and Customer Care contract that will deliver our integrated mobile, web, and telephonic solution and single customer view, was awarded in February 2019. A series of additional awards, for enterprise data architecture and standards, was completed in August 2019. Contracts to support the remaining Next Gen FSA efforts are expected to be awarded in late 2019 or early 2020.

The current Title IV Additional Servicing (TIVAS) and Not-for-Profit indefinite-delivery, indefinite-quantity contracts are set to expire in December 2019 and March 2020, respectively. Should FSA require continued servicing support beyond these dates, there are multiple avenues it can pursue. The appropriate contractual actions will be taken to ensure continued servicing capabilities until this portion of the Next Gen FSA vision is implemented. FSA is taking a similar approach to all legacy contracts that will be impacted by the Next Gen FSA vision to ensure as smooth a transition as possible for our customers and partners.

LEVERAGING DATA AS A STRATEGIC ASSET

The Department is focusing on further leveraging its data as a strategic asset, in part in response to new requirements in the *Foundations for Evidence-Based Policymaking Act* (Evidence Act; **P.L. 115-435**). This section highlights three initiatives intended to help the Department realize the power of data in daily operations and national policy: (1) the establishment of the Office of the Chief Data Officer; (2) the chartering of an ED Data Governance Board; and (3) a new focus for the Evidence Leadership Group in advising the Evaluation Officer and developing the Department's learning agenda.

Office of the Chief Data Officer

The Department has established an Office of the Chief Data Officer (OCDO), effective October 2019, which is responsible for managing and improving the Department's ability to leverage data as a strategic asset. In accordance with the Evidence Act, the Secretary has named a Department Chief Data Officer (CDO), whose responsibilities include, but are not limited to, lifecycle data management across the Department and developing and enforcing the Department's data strategy and governance policies. The OCDO has oversight over the Department's information collections approval and associated Office of Management and Budget (OMB) clearance process. It is responsible for developing and enforcing the Department's open data plan, including management of a centralized comprehensive data inventory accounting for all data assets across the Department. The CDO submits annual reports to Congress on agency compliance with the Evidence Act. The OCDO is also responsible for developing and maintaining a technological and analytical infrastructure that is responsive to the Department's strategic data needs and exploiting traditional and emerging analytical methods to improve decision making, optimize outcomes, and create efficiencies.

ED Data Governance Board

In accordance with OMB guidance on the implementation of the Evidence Act, the CDO will convene an ED Data Governance Board (DGB). The DGB will gather input from across the Department to develop and enforce sound data governance policy and process decisions. The DGB will sponsor agency-wide actions to develop an open data culture and work to improve the Department's capacity to leverage data as a strategic asset for evidence building and operational decisions, including developing the capacity of data professionals in program offices. The DGB will help the Department implement a coordinated and collaborative approach to oversee strategic data collection and acquisition, responsible lifecycle data management, open and transparent release of its data assets, and advance internal and external uses of data.

Evaluation Officer and Evidence Leadership Group

The Evidence Act created a new role, a Department "Evaluation Officer" (EO), who is responsible for: (a) developing the Department's learning agenda by assessing the Department's portfolio of evaluations, policy research, and ongoing evaluation activities; (b) assessing the Department's capacity to support the development and use of evaluation; (c) establishing and implementing the Department's evaluation policy; and (d) coordinating a Department-wide evidence-building plan. IES's Commissioner of the National Center for Education Evaluation and Regional Assistance is the Department's EO.

The Evidence Leadership Group (ELG) serves in an advisory capacity to the EO on these statutory responsibilities and serves additional functions to inform the Department's programs and policies. In addition, the ELG advises the Department's policy officials on how best to build, use, and disseminate evidence throughout the policy development and implementation lifecycle. The ELG is cochaired by the Evaluation Officer and a designee of the Assistant Secretary of the Office of Planning, Evaluation and Policy Development.

The work of the ELG depends upon strong partnerships across the Department's principal offices, with other agencies, states and localities, private sector innovators, and other stakeholders in the education community. It benefits from a shared vision and common language around evidence-building, use, and dissemination, and the Department's history of promoting the use of evidence.

CONTINUOUS IMPROVEMENT

Improving critical infrastructure, systems, and overall capacity, and ensuring sound strategic decision making regarding allocation of resources are essential to the Department's future progress and success. Implementing Technology Business Management Solutions is one of the Department's key initiatives.

Technology Business Management Solutions (TBMS)

The purpose of the TBMS project is to provide greater cost transparency into IT spend. The TBMS project will allow OCIO to communicate the cost drivers for, and the value of, IT to senior leadership, improve the efficiency and predictability of the formulation of the IT budget, and optimize IT costs.

Beginning in 2017, OMB required agencies to begin reporting IT spending in alignment with the TBM Framework, including using Cost Pools and IT Towers to classify IT spending. The Department intends to leverage TBM beyond the minimum OMB reporting requirements to encompass the full implementation of the TBM cost accounting framework. The project started with a pilot that incorporated OCIO's operating budget of approximately $120 million into a TBM module designed to provide cost transparency and was then broadened to the Department's entire IT budget of approximately $750 million. One of the ultimate goals is to be able to provide a "bill of IT" to form the basis of a show-back model to drive more informed decision-making around IT.

The objective is to implement an integrated solution that will allow OCIO to:

- Accurately account for and categorize IT spending in IT Cost Towers and Pools;
- Evaluate IT spending using a method that helps identify redundant IT assets (e.g. systems, applications, and licenses);
- Extract cost elements from disparate sources, analyze these elements, and report cost stressors and trends to stakeholders; and
- Prepare accurate pricing through a show-back model to client offices for the services provided.

FINANCIAL SECTION

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

As a Federal entity, the Department of Education must be transparent and accountable to its broad community of stakeholders. To that end, I am proud to report that the Department received an unmodified or "clean" opinion on its financial statements for the 18th consecutive year. This year, the internal control report identified a repeat of one material weakness, "Controls over the Reliability of Information Used in the Modeling Activities Need Improvement" for which the Department will continue to address and resolve. We also received external validation of our sustained efforts to produce user-friendly, transparent financial reporting by earning the Department's 15th award of the prestigious Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants, as well as the "CEAR Best-in-Class" award for Articulation of Future Challenges.

While states have the greatest role to play in achieving and sustaining the provision of an excellent and equitably accessible education system for American students, the Department supports students by working with parents, students, educational institutions, school districts and states to foster educational excellence and ensure equal access to it in support of the country's global competitiveness. As a critical mission support organization, the Office of Finance and Operations has the Department's primary responsibility for maintaining financial integrity over the federal resources entrusted to the agency and for preparing its Agency Financial Report (AFR), such that our stakeholders are empowered with reliable information about our financial stewardship and achievements relative to the costs of executing our mission. With approximately $1.3 trillion in total assets, comprised primarily of credit program receivables that were funded by $1.3 trillion in Treasury borrowings – effective internal controls over the Department's business processes and financial activities are essential to responsibly delivering our mission outcomes.

I would like to highlight several of the Department's management accomplishments during FY 2019:

- We implemented a major upgrade to our core financial system. This critical upgrade modernized the technical infrastructure of the system and will reduce potential cybersecurity risks.
- We also successfully merged the following offices: Office of the Chief Financial Officer, Budget Service, and Office of Management, to create a new Office of Finance and Operations. By bringing our offices together, we are making strides to reduce redundancy in our work, maximize employee and organizational efficiency, and better leverage our staff's substantial knowledge and expertise.
- We completed a Department-wide transition of all information technology services; improving the performance of the Department's operations and strengthening performance measurement and accountability.

As we move into the new fiscal year, I am confident that we will continue to integrate enterprise risk management concepts into our internal control framework and develop innovative tools and practices to expand support to mission offices; building on our accomplishments and providing even more effective and efficient financial management of the federal resources entrusted to us.

We continuously strive to improve the quality and usefulness of the information provided in the AFR and encourage feedback or suggestions to be sent to us at **AFRComments@ed.gov**.

Denise L. Carter

Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

November 15, 2019

ABOUT THE FINANCIAL SECTION

In FY 2019, the Department prepared its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is an important part of the Department's financial management goal of providing accurate and reliable information for decision making.

FINANCIAL STATEMENTS AND NOTES

The **Consolidated Balance Sheets** summarize the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The **Consolidated Statements of Net Cost** show, by program, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the Department less exchange revenues earned by those programs.

The **Consolidated Statements of Changes in Net Position** present the Department's beginning and ending net position by two components—Unexpended Appropriations and Cumulative Results of Operations. It summarizes the change in net position by major transaction category. The ending balances of both components of the net position are also reported on the Consolidated Balance Sheets.

The **Combined Statements of Budgetary Resources** present the budgetary resources available to the Department, the status of these resources, and the outlays of budgetary resources.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

Note 1. Summary of Significant Accounting Policies

Note 2. Non-Entity Assets

Note 3. Fund Balance with Treasury

Note 4. Other Assets

Note 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

Note 6. Liabilities Not Covered by Budgetary Resources

Note 7. Debt

Note 8. Subsidy Due to Treasury General Fund

Note 9. Other Liabilities

Note 10. Net Cost of Operations

Note 11. Statements of Budgetary Resources

Note 12. Reconciliation of Net Cost to Net Outlays

Note 13. Commitments and Contingencies

Note 14. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Operations and Changes in Net Position for FR Compilation Process

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This section contains the Combining Statements of Budgetary Resources for the Years Ended September 30, 2019, and 2018.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

Stewardship Expenses summarize spending and stakeholder relationships with state and local educational agencies. Stewardship resources are substantial investments by the federal government for the long-term benefit of the nation. Since costs of stewardship resources are treated as expenses in the financial statements in the year the costs are incurred, they are reported as Required Supplementary Stewardship Information to highlight the benefit nature of the costs and to demonstrate accountability.

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of "cradle to career" education. Increased employability makes Americans more competitive in the global labor market, yielding lower unemployment, higher economic well-being, and greater security for the nation.

REPORT OF THE INDEPENDENT AUDITORS

The results of the audit of the Department's financial statements for FY 2019 and FY 2018 to comply with the *Chief Financial Officers Act of 1990*, as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department's Office of Inspector General (OIG) contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of the Department as of September 30, 2019, and 2018, and for the years then ended.

United States Department of Education
Consolidated Balance Sheets
As of September 30, 2019 and September 30, 2018
(Dollars in Millions)

	FY 2019	FY 2018
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 104,918	$ 114,605
Other Intragovernmental Assets (Note 4)	66	151
Total Intragovernmental	104,984	114,756
Public:		
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	1,123,707	1,115,053
FFEL Program	76,767	92,947
Other Credit Programs for Higher Education	2,982	2,849
Other Assets (Note 4)	2,256	2,377
Total Public	1,205,712	1,213,226
Total Assets (Note 2)	**$ 1,310,696**	**$ 1,327,982**
LIABILITIES		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 1,192,138	$ 1,150,610
FFEL Program	94,671	107,261
Other Credit Programs for Higher Education	2,196	2,094
Subsidy Due to Treasury General Fund (Note 8)	10,302	7,536
Other Intragovernmental Liabilities (Note 9)	2,686	2,765
Total Intragovernmental	1,301,993	1,270,266
Public:		
Other Liabilities (Note 9)	12,213	8,910
Total Liabilities (Note 6)	**$ 1,314,206**	**$ 1,279,176**
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended Appropriations	$ 72,757	$ 72,166
Cumulative Results of Operations	(76,267)	(23,360)
Total Net Position	**$ (3,510)**	**$ 48,806**
Total Liabilities and Net Position	**$ 1,310,696**	**$ 1,327,982**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statements of Net Cost
For the Years Ended September 30, 2019 and September 30, 2018
(Dollars in Millions)

		FY 2019		FY 2018
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS				
Gross Costs	$	38,732	$	37,277
Earned Revenue		(42)		(82)
Net Program Costs	**$**	**38,690**	**$**	**37,195**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY				
Direct Loan Program				
Gross Costs	$	96,696	$	37,965
Earned Revenue		(33,817)		(32,329)
Net Cost of Direct Loan Program	**$**	**62,879**	**$**	**5,636**
FFEL Program				
Gross Costs	$	15,759	$	4,599
Earned Revenue		(2,870)		(3,336)
Net Cost of FFEL Program	**$**	**12,889**	**$**	**1,263**
Other Credit Programs for Higher Education				
Gross Costs	$	121	$	298
Earned Revenue		(171)		(621)
Net Cost of Other Credit Programs for Higher Education	**$**	**(50)**	**$**	**(323)**
Non-Credit Programs				
Gross Costs	$	40,331	$	35,764
Earned Revenue		(10)		(10)
Net Cost for Non-Credit Programs	**$**	**40,321**	**$**	**35,754**
Net Program Costs	**$**	**116,039**	**$**	**42,330**
Total Program Gross Costs	**$**	**191,639**	**$**	**115,903**
Total Program Earned Revenue	**$**	**(36,910)**	**$**	**(36,378)**
Net Cost of Operations (Notes 10 & 12)	**$**	**154,729**	**$**	**79,525**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2019 and September 30, 2018
(Dollars in Millions)

	FY 2019		FY 2018	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning Balances	**$ 72,166**	**$ (23,360)**	**$ 62,399**	**$ (5,239)**
Budgetary Financing Sources				
Appropriations Received	$ 122,058	$ -	$ 100,743	$ -
Other Adjustments (Rescissions, etc.)	(4,007)	-	(1,824)	-
Appropriations Used	(117,460)	117,460	(89,152)	89,152
Nonexchange Revenue	-	15	-	(3)
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others	-	37	-	39
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(15,690)	-	(27,784)
Total Financing Sources	**$ 591**	**$ 101,822**	**$ 9,767**	**$ 61,404**
Net Cost of Operations	**$ -**	**$ (154,729)**	**$ -**	**$ (79,525)**
Net Change	**$ 591**	**$ (52,907)**	**$ 9,767**	**$ (18,121)**
Net Position	**$ 72,757**	**$ (76,267)**	**$ 72,166**	**$ (23,360)**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2019 and September 30, 2018
(Dollars in Millions)

	FY 2019		FY 2018	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority (Net) (Note 11)	$ 18,231	$ 15,027	$ 13,286	$ 15,863
Appropriations (Discretionary and Mandatory)	118,519	-	99,341	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	148,493	-	167,897
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	424	57,521	451	61,666
Total Budgetary Resources	**$ 137,174**	**$ 221,041**	**$ 113,078**	**$ 245,426**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$ 120,400	$ 202,717	$ 95,228	$ 221,698
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	13,581	-	14,495	-
Unapportioned, Unexpired Accounts	1,883	18,324	2,174	23,728
Unexpired Unobligated Balance, End of Year	**$ 15,464**	**$ 18,324**	**$ 16,669**	**$ 23,728**
Expired Unobligated Balance, End of Year	1,310	-	1,181	-
Unobligated Balance, End of Year (Total)	**$ 16,774**	**$ 18,324**	**$ 17,850**	**$ 23,728**
Total Status of Budgetary Resources	**$ 137,174**	**$ 221,041**	**$ 113,078**	**$ 245,426**
OUTLAYS, NET				
Outlays, Net (Discretionary and Mandatory)	$ 116,636	$ 40,102	$ 91,080	$ 83,100
Distributed Offsetting Receipts (-) (Note 11)	(12,273)	-	(27,370)	-
Agency Outlays, Net (Discretionary and Mandatory) (Notes 11 & 12)	**$ 104,363**	**$ 40,102**	**$ 63,710**	**$ 83,100**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1. Summary of Significant Accounting Policies

REPORTING ENTITY AND PROGRAMS

The U.S. Department of Education (the Department), a cabinet-level agency of the executive branch of the U.S. government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

The Department is primarily responsible for administering federal student loan and grant programs and provides technical assistance to loan and grant recipients and other state and local partners. The largest portions of the Department's financial activities relate to the execution of loan and grant programs which are discussed below.

Federal Student Loan Programs. The Department administers direct loan, loan guarantee, and other student aid programs to help students and their families finance the cost of postsecondary education. These include the William D. Ford Federal Direct Loan (Direct Loan) program and the Federal Family Education Loan (FFEL) program.

The Direct Loan program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The Direct Loan program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies that provided loan guarantees on loans made by private lenders to eligible students. The *Student Aid and Fiscal Responsibility Act* (SAFRA), which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), stated that no new FFEL loans would be made effective July 1, 2010. FFEL program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

The Department also administers other credit programs for higher education. These include the Federal Perkins Loan program, the Teacher Education Assistance for College and Higher Education Grant (TEACH) program, the Health Education Assistance Loan (HEAL) program, and facilities loan programs that include the Historically Black Colleges and Universities (HBCU) Capital Financing program, along with low-interest loans to institutions of higher education for the building and renovating of their facilities. (See Notes 5 and 10)

Grant Programs. The Department has more than 100 grant programs. The three largest grant programs are Title I of the *Elementary and Secondary Education Act* (ESEA), Federal Pell Grant (Pell Grant), and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition, the Department offers other discretionary grants under a variety of authorizing legislation awarded using a competitive process, and formula grants using formulas determined by Congress with no application process. (See Note 10)

PROGRAM OFFICES

The Department has three major program offices that administer most of its loan and grant programs:

- Federal Student Aid (FSA) administers financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.
- The Office of Elementary and Secondary Education (OESE) assists state and local educational agencies to improve the achievement of preschool, elementary, and secondary school students, helps ensure equal access to services leading to such improvement—particularly children with high needs, and provides financial assistance to local educational agencies whose local revenues are affected by federal activities.
- The Office of Special Education and Rehabilitative Services (OSERS) supports programs that help provide early intervention and special education services to children and youth with disabilities. OSERS also supports programs for the vocational rehabilitation of youth and adults with disabilities, including preemployment transition services and other transition services designed to assist students with disabilities to enter postsecondary education and achieve employment.

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and local educational activities and institutions of higher education for reform, strategic investment, and innovation in education include: the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); and Office of English Language Acquisition (OELA). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (See Note 10)

BASIS OF ACCOUNTING AND PRESENTATION

These financial statements were prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, 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 Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as revised. 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 use of budgetary resources. FSA also issues audited stand-alone financial statements which are included in their annual report.

The Department's financial statements should be read as a component of the U.S. government, a sovereign entity. One of the many implications of this is that the 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.

Intradepartmental transactions and balances have been eliminated from the consolidated financial statements.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

The Department's accounting for its loan and loan guarantee programs is based on the requirements of the *Federal Credit Reform Act of 1990* (FCRA). The purpose of the FCRA is to record the lifetime subsidy cost of direct loans and loan guarantees, in present value terms, at the time the loan is disbursed (subsidy). Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from the Department of Treasury (Treasury) and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less).

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a subsidy cost to the government (a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs, and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

The subsidy costs of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees is referred to as a "cohort." A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is "amortized" each year. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, ensuring that cost is reflected in subsidy estimates and re-estimates. Amortization of subsidy is calculated as the difference between interest received from borrowers and Treasury (on uninvested funds) and interest paid to Treasury on borrowings.

The FCRA establishes the use of financing, program, and Treasury General Fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991.

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the *Budget of the United States Government* (President's Budget).
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Notes 11 and 12)

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. The Department advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to the Department. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 7.8 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each borrower. Interest accrues while a loan is in deferment or forbearance. Loans are cancelled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also cancelled through the Public Service Loan Forgiveness (PSLF) Program, which forgives the remaining balance on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers the Pay As You Earn (PAYE) program. This student loan repayment program is designed to help borrowers who struggle to make their normal student loan payments. The plan allows payments to be limited to 10 percent of discretionary income if qualifications are met. Under the PAYE program, if all requirements are met, forgiveness of the remaining balance of a student loan is possible after 20 years of consistent payments.

BUDGETARY RESOURCES

Budgetary resources are amounts available to enter into new obligations and to liquidate them. The Department's budgetary resources include unobligated balances of resources from prior years and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, and other loan programs. In addition, borrowing authority is requested to cover the cost of the initial loan disbursement as well as any related negative subsidy to be transferred to Treasury General Fund receipt accounts. Treasury prescribes the terms and conditions of borrowing authority and lends to the financing account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. Treasury sets a different fixed interest rate to be used for each loan cohort once the loans are substantially disbursed. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1st of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan, FFEL, and other loan programs. Subsidy and administrative costs of the programs are funded by appropriations. Borrowings are repaid using collections from borrowers, fees, and interest on uninvested funds.

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are cancelled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior year obligations.

Funds are appropriated on an annual, multiyear, or no-year basis. Appropriated funds expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

Permanent Indefinite Budget Authority. The Direct Loan, FFEL, and other loan programs have permanent indefinite budget authority through legislation to fund subsequent increases to the estimated future costs of the loan programs. Parts B and D of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

Reauthorization of Legislation. Funds for most Department 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 in accordance with congressional budgeting rules. (See Note 11)

ENTITY AND NON-ENTITY ASSETS

Assets are classified as either entity or non-entity assets. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. The Department combines its entity and non-entity assets on the balance sheets and discloses its non-entity assets in the notes. (See Note 2)

FUND BALANCE WITH TREASURY

Fund Balance with Treasury includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's records. (See Note 3)

ACCOUNTS RECEIVABLE

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, as well as disputed costs resulting from audits of educational assistance programs. Amounts due from federal agencies result from reimbursable agreements entered into by the Department with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department's experience in the collection of receivables and an analysis of the outstanding balances. (See Note 4)

GUARANTY AGENCIES' FEDERAL FUNDS

Guaranty Agencies' Federal Funds are primarily comprised of the federal government's interest in the program assets held by state and nonprofit FFEL program guaranty agencies. Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds (federal funds). Federal funds include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

The balance in the Federal Fund represents consolidated reserve balances of the 23 guaranty agencies based on the Guaranty Agency financial reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty Agencies' Federal Funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Notes 2, 4, and 9)

CREDIT PROGRAM RECEIVABLES, NET AND LIABILITIES FOR LOAN GUARANTEES

The financial statements reflect the Department's estimate of the long-term subsidy cost of direct and guaranteed loans in accordance with the FCRA. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called an "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to, and from, the Department that are expected from receivables over their projected 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 is net of recoveries, interest supplements, and offsetting fees.

The liability for loan guarantees presents the net present value of all future cash flows from currently insured FFEL loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for as assets and reported at their net present value, similar to direct loans, although they are legally not direct student loans. Credit program receivables, net includes defaulted FFEL loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over by the guaranty agencies to the Department for collection.

FFEL program receivables include purchased loans and other interests acquired under an expired program. The cash flows related to these receivables include collections on purchased loans and other activities, including transfers of re-estimated subsidy. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers.

Capitalization of interest occurs as a result of various initiatives, such as loan consolidations. As a result, interest receivable is reduced and loan principal is increased. (See Note 5)

PROPERTY AND EQUIPMENT, NET AND LEASES

The Department has very limited acquisition costs associated with buildings, furniture, and equipment as all Department and contractor staff are housed in leased buildings. The Department does not own real property for the use of its staff. 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.

The Department also leases information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Notes 4 and 13)

LIABILITIES

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred.

- Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Credit program liabilities funded by permanent indefinite appropriations are also considered covered by budgetary resources.
- Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities.
- Liabilities not requiring appropriated budgetary resources include those related to deposit funds, Subsidy Due to Treasury General Fund for Future Liquidating Account Collections (pre-1992 loan guarantee programs), and Federal Perkins Loan Program balances due to be repaid to the Treasury General Fund. (See Note 6)

DEBT

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest rates are based on the corresponding rate for 10-year Treasury securities and are set for those borrowings supporting each cohort of loans once the loans for that cohort are substantially disbursed. Interest is paid to Treasury on September 30th. In addition, the Federal Financing Bank (FFB) holds bonds issued by a designated bonding authority, on behalf of the Department, for the HBCU Capital Financing program. The debt for other credit programs for higher education includes the liability for full payment of principal and accrued interest for the FFB-financed HBCU Capital Financing program. (See Note 7)

SUBSIDY DUE TO TREASURY GENERAL FUND

The Department must transfer to the Treasury General Fund all excess funding resulting from downward re-estimates of credit program loans that are subject to FCRA requirements. This excess funding is included in the liability for subsidy due to Treasury and will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. Subsidy due to Treasury also includes future liquidating account collections (estimated collections in excess of estimated outlays) for the Department's pre-1992 FFEL and HEAL loans that, when collected, will also be transferred to the Treasury General Fund. (See Note 8)

ACCOUNTS PAYABLE

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. (See Note 9)

ACCRUED GRANT LIABILITY

Some grant recipients incur allowable expenditures as of the end of an accounting period but have not been reimbursed by the Department. The Department accrues a liability for these allowable expenditures. The amount is estimated using statistical sampling of unliquidated balances. (See Note 9)

PERSONNEL COMPENSATION AND OTHER EMPLOYEE BENEFITS

Annual, Sick, and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources. (See Notes 6 and 9)

Retirement Plans and Other Retirement Benefits. Employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay.

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Department and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Department is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3 percent of the employee's basic pay, and match one-half of contributions between 3 percent and 5 percent of the employee's basic pay. For FERS employees, the Department also contributes the employer's share of Medicare.

Federal Employees' Compensation Act. The *Federal Employees' Compensation Act* (FECA) (**Pub. L. 103-3**) 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 Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two- to three-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a liability with the public, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial 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. (See Notes 6 and 9)

INTER-ENTITY COSTS

Services are received from other federal entities at no cost or at a cost less than the full cost to the Department. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statements of Net Cost and are offset by imputed revenue in the Statements of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of services other than those related to employee benefits are not included in the Department's financial statements.

NET COST OF OPERATIONS

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan*.

Net cost consists of gross costs less earned revenue. Major components of the Department's net costs include credit program subsidy expense, credit program interest revenue and expense, and grant expenses. (See Note 10)

Credit Program Subsidy Expense. Subsidy expense is an estimate of the present value cost of providing loans, but excludes the administrative costs of issuing and servicing the loans. In order to estimate subsidy expense, the Department must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). The Department projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. The Department estimates subsidy expenses annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the estimated subsidy cost of outstanding direct loans (or direct loan obligations). (See Notes 5 and 10)

Credit Program Interest Revenue and Expense. The Department recognizes interest revenue from the public when interest is accrued on Direct Loan program loans, defaulted and acquired FFEL loans, and outstanding principal for other loan programs. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal. Federal interest revenue is recognized on the unused fund balances with Treasury in the financing accounts.

Federal interest expense is recognized monthly on the outstanding borrowing from Treasury (debt) used to finance direct loan and loan guarantee programs. Accrued interest to Treasury is paid on September 30th. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense. (See Note 10)

NET POSITION

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

ALLOCATION TRANSFERS

The Department is a party to allocation transfers as a receiving (child) entity with the Department of Health and Human Services (HHS). Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to this allocation transfer (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity (HHS) from which the underlying legislative authority, appropriations, and budget apportionments are derived.

TAXES

The Department is a Federal entity and is not subject to Federal, state or local taxes. Therefore, no provision for income taxes is recorded.

USE OF ESTIMATES

Department management is required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of Department administrative overhead costs; allowance for subsidy and subsidy expense for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

The Department's estimates for credit programs are calculated using a series of assumption models that are updated using a statistically valid sample of National

Student Loan Data System (NSLDS®) data, data from the Debt Management and Collection System (DMCS), and economic assumptions provided by OMB. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. The Department recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. The Department therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements. The Department updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in the Department's modeling methodology is essential to the budget process, so that the Department can forecast the costs of various program options when making policy decisions. (See Note 5)

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Fund Balance with Treasury	$ 294	$ -	$ 310	$ -
Credit Program Receivables, Net	-	607	-	551
Other Assets				
Guaranty Agencies' Federal Funds	-	1,956	-	2,176
Accounts Receivable, Net	-	84	-	65
Total Non-Entity Assets	**294**	**2,647**	**310**	**2,792**
Entity Assets	104,690	1,203,065	114,446	1,210,434
Total Assets	**$ 104,984**	**$ 1,205,712**	**$ 114,756**	**$ 1,213,226**

The Department's FY 2019 assets are predominantly entity assets (99.8 percent), leaving a small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in deposit and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (73.9 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (22.9 percent), reported as credit program receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities. (See Note 9)

NOTE 3. Fund Balance with Treasury

(Dollars in Millions)

	2019	2018
Unobligated Balance		
Available	$ 13,578	$ 14,495
Unavailable	19,564	24,907
Obligated Balance, Not Disbursed	127,291	137,680
Authority Temporarily Precluded from Obligation	1	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	(55,845)	(62,752)
Other	329	274
Total Fund Balance with Treasury	**$ 104,918**	**$ 114,605**

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. Total unavailable unobligated balance ($19.5 billion) differs from unapportioned and expired amounts on the SBR ($21.5 billion) due to the Guaranty Agencies' Federal Funds ($2.0 billion).

NOTE 4. Other Assets

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,956	$ -	$ 2,176
Accounts Receivable, Net	2	251	1	154
Advances	64	35	150	15
Property and Equipment, Net	-	8	-	29
Other	-	6	-	3
Total Other Assets	**$ 66**	**$ 2,256**	**$ 151**	**$ 2,377**

Included in the accounts receivable with the public are amounts owed as a result of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department of Education. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2019, related to criminal restitutions totaled $106.3 million and ($95.2) million, respectively.

NOTE 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

Credit Program Receivables

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2019				
Direct Loan Program	$ 1,164,883	$ 83,262	$ (124,438)	$ 1,123,707
FFEL Program	90,218	22,267	(35,718)	76,767
Other Credit Programs for Higher Education	3,225	396	(639)	2,982
Total Credit Receivables	**$ 1,258,326**	**$ 105,925**	**$ (160,795)**	**$ 1,203,456**
2018				
Direct Loan Program	$ 1,083,735	$ 71,981	$ (40,663)	$ 1,115,053
FFEL Program	95,083	21,116	(23,252)	92,947
Other Credit Programs for Higher Education	3,108	437	(696)	2,849
Total Credit Receivables	**$ 1,181,926**	**$ 93,534**	**$ (64,611)**	**$ 1,210,849**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is additional analysis of the activity, costs and adjustments for each of the loan programs.

DIRECT LOAN PROGRAM.

The federal government makes loans directly to students and parents through participating institutions of higher education under the Direct Loan program. Direct loans are originated and serviced through contracts with private vendors.

Direct Loan program loan receivables include defaulted and nondefaulted loans owned by the Department. Of the $1,248.1 billion in gross loan receivables, as of September 30, 2019, $99.7 billion (8.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $84.9 billion (7.3 percent) as of September 30, 2018.

Direct Loan Program Reconciliation of Allowance for Subsidy
(Dollars in Millions)

	2019	2018
Beginning Balance, Allowance for Subsidy	**$ 40,663**	**$ 16,805**
Activity		
Fee Collections	1,693	1,696
Loan Cancellations	(9,096)	(7,521)
Subsidy Allowance Amortization	30,290	25,918
Other Activities	(622)	(604)
Total Activity	**22,265**	**19,489**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	11,440	1,614
Defaults, Net of Recoveries	1,862	1,106
Fees	(1,720)	(1,747)
Other Components	(14,563)	(4,103)
Total of the Above Subsidy Expense Components	**(2,981)**	**(3,130)**
Components of Loan Modifications		
Loan Modification Costs	-	144
Modification Adjustment Transfers Gain	-	(8)
Loan Modifications	**-**	**136**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ 59,947**	**$ 33,300**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(981)	(4,573)
Technical and Default Re-estimates	65,472	11,936
Net Upward Subsidy Re-estimates	**64,491**	**7,363**
Ending Balance, Allowance for Subsidy	**$ 124,438**	**$ 40,663**

The estimation process used to determine the amount of positive or negative subsidy expense each fiscal year, and subsequently the cumulative taxpayer cost of the program (allowance for subsidy), is subject to various external risk factors which often show strong interdependence with one another. These risks include uncertainty about changes in the general economy, changes in the legislative and regulatory environment, and changing trends in borrower performance with regard to contractual cash flows within the loan programs.

Due to the complexity of the Direct Loan program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The high percentage of borrowers in IDR plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element that displays the interrelated risks facing the Direct Loan program.

Loan cancellations consist of write-offs of loans because the borrower died, became disabled, or declared bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated.

The two major components of the subsidy expense for direct loans disbursed in the current period (subsidy transfers) are Interest Rate Differential and Other Components. Interest rate differential is attributable to the difference between the borrowers' interest payments due to the Department and the Department's estimated cost to finance the direct loan on a present value basis. The Other Components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness. In FY 2019, the Department began including the prepayment effect on principal and interest repayments in the interest rate differential component rather the other component as in previous years.

Direct Loan Program Interest Expense and Revenues (See Note 10)
(Dollars in Millions)

	2019	2018
Interest Expense on Treasury Borrowing	$ 33,817	$ 32,329
Total Interest Expense	**$ 33,817**	**$ 32,329**
Interest Revenue from the Public	$ 59,815	$ 54,157
Interest Revenue on Uninvested Funds	4,082	3,890
Administrative Fees	210	200
Amortization of Subsidy	(30,290)	(25,918)
Total Revenues	**$ 33,817**	**$ 32,329**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2019	2018
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 11,440	$ 1,614
Defaults, Net of Recoveries	1,862	1,106
Fees	(1,720)	(1,747)
Other	(14,563)	(4,103)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**(2,981)**	**(3,130)**
Loan Modifications	-	136
Net Upward Subsidy Re-estimates	64,491	7,363
Direct Loan Subsidy Expense	**$ 61,510**	**$ 4,369**

Net Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2019 by $64.5 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2018. The re-estimate reflects the assumption updates and other changes described below.

- **IDR Model Changes.** During FY 2019, the Department enhanced the IDR model by examining the most current available IDR application data from NSLDS to supplement information previously used from the Department of Treasury's Office of Tax Analysis, in order to calibrate projected incomes. The Department's analysis determined a downward calibration was warranted, with the Departmental and FSA senior management concurrence. The impact of this calibration was the most significant factor in the IDR component of the re-estimate. The IDR update also reflects further refinement in the logic for switching borrowers among IDR plans and the appropriate balance to be paid off when they do switch. These updates led to a net upward re-estimate of $43.6 billion.

- **Deferment and Forbearance.** The Department made enhancements in the methodology for delinquency, to more precisely reflect interest accrual and the extension of the payment period than the method previously employed. These enhancements resulted in a lower rate of forbearance which led to an upward re-estimate of subsidy as less interest is accrued, capitalized, and collected. Deferment rates increased for PLUS loans eligible for in-school deferments. The combined effect of these changes, in addition to updated data from NSLDS, was a net upward re-estimate of $18.3 billion.

- **Maturity, Prepayment, and Loan Payoff.** The Department further enhanced the forecasting of amount of debt distributions and aligned all three sub-components of this assumption to enter repayment cohorts. The loan payoff component was improved as well by using a more precise method to estimate payoff for loans enrolled in graduated repayment plans. As mentioned above, the impact on repayment of delinquency was moved to the payoff maturity assumption to better reflect interest accrual and the extension of the payment period. These adjustments resulted in longer assumed terms, resulting in a longer stream of payments, more interest accrual and less subsidy. The combined effect of these changes led to a net downward re-estimate of $26.1 billion.

- **Financing Account Interest Adjustment.** Beginning in FY 2019, the Department implemented a process to calculate and execute a financing account interest adjustment to address differences between net financing account interest executed for cohorts each year and amounts earned based on final Treasury interest rates for those cohorts. This resulted in a net upward re-estimate of $6.3 billion
- **Default.** The Department updated the data and made a change in methodology to a weighted fractional logit in order to more appropriately reflect the different sizes of the grouped data. The combined effect of these changes led to a net downward re-estimate of $1.0 billion.
- **Collections.** As a result of analyzing updated DMCS data, collection rate estimates were revised which resulted in a net upward re-estimate of $4.2 billion.
- **2018 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of $5.8 billion for these prior year changes attributable to the FY 2018 cohort.
- **Interest on the Re-estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate, if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of $9.7 billion.
- **Interactive Effects.** The re-estimate includes a net upward re-estimate of $3.2 billion attributed to the interactive effects of the assumption changes described above.

Direct Loan Subsidy Rates—Cohort 2019

	Interest Differential	Defaults	Fees	Other	Total
Stafford	20.50%	1.63%	-1.06%	-12.42%	8.65%
Unsubsidized Stafford	13.85%	1.05%	-1.06%	-17.06%	-3.22%
PLUS	2.73%	0.75%	-4.25%	-18.27%	-19.04%
Consolidation	6.88%	1.40%	0.00%	3.76%	12.04%
Weighted Average Total	**-11.62%**	**1.25%**	**-1.16%**	**11.78%**	**0.25%**

[*] The Other component reflects costs associated with loan cancellations and the interactive affects of payment plans on the components of subsidy.

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2019 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2021 President's Budget.

The subsidy costs of the Department's student loan programs, especially the Direct Loan program, are highly sensitive to changes in actual and forecasted interest rates. The formulas for determining program interest rates are established by statute; the existing loan portfolio has a mixture of borrower and lender rate formulas. Interest rate projections are based on probabilistic interest rate scenario inputs developed and provided by OMB.

Direct Loan Program Loan Disbursements by Loan Type
(Dollars in Millions)

	2019	2018
Stafford	$ 19,984	$ 20,343
Unsubsidized Stafford	48,142	49,009
PLUS	22,709	23,117
Consolidation	39,830	41,625
Total Disbursements	**$ 130,664**	**$ 134,094**

The allocation of disbursements for the first three loan types is estimated based on historical trend information.

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of direct loans being consolidated is considered a collection of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort subsidy costs. The net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect subsidy costs associated with anticipated future consolidation loans.

Direct loan consolidations were $39.8 billion during FY 2019 and $41.6 billion during FY 2018. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

FEDERAL FAMILY EDUCATION LOAN PROGRAM.

FFEL was established in FY 1965, and is a guaranteed loan program. As a result of the SAFRA Act, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled.

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

	2019
Outstanding Principal of Guaranteed Loans, Face Value	$ 141.6
Amount of Outstanding Principal Guaranteed	$ 141.6

As of September 30, 2019, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $141.6 billion.

Additionally, the FFEL program guarantees outstanding interest balances. As of September 30, 2019, the interest balances outstanding for guaranteed loans held by lenders was approximately $4.0 billion.

The Department's total FFEL program guarantees (principal and interest) are approximately $145.6 billion as of September 30, 2019. Of the total guaranteed amount, the Department would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made and the guaranty agency's claim experience. For purposes of disclosing the Department's total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

Defaulted and acquired FFEL loans are accounted for as assets as shown in the following table.

FFEL Program Loan Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2019				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,729	$ 5,858	$ (8,776)	$ 811
FFEL GSL Program (Post-1991)	33,780	8,561	(20,113)	22,228
Total Defaulted FFEL Guaranteed Loans	37,509	14,419	(28,889)	23,039
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	17,536	2,519	(2,531)	17,524
Loan Participation Purchase	33,696	4,983	(3,843)	34,836
ABCP Conduit	1,477	346	(455)	1,368
Total Acquired FFEL Loans	52,709	7,848	(6,829)	53,728
FFEL Program Loan Receivables	**$ 90,218**	**$ 22,267**	**$ (35,718)**	**$ 76,767**
2018				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,917	$ 5,836	$ (8,077)	$ 1,676
FFEL GSL Program (Post-1991)	33,849	7,802	(15,186)	26,465
Total Defaulted FFEL Guaranteed Loans	37,766	13,638	(23,263)	28,141
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	19,277	2,435	(21)	21,691
Loan Participation Purchase	36,475	4,713	458	41,646
ABCP Conduit	1,565	330	(426)	1,469
Total Acquired FFEL Loans	57,317	7,478	11	64,806
FFEL Program Loan Receivables	**$ 95,083**	**$ 21,116**	**$ (23,252)**	**$ 92,947**

FFEL Program Reconciliation of Liabilities for Loan Guarantees
(Dollars in Millions)

	2019	2018
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 2,591**	**$ 3,636**
Activity		
Interest Supplement Payments	(1,332)	(1,052)
Claim Payments	(5,583)	(5,716)
Fee Collections	1,385	1,550
Interest on Subsidy Amortization	(1,096)	(1,099)
Other	2,374	6,476
Total Activity	**(4,252)**	**159**
Upward/(Downward) Subsidy Re-estimates	6,866	(1,204)
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**5,205**	**2,591**
FFEL Liquidating Account Liability for Loan Guarantees	1	1
FFEL Liabilities for Loan Guarantees	**$ 5,206**	**$ 2,592**

Liabilities for Loan Guarantees is included as a component of other liabilities on the balance sheets (see Note 9).

Other activity includes negative special allowance collections, collections on defaulted FFEL loans, guaranty agency expenses, and loan cancellations due to death, disability, or bankruptcy.

Allowance for Subsidy Reconciliation for Acquired FFEL Loans
(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
2019				
Beginning Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
Activity				
Subsidy Allowance Amortization	571	1,027	52	1,650
Loan Cancellations	(165)	(308)	(18)	(491)
Direct Asset Activities	(40)	(62)	(5)	(107)
Total Activity	**366**	**657**	**29**	**1,052**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ 387**	**$ 199**	**$ 455**	**$ 1,041**
Net Upward Subsidy Re-estimates	2,144	3,644	-	5,788
Ending Balance, Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**
2018				
Beginning Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**
Activity				
Subsidy Allowance Amortization	550	903	48	1,501
Loan Cancellations	(168)	(314)	(16)	(498)
Direct Asset Activities	(44)	(68)	(6)	(118)
Total Activity	**338**	**521**	**26**	**885**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ (1,318)**	**$ (1,551)**	**$ 426**	**$ (2,443)**
Net Upward Subsidy Re-estimates	1,339	1,093	-	2,432
Ending Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2019	2018
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	$ 6,866	$ (1,204)
Loan Purchase Commitment	2,144	1,339
Loan Participation Purchase	3,644	1,093
FFEL Program Subsidy Expense	**$ 12,654**	**$ 1,228**

The FFEL subsidy re-estimate increased subsidy expense in FY 2019 by $12.7 billion. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated collection and prepayment rates.

OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

Receivables, Net for Other Credit Programs for Higher Education
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2019				
Federal Perkins Loans	$ 532	$ 235	$ (160)	$ 607
TEACH Program Loans	764	99	(247)	616
HEAL Program Loans	396	33	(34)	395
Facilities Loan Programs	1,533	29	(198)	1,364
Total	**$ 3,225**	**$ 396**	**$ (639)**	**$ 2,982**
2018				
Federal Perkins Loans	$ 474	$ 297	$ (220)	$ 551
TEACH Program Loans	746	91	(253)	584
HEAL Program Loans	397	32	(69)	360
Facilities Loan Programs	1,491	17	(154)	1,354
Total	**$ 3,108**	**$ 437**	**$ (696)**	**$ 2,849**

Federal Perkins Loan Program. The Federal Perkins Loan program provides low-interest loans to eligible postsecondary school students. In some statutorily defined cases, funds are provided to reimburse schools for loan cancellations. For defaulted loans assigned to the Department, collections of principal, interest, and fees, net of amounts paid by the Department to cover contract collection costs, are transferred to Treasury annually. The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins Loan disbursements as of September 30, 2017, and ended all Perkins Loan disbursements by June 30, 2018.

TEACH Grant Program. The Department awards annual grants of up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to direct unsubsidized Stafford Loans. The program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans.

TEACH Subsidy Rates—Cohort 2019

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	71.18%	0.25%	0.00%	-43.06%	28.37%

* The Other component reflects costs associated with loan cancellations and the interactive affects of payment plans on the components of subsidy.

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts.

Facilities Loan Programs. The Department also administers the 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 loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with HEA, as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.5 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and $360 million obligated to support near term lending as of September 30, 2019.

The Department administers the College Housing and Academic Facilities Loan program, the College Housing Loan program, and the Higher Education Facilities Loan program. 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.

NOTE 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered by Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 35	$ -	$ 37
FECA Liabilities	3	11	3	15
Total Liabilities Not Covered by Budgetary Resources	3	46	3	52
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	1,239	-	2,037	-
Federal Perkins Loan Program	593	-	538	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	123	303	34	317
Total Liabilities Not Requiring Budgetary Resources	1,955	303	2,609	317
Total Liabilities Covered by Budgetary Resources	1,300,035	11,864	1,267,654	8,541
Total Liabilities	**$ 1,301,993**	**$ 12,213**	**$ 1,270,266**	**$ 8,910**

NOTE 7. Debt
(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Ending Balance
2019				
Direct Loan Program	$ 1,150,610	$ 137,583	$ (96,055)	$ 1,192,138
FFEL Program	107,261	-	(12,590)	94,671
Other Credit Programs for Higher Education	2,094	197	(95)	2,196
Total	**$ 1,259,965**	**$ 137,780**	**$ (108,740)**	**$ 1,289,005**
2018				
Direct Loan Program	$ 1,061,559	$ 155,257	$ (66,206)	$ 1,150,610
FFEL Program	116,290	227	(9,256)	107,261
Other Credit Programs for Higher Education	2,222	336	(464)	2,094
Total	**$ 1,180,071**	**$ 155,820**	**$ (75,926)**	**$ 1,259,965**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2019, debt increased 2.3 percent from $1,260.0 billion in the prior year to $1,289.0 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 92.5 percent of the Department's debt, as of September 30, 2019, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

The Department also borrows from Treasury for activity in the other credit programs for higher education. During FY 2019, TEACH net borrowing of $63.3 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2019, debt in HBCU increased by $40.2 million, or 2.8 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

NOTE 8. Subsidy Due to Treasury General Fund

(Dollars in Millions)

	2019	2018
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 2,718	$ 2,484
FFEL Program	6,345	3,015
Total Credit Program Downward Subsidy Re-estimates	**9,063**	**5,499**
Future Liquidating Account Collections		
FFEL Program	1,239	1,856
Other Credit Programs for Higher Education	-	181
Total Future Liquidating Account Collections	**1,239**	**2,037**
Total Subsidy Due to Treasury General Fund	**$ 10,302**	**$ 7,536**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ -	$ 3,765	$ 1	$ 3,792
Accrued Grant Liability	-	2,637	-	1,914
Guaranty Agencies' Funds Due to Treasury	1,956	-	2,176	-
Loan Guarantee Liability	-	5,436	-	2,814
Federal Perkins Loan Program	593	-	538	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	123	303	34	317
Advances from Others and Deferred Credits	3	8	7	4
Accrued Unfunded Annual Leave	-	35	-	37
FECA Liabilities	3	11	3	15
Accrued Payroll and Benefits	-	17	-	16
Employer Contributions and Payroll Taxes	7	1	5	1
Custodial Liabilities	1	-	1	-
Total Other Liabilities	**$ 2,686**	**$ 12,213**	**$ 2,765**	**$ 8,910**

NOTE 10. Net Cost of Operations

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan* as shown below. Goals 3 and 4 in the *Strategic Plan* are considered crosscutting goals, and therefore costs and revenues associated with these activities are included in the net cost programs associated with Goals 1 and 2.

Program Offices	Strategic Goal	Net Cost Program
NET COST STATEMENT PROGRAM ALIGNMENT WITH STRATEGIC PLAN		
OESE OSERS Other: OCTAE IES OELA OCR	**Goal 1:** Support state and local efforts to improve learning outcomes for all P–12 students in every community.	Improve learning outcomes for all P–12 students
FSA OSERS Other: OCTAE IES OPE OCR	**Goal 2:** Expand postsecondary education opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful, and productive citizenry.	Expand postsecondary opportunities, improve outcomes to foster economic opportunity, and promote productive citizenry
All Offices	**Goal 3:** Strengthen the quality, accessibility, and use of education data through better management, increased privacy protections, and transparency.	Crosscutting Goal
All Offices	**Goal 4:** Reform the effectiveness, efficiency, and accountability of the Department.	Crosscutting Goal

Gross Costs and Earned Revenue by Program
(Dollars in Millions)

	2019				
	FSA	OESE	OSERS	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS					
Gross Cost					
Grants	$ -	$ 22,873	$ 12,630	$ 2,369	$ 37,872
Other	-	74	2	784	860
Earned Revenue	-	(5)	-	(37)	(42)
Net Program Costs	**-**	**22,942**	**12,632**	**3,116**	**38,690**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	33,817	-	-	-	33,817
Subsidy Expense	61,510	-	-	-	61,510
Administrative Expenses	1,369	-	-	-	1,369
Earned Revenue					
Interest & Administrative Fees	(64,107)	-	-	-	(64,107)
Subsidy Amortization	30,290	-	-	-	30,290
Net Cost of Direct Loan Program	**62,879**	**-**	**-**	**-**	**62,879**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	3,838	-	-	-	3,838
Subsidy Expense	12,654	-	-	-	12,654
Subsidy Amortization (Guaranteed Loans)	(1,096)	-	-	-	(1,096)
Guaranty Agencies	212	-	-	-	212
Administrative Expenses	151	-	-	-	151
Earned Revenue					
Interest & Administrative Fees	(4,392)	-	-	-	(4,392)
Subsidy Amortization (Acquired FFEL Loans)	1,650	-	-	-	1,650
Guaranty Agencies	(128)	-	-	-	(128)
Net Cost of FFEL Program	**12,889**	**-**	**-**	**-**	**12,889**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	22	-	-	37	59
Subsidy Expense	(4)	-	-	48	44
Administrative Expenses	2	-	-	16	18
Earned Revenue					
Interest & Administrative Fees	(50)	-	-	(49)	(99)
Subsidy Amortization	28	-	-	12	40
Other	(111)	-	-	(1)	(112)
Net Cost of Other Credit Programs for Higher Education	**(113)**	**-**	**-**	**63**	**(50)**
Non-Credit Programs					
Gross Cost					
Grants	32,208	24	3,559	4,092	39,883
Other	182	-	3	263	448
Earned Revenue	-	-	(1)	(9)	(10)
Net Cost of Non-Credit Programs	**32,390**	**24**	**3,561**	**4,346**	**40,321**
Net Program Costs	**108,045**	**24**	**3,561**	**4,409**	**116,039**
Total Program Gross Costs	**144,865**	**22,971**	**16,194**	**7,609**	**191,639**
Total Program Earned Revenues	**(36,820)**	**(5)**	**(1)**	**(84)**	**(36,910)**
Net Cost of Operations	**$ 108,045**	**$ 22,966**	**$ 16,193**	**$ 7,525**	**$ 154,729**

Gross Costs and Earned Revenue by Program
(Dollars in Millions)

	2018				
	FSA	OESE	OSERS	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS					
Gross Cost					
Grants	$ -	$ 20,856	$ 13,073	$ 2,526	$ 36,455
Other	-	58	1	763	822
Earned Revenue	-	-	-	(82)	(82)
Net Program Costs	**-**	**20,914**	**13,074**	**3,207**	**37,195**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	32,329	-	-	-	32,329
Subsidy Expense	4,369	-	-	-	4,369
Administrative Expenses	1,267	-	-	-	1,267
Earned Revenue					
Interest & Administrative Fees	(58,247)	-	-	-	(58,247)
Subsidy Amortization	25,918	-	-	-	25,918
Net Cost of Direct Loan Program	**5,636**	**-**	**-**	**-**	**5,636**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	4,233	-	-	-	4,233
Subsidy Expense	1,228	-	-	-	1,228
Subsidy Amortization (Guaranteed Loans)	(1,099)	-	-	-	(1,099)
Guaranty Agencies	96	-	-	-	96
Administrative Expenses	141	-	-	-	141
Earned Revenue					
Interest & Administrative Fees	(4,635)	-	-	-	(4,635)
Subsidy Amortization (Acquired FFEL Loans)	1,501	-	-	-	1,501
Guaranty Agencies	(202)	-	-	-	(202)
Net Cost of FFEL Program	**1,263**	**-**	**-**	**-**	**1,263**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	19	-	-	54	73
Subsidy Expense	56	-	-	168	224
Administrative Expenses	1	-	-	-	1
Earned Revenue					
Interest & Administrative Fees	(48)	-	-	(60)	(108)
Subsidy Amortization	29	-	-	6	35
Other	(540)	-	-	(8)	(548)
Net Cost of Other Credit Programs for Higher Education	**(483)**	**-**	**-**	**160**	**(323)**
Non-Credit Programs					
Gross Cost					
Grants	28,456	1	3,476	3,438	35,371
Other	136	-	2	255	393
Earned Revenue	-	-	-	(10)	(10)
Net Cost of Non-Credit Programs	**28,592**	**1**	**3,478**	**3,683**	**35,754**
Net Program Costs	**35,008**	**1**	**3,478**	**3,843**	**42,330**
Total Gross Costs	**71,232**	**20,915**	**16,552**	**7,204**	**115,903**
Total Earned Revenues	**(36,224)**	**-**	**-**	**(154)**	**(36,378)**
Net Cost of Operations	**$ 35,008**	**$ 20,915**	**$ 16,552**	**$ 7,050**	**$ 79,525**

Credit Program Interest Expense and Revenues
(Dollars in Millions)

	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	With the Public		Intragovernmental	With the Public	With the Public	
2019							
Direct Loan Program	$ 33,817	$ -	$ 33,817	$ 4,082	$ 60,025	$ (30,290)	$ 33,817
FFEL Program	3,838	(1,096)	2,742	905	3,487	(1,650)	2,742
Other Credit Programs for Higher Education	59	-	59	11	88	(40)	59
Total	**$ 37,714**	**$ (1,096)**	**$ 36,618**	**$ 4,998**	**$ 63,600**	**$ (31,980)**	**$ 36,618**
2018							
Direct Loan Program	$ 32,329	$ -	$ 32,329	$ 3,890	$ 54,357	$ (25,918)	$ 32,329
FFEL Program	4,233	(1,099)	3,134	1,032	3,603	(1,501)	3,134
Other Credit Programs for Higher Education	73	-	73	23	85	(35)	73
Total	**$ 36,635**	**$ (1,099)**	**$ 35,536**	**$ 4,945**	**$ 58,045**	**$ (27,454)**	**$ 35,536**

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

Grant Expenses by Appropriation
(Dollars in Millions)

	2019	2018
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS		
Education for the Disadvantaged	$ 16,318	$ 15,243
Special Education—Individuals With Disabilities Education Act (IDEA) Grants	12,630	13,073
School Improvement Programs	4,477	3,614
Impact Aid	1,420	1,466
Innovation and Improvement	945	1,201
English Language Acquisition	749	693
Career, Technical, and Adult Education	480	445
Hurricane Education Recovery	345	232
Institute of Education Sciences	195	187
Other	313	301
Subtotal	37,872	36,455
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Student Financial Assistance		
Pell Grants	30,530	26,672
Federal Work-Study Program	1,030	1,015
Federal Supplemental Educational Opportunity Grants	648	769
Rehabilitation Services	3,210	3,130
Higher Education	2,528	2,027
Career, Technical, and Adult Education	1,282	1,135
Special Education—Individuals With Disabilities Education Act (IDEA) Grants	124	120
Hurricane Education Recovery	24	1
Institute of Education Sciences	45	43
Other	462	459
Subtotal	39,883	35,371
Total Grant Costs	**$ 77,755**	**$ 71,826**

The Department has more than 100 grant programs. Descriptions of the major grant program areas are as follows:

STUDENT FINANCIAL ASSISTANCE

- **Pell Grants**—provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on: the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell grants are the single largest source of grant aid for postsecondary education.

- **Federal Work-Study Program**—provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. This program is administered by the schools that participate in the Federal Work-Study program. Hourly earnings under this program must be at least the Federal minimum wage. Federal funding, in most cases, pays 75 percent of a student's hourly wage, with the remaining 25 percent paid by the employer.

- **Federal Supplemental Educational Opportunity Grants**—provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

Education for the Disadvantaged—primarily consists of Title I grants that provide financial assistance through state educational agencies to local educational agencies and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in State-run institutions, attending community day programs, and correctional facilities.

Special Education—consists primarily of IDEA Grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers birth through age two and their families. Also provides discretionary grants to institutions of higher education and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training, and information centers.

School Improvement Programs—provides funds to state educational agencies to make competitive subgrants to local educational agencies that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources in order to substantially raise the achievement of students in their lowest-performing schools.

Rehabilitation Services—provides funds to states and other agencies to support vocational rehabilitation and other services to individuals with disabilities to maximize their employment, independence, and integration into the community and the competitive labor market.

Higher Education—includes Institutional Service grants designed to improve academic quality, institutional management and fiscal stability, and strengthen physical plants and endowments of institutions of higher education, with an emphasis on institutions that enroll large proportions of minority and financially disadvantaged students. Also includes Student Service grant programs supporting low-income, first-generation students and individuals with disabilities as they progress through the academic pipeline from middle school to graduate school, in addition to programs focused on college readiness, campus-based child care, and graduate fellowships. Also includes International and Foreign Language Education grant and fellowship programs that strengthen foreign language instruction, area/international studies teaching and research, professional development for educators, and curriculum development at the K-12, graduate, and postsecondary levels.

Career, Technical, and Adult Education—includes programs that are related to adult education and literacy, career and technical education, community colleges and correctional education.

Impact Aid—provides funds to local educational agencies to replace the lost local revenue that would otherwise be available to educate federal connected children. (The property on which the children live and their parents work is exempt from local property taxes, limiting a central source of revenue used by most communities to finance education.)

Innovation and Improvement—includes programs that support nontraditional programs that improve student achievement and attainment; supports the development of educational television and digital media programs targeted at preschool and early elementary school children and their families to promote early learning and school readiness, with a particular interest in reaching low-income children; and supports local educational agencies and their partners in implementing, evaluating, and refining tools and approaches for developing the non-cognitive skills of middle-grades students in order to increase student success.

English Language Acquisition—provides funds primarily by formula to states to improve services for English learners. Also provides funds to support national activities, including professional development to increase the supply of high-quality teachers of English learners and a national clearinghouse on English language acquisition.

Hurricane Education Recovery—provides one-time emergency-relief grants, funded by supplemental appropriations acts enacted in response to specific events, to support schools and students directly affected by natural disasters. Assists students displaced or disrupted by such disasters as well as eligible agencies and institutions that require funding to cover unexpected expenses and return to normal operations.

Institute of Education Sciences—provides funding to: support research, development, and dissemination activities that provide parents, teachers, and schools with evidence-based information on effective educational practices; support statistical data collection activities conducted by the NCES; support the ongoing National Assessment of Educational Progress and the National Assessment Governing Board; support research to build the evidence base on improving special education and early intervention services and outcomes for infants, toddlers, and children with disabilities; and support studies, evaluations, and assessments related to IDEA.

NOTE 11. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2019, budgetary resources were $358.2 billion and net agency outlays were $144.5 billion. As of September 30, 2018, budgetary resources were $358.5 billion and net agency outlays were $146.8 billion.

Net Adjustments to Unobligated Balances Brought Forward
(Dollars in Millions)

	2019	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Prior Year Unobligated Balance, End of Year (Total)	**$ 17,850**	**$ 23,728**
Recoveries of Prior Year Unpaid Obligations	1,158	24,841
Borrowing Authority Withdrawn	-	(17,520)
Actual Repayments of Debt, Prior Year Balances	-	(16,261)
Actual Capital Transfers to the Treasury General Fund	(328)	-
Canceled Authority	(405)	-
Downward Adjustments of Prior Year Paid Delivered Orders	6	342
Other Differences	(50)	(103)
Unobligated Balance from Prior Year Budget Authority (Net)	**$ 18,231**	**$ 15,027**

Unused Borrowing Authority
(Dollars in Millions)

	2019	2018
Beginning Balance, Unused Borrowing Authority	**$ 62,752**	**$ 58,701**
Current Year Borrowing Authority	148,493	167,897
Funds Drawn from Treasury	(137,880)	(155,820)
Borrowing Authority Withdrawn	(17,520)	(8,026)
Ending Balance, Unused Borrowing Authority	**$ 55,845**	**$ 62,752**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and other loan programs. Unused borrowing authority is a budgetary resource and is available to support obligations for these programs. The Department periodically reviews its borrowing authority balances in relation to its obligations, resulting in the withdrawal of unused amounts.

Undelivered Orders
(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 215	$ 121,561	$ 159	$ 132,716
Paid	64	563	238	120
Undelivered Orders	**$ 279**	**$ 122,124**	**$ 397**	**$ 132,836**

Undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. Paid amounts include any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

Distributed Offsetting Receipts
(Dollars in Millions)

	2019	2018
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 9,906	$ 26,539
FFEL Program	2,099	236
Facilities Loan Programs	5	9
TEACH Program	1	-
HEAL Program	34	8
Total Negative Subsidies and Downward Re-estimates	12,045	26,792
Other	228	578
Distributed Offsetting Receipts	**$ 12,273**	**$ 27,370**

The majority of the distributed offsetting receipts line item on the SBR represents amounts paid from the Direct Loan program and FFEL program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and negative subsidies.

Reconciliation of SBR to *Budget of the United States Government*
(Dollars in Millions)

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statements of Budgetary Resources	**$ 358,504**	**$ 316,926**	**$ 27,370**	**$ 146,810**
Expired Funds	(2,016)	(835)	-	-
FFEL Guaranty Agency Amounts Included in the President's Budget	7,257	7,257	-	-
Distributed Offsetting Receipts	-	-	-	27,370
Other	(155)	(3)	-	-
Budget of the United States Government[1]	**$ 363,590**	**$ 323,345**	**$ 27,370**	**$ 174,180**

[1] Amounts obtained from the Appendix, *Budget of the United States Government, FY 2020.*

The FY 2021 *Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2019, has not been published as of the issue date of these financial statements. The FY 2021 President's Budget is scheduled for release in February 2020 and will be made available on OMB's website. The table above reconciles the FY 2018 SBR to the FY 2020 President's Budget (FY 2018 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from the Department's direct control, budgetary resources and new obligations and upward adjustments are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

NOTE 12. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2019		
	Intragovern-mental	With the Public	Total
Net Cost of Operations	**$ 33,374**	**$ 121,355**	**$ 154,729**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Subsidy Expense	-	(74,208)	(74,208)
Increase/(Decrease) in Assets	(87)	10	(77)
(Increase)/Decrease in Liabilities	(81)	(611)	(692)
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(37)	-	(37)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**(205)**	**(74,809)**	**(75,014)**
Components of the Budgetary Outlays Not Part of Net Operating Costs			
Loan Disbursement/(Collection) Activities, Net	-	52,734	52,734
Loan Subsidy Transfers	12,045	-	12,045
Receipts To Be Returned to Treasury	-	(4)	(4)
Increase/(Decrease) in Deposit Funds	-	(25)	(25)
Total Components of the Net Budgetary Outlays Not Part of Net Operating Costs	**12,045**	**52,705**	**64,750**
Net Outlays (Calculated Total)	**$ 45,214**	**$ 99,251**	**$ 144,465**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Discretionary and Mandatory)			$ 156,738
Distributed Offsetting Receipts			(12,273)
Agency Outlays, Net (Discretionary and Mandatory)			**$ 144,465**

The Department implemented SFFAS 53, *Budget and Accrual Reconciliation*, in FY 2019 requiring this reconciliation to explain the relationship between the Department's net cost of operations and its net outlays. Reconciling items result from transactions which did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost. Comparison with the prior year is not required in the initial year of implementation.

Subsidy expense included in net cost of operations primarily represents subsidy re-estimates that are recognized without a concurrent cash disbursement. For credit programs, most loan disbursement and collection activities, other than those related to loan administrative costs, increase or decrease loan asset and liability balances and therefore do not affect net cost of operations. Loan subsidy transfers are amounts paid from the Department's financing accounts to Treasury receipt accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans

NOTE 13. Commitments and Contingencies

The Department discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, *Accounting for Liabilities of the Federal Government*. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments
(Dollars in Millions)

2019			2018		
2020	$	73	2019	$	73
2021		78	2020		73
2022		81	2021		77
2023		83	2022		81
2024		86	2023		82
After 2024		87	After 2023		83
Total	**$**	**488**	**Total**	**$**	**469**

The Department leases from the General Services Administration all or a portion of 15 privately owned and 12 publicly owned buildings in 20 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings.

GUARANTY AGENCIES

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in fiscal years 2019 or 2018 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan program provided financial assistance to eligible postsecondary school students. In FY 2019, the Department reported for Academic Year 2017-2018 that it provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the academic year that ended June 30, 2018, approximately 256 thousand loans were made totaling $630.5 million at 1,079 institutions, making an average of $2,461 per loan. The Department's equity interest, as of the end of Academic Year 2016-2017 (June 30, 2017), was approximately $5.8 billion.

Federal Perkins Loan program borrowers who meet statutory eligibility requirements—such as those who provide service as teachers in low-income areas or as Peace Corps or AmeriCorps VISTA volunteers, as well as those who serve in the military, law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service.

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015. However, the program was extended through September 30, 2017 by the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions that the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. As of September 30, 2017, schools are no longer authorized to make new Perkins Loans.

LITIGATION AND OTHER CLAIMS

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on the Department's financial position.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2019. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2019, is not expected to have a material impact on these financial statements.

OTHER MATTERS

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are 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 position.

NOTE 14. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Operations and Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), Treasury requires agencies to submit an adjusted trial balance, which is a listing of accounts that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Operations and Changes in Net Position for each agency, all of which show how agency amounts are related to particular FR statement line items. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The three schedules in this note show the Department's financial statements and the Department's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. The term "Non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

A copy of the 2018 FR can be found on Treasury's website and a copy of the 2019 FR will be posted to this site as soon as it is released.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2019
(Dollars in Millions)

FY 2019 Department Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
ASSETS			**ASSETS**
Intragovernmental:			Federal:
Fund Balance with Treasury	$ 104,918	$ 104,918	Fund Balance with Treasury
Other Intragovernmental Assets	66	64	Advances to Others and Prepayments
		2	Accounts Receivable
Total Intragovernmental	**104,984**	**104,984**	**Total Federal Assets**
Public:			Non-Federal:
Credit Program Receivables, Net			
Direct Loan Program	1,123,707	1,123,707	Loans Receivable, Net
FFEL Program	76,767	76,767	Loans Receivable, Net
Other Credit Programs for Higher Education	2,982	2,982	Loans Receivable, Net
Other Assets	2,256	41	Other Assets
		1,956	Cash and Other Monetary Assets
		8	Property, Plant, and Equipment, Net
		251	Accounts and Taxes Receivable, Net
Total Public	**1,205,712**	**1,205,712**	**Total Non-Federal Assets**
Total Assets	**$ 1,310,696**	**$ 1,310,696**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intragovernmental:			Federal:
Debt			
Direct Loan Program	$ 1,192,138	$ 1,192,138	Loans Payable
FFEL Program	94,671	94,671	Loans Payable
Other Credit Programs for Higher Education	2,196	2,183	Loans Payable
		13	Interest Payable - Loans and Not Otherwise Classified
Subsidy Due to Treasury General Fund	10,302	10,302	Liability to the General Fund of the U.S. Government
Other Intragovernmental Liabilities	2,686	2,639	Liability to the General Fund of the U.S. Government
		3	Advances from Others and Deferred Credits
-		7	Benefit Program Contributions Payable
		37	Other Liabilities (Without Reciprocals)
Total Intragovernmental	**1,301,993**	**1,301,993**	**Total Federal Liabilities**
Public:			Non-federal:
Other Liabilities	12,213	3,000	Other Liabilities
		5,436	Loan Guarantee Liabilities
		3,765	Accounts Payable
		12	Federal Employee and Veteran Benefits Payable
Total Public	**12,213**	**12,213**	**Total Non-Federal Liabilities**
Total Liabilities	**$ 1,314,206**	**$ 1,314,206**	**Total Liabilities**
NET POSITION			**NET POSITION**
Unexpended Appropriations	$ 72,757	$ 72,756	Net Position - Funds Other Than Dedicated Collections
		1	Net Position - Funds from Dedicated Collections
Cumulative Results of Operations	(76,267)	(76,269)	Net Position - Funds Other Than Dedicated Collections
		2	Net Position - Funds from Dedicated Collections
Total Net Position	**$ (3,510)**	**$ (3,510)**	**Total Net Position**
Total Liabilities & Net Position	**$ 1,310,696**	**$ 1,310,696**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2019
(Dollars in Millions)

FY 2019 Department Statement of Net Cost		Line Items Used to Prepare FY 2019 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Total Program Gross Cost	$ 191,639	$ 153,260	Non-Federal Gross Cost
		108	Benefit Program Costs
		37	Imputed Costs
		508	Buy/Sell Cost
		37,714	Borrowing and Other Interest Expense
		12	Other Expenses (Without Reciprocals)
Total Program Gross Cost	**$ 191,639**	**$ 191,639**	**Department Total Gross Cost**
Total Earned Revenue	$ (36,910)	$ (31,905)	Non-Federal Earned Revenue
		(7)	Buy/Sell Revenue (Exchange)
		(4,998)	Borrowing and Other Interest Revenue (Exchange)
Total Earned Revenue	**(36,910)**	**(36,910)**	**Department Total Earned Revenue**
Net Cost of Operations	**$ 154,729**	**$ 154,729**	**Net Cost of Operations**

Reclassification of Statement of Changes in Net Position to Line Items Used for the Government-wide Statement of Operations and Changes in Net Position for the Year Ending September 30, 2019
(Dollars in Millions)

FY 2019 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2019 Government-wide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	$ 72,166	$ 72,116	Net Position, Beginning of Period (Net of GTAS Adjustment)
Appropriations Received	122,058	118,101	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(4,007)		
Appropriations Used	(117,460)	(117,460)	Appropriations Used
Unexpended Appropriations, Ending Balance	**$ 72,757**	**$ 72,757**	
Cumulative Results of Operations			
Beginning Balance	$ (23,360)	$ (23,360)	Net Position, Beginning of Period
Appropriations Used	117,460	117,460	Appropriations Expended
Nonexchange Revenue	15	15	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Imputed Financing from Costs Absorbed by Others	37	37	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(15,690)	(12,506)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		(3,586)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		6	Other Taxes and Receipts
		396	Other Budgetary Financing Sources
Net Cost of Operations	(154,729)	(154,729)	Net Cost of Operations
Cumulative Results of Operations, Ending Balance	**$ (76,267)**	**$ (76,267)**	
Net Position	**$ (3,510)**	**$ (3,510)**	**Net Position, End of Period**

United States Department of Education Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019

(Dollars in Millions)

(Unaudited)

	Federal Student Aid	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority (Net) (Note 11)	$ 15,378	$ 14,858
Appropriations (Discretionary and Mandatory)	69,804	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	148,272
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	409	57,418
Total Budgetary Resources	**$ 85,591**	**$ 220,548**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$ 71,433	$ 202,405
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	11,361	-
Unapportioned, Unexpired Accounts	1,935	18,143
Unexpired Unobligated Balance, End of Year	**$ 13,296**	**$ 18,143**
Expired Unobligated Balance, End of Year	862	-
Unobligated Balance, End of Year (Total)	**$ 14,158**	**$ 18,143**
Total Status of Budgetary Resources	**$ 85,591**	**$ 220,548**
OUTLAYS, NET		
Outlays, Net (Discretionary and Mandatory)	$ 69,396	$ 40,085
Distributed Offsetting Receipts (-) (Note 11)	(12,145)	-
Agency Outlays, Net (Discretionary and Mandatory) (Notes 11 & 12)	**$ 57,251**	**$ 40,085**

Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 2,049	$ 242	$ 562	$ 169	$ 18,231	$ 15,027	$ 33,258
23,773	17,150	7,792	-	118,519	-	118,519
-	-	-	221	-	148,493	148,493
2	-	13	103	424	57,521	57,945
$ 25,824	**$ 17,392**	**$ 8,367**	**$ 493**	**$ 137,174**	**$ 221,041**	**$ 358,215**
$ 23,934	$ 17,151	$ 7,882	$ 312	$ 120,400	$ 202,717	$ 323,117
1,847	22	351	-	13,581	-	13,581
-	-	(52)	181	1,883	18,324	20,207
$ 1,847	**$ 22**	**$ 299**	**$ 181**	**$ 15,464**	**$ 18,324**	**$ 33,788**
43	219	186	-	1,310	-	1,310
$ 1,890	**$ 241**	**$ 485**	**$ 181**	**$ 16,774**	**$ 18,324**	**$ 35,098**
$ 25,824	**$ 17,392**	**$ 8,367**	**$ 493**	**$ 137,174**	**$ 221,041**	**$ 358,215**
$ 23,123	$ 16,581	$ 7,536	$ 17	$ 116,636	$ 40,102	$ 156,738
-	-	(128)	-	(12,273)	-	(12,273)
$ 23,123	**$ 16,581**	**$ 7,408**	**$ 17**	**$ 104,363**	**$ 40,102**	**$ 144,465**

United States Department of Education Combining Statement of Budgetary Resources
For the Year Ended September 30, 2018
(Dollars in Millions)
(Unaudited)

	Federal Student Aid	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority (Net)	$ 12,015	$ 15,859
Appropriations (Discretionary and Mandatory)	48,627	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,543
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	393	61,439
Total Budgetary Resources	**$ 61,035**	**$ 244,841**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$ 46,002	$ 221,384
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	12,290	-
Unapportioned, Unexpired Accounts	2,168	23,457
Unexpired Unobligated Balance, End of Year	**$ 14,458**	**$ 23,457**
Expired Unobligated Balance, End of Year	575	-
Unobligated Balance, End of Year (Total)	**$ 15,033**	**$ 23,457**
Total Status of Budgetary Resources	**$ 61,035**	**$ 244,841**
OUTLAYS, NET		
Outlays, Net (Discretionary and Mandatory)	$ 45,918	$ 83,059
Distributed Offsetting Receipts (-) (Note 11)	(27,321)	-
Agency Outlays, Net (Discretionary and Mandatory) (Notes 11 & 12)	**$ 18,597**	**$ 83,059**

Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 419	$ 306	$ 546	$ 4	$ 13,286	$ 15,863	$ 29,149
26,082	16,954	7,678	-	99,341	-	99,341
-	-	-	354	-	167,897	167,897
(7)	-	65	227	451	61,666	62,117
$ 26,494	**$ 17,260**	**$ 8,289**	**$ 585**	**$ 113,078**	**$ 245,426**	**$ 358,504**
$ 24,617	$ 16,959	$ 7,650	$ 314	$ 95,228	$ 221,698	$ 316,926
1,828	16	361	-	14,495	-	14,495
-	-	6	271	2,174	23,728	25,902
$ 1,828	**$ 16**	**$ 367**	**$ 271**	**$ 16,669**	**$ 23,728**	**$ 40,397**
49	285	272	-	1,181	-	1,181
$ 1,877	**$ 301**	**$ 639**	**$ 271**	**$ 17,850**	**$ 23,728**	**$ 41,578**
$ 26,494	**$ 17,260**	**$ 8,289**	**$ 585**	**$ 113,078**	**$ 245,426**	**$ 358,504**
$ 21,536	$ 16,318	$ 7,308	$ 41	$ 91,080	$ 83,100	$ 174,180
-	-	(49)	-	(27,370)	-	(27,370)
$ 21,536	**$ 16,318**	**$ 7,259**	**$ 41**	**$ 63,710**	**$ 83,100**	**$ 146,810**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

OMB requires each federal agency to report on its stewardship over various resources entrusted to it and certain responsibilities assumed by it that cannot be measured and conveyed through traditional financial reports. These elements do not meet the criteria for assets and liabilities required in the preparation of the Department's financial statements and accompanying footnotes, but are nonetheless important to understanding the agency's financial condition, strategic goals, and related program outcomes.

STEWARDSHIP EXPENSES

Stewardship expenses are substantial investments made by the federal government for the long-term benefit of the nation. Because costs of stewardship resources are treated as expenses in the financial statements in the year the costs are incurred, they are reported as Required Supplementary Stewardship Information to highlight their benefit and to demonstrate accountability for their use.

In the United States, the structure of education finance is such that state and local governments play a much greater overall role than the federal government. Of the estimated more than $1 trillion spent nationally on all levels of education, the majority of funding comes from state, local, and private sources. In the area of elementary and secondary education, nearly 90 percent of resources come from nonfederal sources. These funds serve over 50 million students enrolled in public, public charter, and private schools in the United States and its territories, according to the National Center for Education Statistics.

With its relatively small role in total education funding, the Department strives to create the greatest number of favorable program outcomes with a limited amount of taxpayer-provided resources. This is accomplished by targeting areas in which funds will go the furthest in doing the most good. Accordingly, federal funding is used to provide grant, loan, loan-forgiveness, work-study, and other assistance to more than 20 million postsecondary students. The majority of the Department's $307.5 billion in gross outlays during FY 2019 was attributable to Direct Loan disbursements administered by FSA. Grant-based activity under discretionary, formula, and need-based formats primarily accounted for the remainder of the outlays.

Discretionary grants, such as the Federal TRIO Programs and the Teacher Incentive Fund, are awarded on a competitive basis. When funds for these grants are exhausted, they cease to be funded. The Department reviews discretionary grant applications using:

- A formal review process for selection,
- Both legislative and regulatory requirements, and
- Published selection criteria established for individual programs.

Formula grants, such as Title I and Title III of the *Elementary and Secondary Education Act*, are not competitive. The majority go to school districts, as often as annually, on a formula basis, and they:

- Provide funds as dictated by a law, and
- Allocate funds to districts on a per-student basis.

Need-based grants, including the Pell Grant, Federal Work Study, and the Federal Supplemental Educational Opportunity Grant, are based on family income and economic eligibility. While there are many state, institutionally (college or school), and privately sourced need-based grants, most need-based grants are funded by the federal government where the financial aid formula is determined by a combination of factors, including:

- Family income and discretionary assets,
- Expected family contribution, and
- Dependency status of the student and other members of their family.

Further details on financial figures and program-level goals can be viewed in the Department's 2019 Budget Summary.

INVESTMENT IN HUMAN CAPITAL

Human capital investments are defined similarly by OMB, in Circular A-136, and the Statement of Federal Financial Accounting Standards No. 8, *Supplementary Stewardship Reporting*. These investments are expenses included in net cost for education and training programs intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of education. Direct loans, guaranteed loans, grants, and technical program assistance are administered and monitored by FSA and numerous other program-aimed components of the Department. The Institute of Education Sciences is the independent nonpartisan research arm of the Department that aims to present scientific evidence to ground education practice and policy while providing useful information to all stakeholders in the arena of American education. Further details of the major offices/programs applicable to this section are described below:

Federal Student Aid. Federal Student Aid is the part of the Department that administers financial assistance programs for students pursuing postsecondary education and makes federal grants, direct loans, guaranteed loans, and work-study funding available to eligible undergraduate and graduate students.

Federal Student Aid's programs link the overall initiatives of the Department in enhancing education—a fundamental stepping-stone to higher living standards for American citizens. While education is vital to national economic growth, 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.

Direct Loan Subsidy. The William D. Ford Federal Direct Loan (Direct Loan) program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the United States (U.S.) Department of Treasury.

Federal Family Education Loan (FFEL) Program Subsidy. The FFEL Loan program has originated no new loans since June 30, 2010; however, its permanent budget authority allows it to continue to operate with state and private nonprofit guaranty agencies to honor loan guarantees and for the Department to pay interest supplements on outstanding loans by private lenders to eligible students. The FFEL Loan program expenses include the Loan Participation Purchase, Loan Purchase Commitment, and ABCP Conduit expenses.

Perkins Loans, Pell and Other Grants. Perkins Loan and Grant programs include the Pell Grant program that awards direct grants through participating institutions to undergraduate students with financial need. Participating institutions either credit the appropriated funds to the student's school account or pay the student directly once per term.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program. The TEACH Grant program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans.

Office of Elementary and Secondary Education (OESE). OESE promotes academic excellence, enhances educational opportunities and equity for all of America's children and families, and improves quality of teaching and learning by providing leadership, technical assistance, and financial support.

Office of Special Education and Rehabilitative Services (OSERS). OSERS is committed to the broad values of Inclusion, Equity and Opportunity for infants, toddlers, children, youth, and adults with disabilities to actively participate in all aspects of life. OSERS promotes inclusion, ensures equity and creates opportunity as it strives to improve results and outcomes for children and adults with disabilities. By providing funding to programs that serve infants, toddlers, children, and adults with disabilities, OSERS works to ensure that these individuals are fully included in school, in employment, and in life. OSERS also provides funds to programs that offer information and technical assistance to parents of infants, toddlers and children with disabilities, as well as members of the learning community who serve these individuals.

The following table illustrates the Department's expenses paid for bolstering the nation's human capital, broken out by the nature of the expense, for the last five years.

PROGRAM OUTCOMES

Favorable results in the various programs administered by the Department can be interpreted in many ways. Accordingly, the effectiveness of the Department's investments in human capital can be gauged by changes in the number of students who fully complete the requirements for earning a bachelor's or associate's degree. This often final stepping stone in one's educational career correlates strongly with wage and/or salary increases due to the high-level skills expected by employers of graduates entering the labor force. Attaining a degree has proven to increase an individual's job opportunity outlook for life, making them less susceptible to general economic downturns and allowing them to afford living expenses more comfortably; make debt payments, including student loans; and avoid delinquency and credit problems. Increased employability makes Americans more competitive in the global labor market, yielding lower unemployment, higher economic well-being, and greater national security.

Table 2. Summary of Human Capital Expenses

(Dollars in Millions)

	2019	2018	2017	2016	2015
FEDERAL STUDENT AID EXPENSE					
Direct Loan Subsidy	$ 61,510	$ 4,369	$ 5,329	$ 16,119	$ (892)
Federal Family Education Loan Program Subsidy	12,654	1,228	3,411	10,234	(3,856)
Perkins Loans, Pell and Other Grants	32,204	28,512	28,770	30,671	31,400
Program Operational Costs	262	246	224	308	242
Subtotal	**106,630**	**34,355**	**37,734**	**57,332**	**26,894**
DEPARTMENTAL PROGRAMS					
Elementary and Secondary Education	23,474	20,625	22,420	22,155	22,146
Special Education and Rehabilitative Services	16,189	16,548	16,294	15,944	15,751
Other Departmental Programs	5,881	6,367	6,565	6,349	6,494
Program Operational Costs	446	459	419	625	511
Subtotal	**45,990**	**43,999**	**45,698**	**45,073**	**44,902**
Grand Total	**$ 152,620**	**$ 78,354**	**$ 83,432**	**$ 102,405**	**$ 71,796**

Figure 13. Federal Student Aid Investments in Human Capital, FY 2019

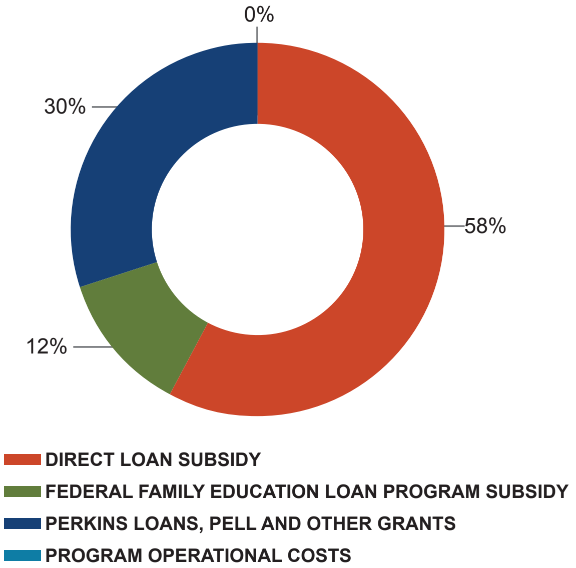
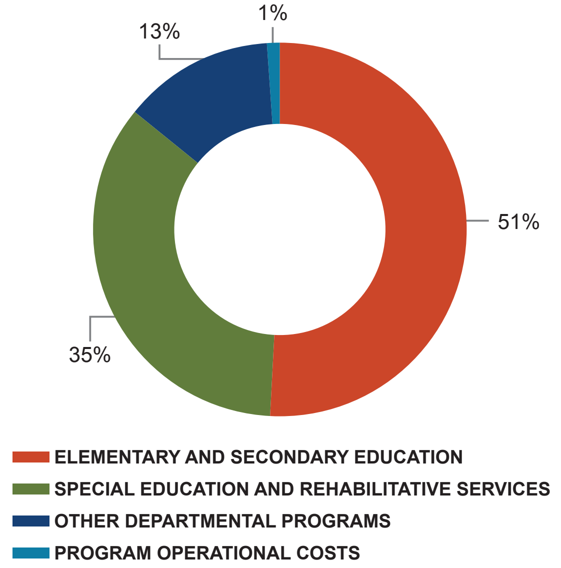


Figure 14. Departmental Program Investments in Human Capital, FY 2019



One important method used in the area of analyzing student loan programs, borrower activity, and institution participation is the monitoring of default statistics. Each year, substantial stewardship expenses incurred by the Department are aimed at lowering the number of defaulted loans, defaulted borrowers, and disbursed dollars going into default. This is done because every default—when a loan payment is missed for multiple months—results in loan funds that are not replenished, missed opportunities to invest in other degree-seeking human capital and additional resources used by the government in attempting to collect its money. Each aspect of a default cost affects the federal budget, decreases economic well-being, and harms borrowers' credit scores.

Stewardship expenses for this postsecondary goal include those incurred to increase borrower awareness of repayment options, encouraging third-party loan servicers to work more effectively in helping students avoid default by devising viable repayment plans, and by working with financial aid offices around the country to help them improve the loan counseling provided to students who have yet to graduate or enter repayment.

Default statistics for the FY 2016 cohort of borrowers entering repayment were released at the end of FY 2019. Of the 4.3 million borrowers entering repayment from October 1, 2015, to September 30, 2016, 459,000 borrowers defaulted on their loans before September 30, 2018. A cohort default rate of 10.1 percent across all educational institutions portrayed a decrease from the previous cohort default rate of 10.8 percent for the 2015 cohort. This metric is unadjusted for loan program operational aspects, such as loan consolidations and forbearance, income-driven repayment plans, and other opportunities given to students to mitigate defaults.

Trends in cohort default rates, among other metrics monitored at the Department, continue to indicate favorable repayment trends as the Department continues to experiment with borrower-friendly loan payment options. For more information on program outcomes see the *Annual Performance Plan* available on **www.Performance.gov/education/education.html**.

REPORT OF THE INDEPENDENT AUDITORS

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 15, 2019

The Honorable Betsy DeVos
Secretary of Education
Washington, D.C. 20202

Dear Secretary DeVos:

The enclosed Independent Auditors' Report (report) presents the results of the audit of the U.S. Department of Education's (Department) financial statements for fiscal years 2019 and 2018 to comply with the Chief Financial Officers Act of 1990, as amended. The report 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 KPMG LLP (KPMG) to audit the financial statements of the Department as of September 30, 2019 and 2018, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

KPMG found:

- The fiscal years 2019 and 2018 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One material weakness in internal control over financial reporting:
    - Controls over the Reliability of Information Used in the Modeling Activities Need Improvement;
- Two significant deficiencies in internal control over financial reporting:
    - Information Technology Controls Need Improvement, and
    - Effective Monitoring of Service Organizations Needs Improvement; and
- One instance of reportable noncompliance with Federal law related to referring delinquent student loan debts to Treasury.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Page 2 – The Honorable Betsy DeVos

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on the Department's financial statements, or conclusions on internal control over financial reporting, compliance and other matters. KPMG is responsible for the report dated November 15, 2019, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given KPMG and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 245-6900.

Sincerely,

Sandra D. Bruce
Deputy Inspector General delegated the duties of Inspector General

Enclosure

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Deputy Inspector General delegated the duties of Inspector General
United States Department of Education

Secretary
United States Department of Education:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Education as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on pages i through iii, Message from the Secretary, message from the Chief Financial Officer, About the Financial Section, Other Information section, and Appendices is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2019, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

KPMG

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying exhibits, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Exhibit A, *Controls over the Reliability of Information Used in the Modeling Activities Need Improvement*, to be a material weakness.

Department management did not report the material weakness, *Controls over the Reliability of Information Used in the Modeling Activities Need Improvement*, in its *Statement of Assurance*, included in the Management's Discussion and Analysis section of the accompanying *Agency Financial Report*.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit B, *Information Technology Controls Need Improvement* and *Effective Monitoring of Service Organizations Needs Improvement,* to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2019 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and which is described in the accompanying Exhibit C, *Requirement for Referring Delinquent Student Loan Debts to Treasury*.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Department's Responses to Findings

The Department's responses to the findings identified in our audit are described in the accompanying Exhibit D. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 15, 2019

Exhibit A

Material Weakness

Controls over the Reliability of Information Used in the Modeling Activities Need Improvement

Under the *Federal Credit Reform Act of 1990* (FCRA), the United States Department of Education (Department) is required to perform periodic interest rate and technical reestimates of the subsidy costs of its direct loan and guaranty programs. These reestimates are calculated using an internally developed cash flow model. The cash flow model utilizes assumptions based on internally sourced data elements from the National Student Loan Data System (NSLDS) in unison with external data to provide macro-economic context to the data. These future cash flow outputs generated from the Department's cash flow model, the Student Loan Model (SLM), are then input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs. These procedures are necessary to generate subsidy reestimates in accordance with the FCRA, as required by U.S. generally accepted accounting principles.

Condition:

During the fiscal year (FY) 2018 audit, we reported a number of deficiencies in controls over management's review and documentation of the subsidy reestimate. During FY 2019 audit, we noted improvements in certain processes and controls; however, the documentation supporting the subsidy reestimate, with respect to key assumptions used, and management's review control of the reestimate are still not at a sufficient level of detail and precision that would detect and prevent material misstatements.

For example, in FY 2019, management updated the Income Driven Repayment (IDR) model and the most significant update within the model was the reduction of the income assumption by 20%. Although management included in its documentation an analysis noting that the NSLDS derived borrower income data was 30% lower than the projected income data sourced from the 2013 Internal Revenue Service (IRS) data, management could not provide sufficient documentation to support its determination that 20% reduction is appropriate. This lack of documentation does not allow an independent reviewer to assess the reasonableness of this key assumption used in the calculation of the subsidy reestimate.

Cause/Effect:

Management's review controls were not designed to ensure that key assumptions used to develop the subsidy reestimate are properly supported and such support is reviewed and maintained. Insufficient documentation supporting the credit reform reestimate model and management review, including documentation supporting key assumptions, could lead to a material misstatement of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the material weakness presented in this exhibit:

- *Green Book* (GAO-14-704G – Federal Internal Control Standards), Principle 10.03
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 20 and 40

Recommendation:

We recommend that the Cost Estimation and Analysis Division (CEAD) design and implement policies and procedures requiring a formalized review, approval, and documentation of key assumption updates and risk assessments. This documentation should be at a sufficient level of detail to demonstrate management determinations and rationale for their decisions, and the process for selecting specific assumption values, specifically in cases where management's determination differ from the assumption values supported by the available evidence. The documentation should also address any limitations of the available evidence and how these impact management's determination of selected assumption values.

Exhibit B

Significant Deficiencies

A. Information Technology Controls Need Improvement

Conditions:

In FY 2018, we reported a significant deficiency related to Federal Student Aid's (FSA's) Information Technology (IT) controls due to persistent unmitigated IT control deficiencies. During FY 2019, the FSA management demonstrated progress implementing corrective actions to remediate some prior year deficiencies. However, management has not fully remediated prior-year deficiencies related to logical access administration, separated/transferred user access removal, user access reviews and recertification, and data validation upon system conversion. We noted IT control deficiencies related to logical access, segregation of IT duties, and application change control for two of FSA's financial and mixed systems. In addition, we noted deficiencies related to logical access for Education's Central Automated Processing System (EDCAPS) servers at the Department. Specifically, we noted the following:

Department:

1. Weaknesses in IT logical access controls. A user was granted access to EDCAPS server without a completed access authorization form.

FSA:

1. Weaknesses in IT logical access controls. For a number of selected new users in the two FSA systems, FSA could not provide completed access authorization forms; FSA did not remove separated users' access timely for one FSA system; and FSA did not verify the completeness and accuracy of the user lists utilized for the quarterly access review for one FSA system.
2. Weaknesses in IT controls related to the segregation of IT duties. For one FSA system, developers retained greater than read-only access to the application in the production environment.
3. Weaknesses in IT controls related to application change control where FSA was unable to provide a complete and accurate list of changes for one FSA application. Consequently, FSA was unable to demonstrate that it tested and approved all changes to this application prior to migration to production.

Cause/Effect:

There was a lack of effective monitoring controls by the Department and FSA to ensure:

1. Systems and support processes consistently adhered to documented agency-wide policies and procedures and the National Institute of Standards and Technology (NIST) security control requirements for the financially and mixed systems hosted and managed by FSA, the Department, or by service organizations.

Additionally, there was a lack of effective monitoring controls by FSA to ensure:

1. Corrective actions to remediate prior-year conditions and associated causes are fully implemented, as well as verifying and validating that these corrective actions were successful; and

2. The change management system generates a complete and accurate population of changes, and the change tickets had no errors due to manual updates resulting in human error.

Ineffective IT controls increases the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The Departmental Directive OM 3-104, *Clearance of Personnel for Separation or Transfer*
- Baseline Cybersecurity Standard, OCIO-STND-01, dated October 15, 2018, Section 3.8, *Personnel Access*
- Departmental Handbook, OCIO 01, Section 4.9 *Personnel Security*
- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, specifically security control requirements AC-2 *Account Management*, AC-5 *Separation of Duties*, AC-6 *Least Privilege*, CM-3 *Configuration Change Control*, and CM-5 *Access Restrictions for Change*
- Federal Information Processing Standards 200, *Minimum Security Requirements for Federal Information and Information systems*
- The *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States (Green Book), Principle No. 7, *Identify, Analyze, and Respond to Risks*, Principle No. 11, *Design Activities for the Information System*, and Principle No. 13, *Use Quality Information*

Recommendations:

We recommend that the Department:

1. Implement a quality control process to ensure that accounts and associated privileges are properly reviewed and approved prior to creating the account in the system.

We recommend that FSA:

1. Implement a quality control process to ensure that user accounts and associated privileges are properly reviewed and approved prior to creating the account in the system.
2. Implement processes and procedures to timely deactivate separated users' accounts.
3. Perform comprehensive user access reviews and confirm the access lists received for review by designated management are complete and accurate prior to commencing the review.
4. Prevent or limit developer access in the production environment to read-only.
5. Evaluate its change/configuration management process ensuring that it is completely and accurately capturing all changes throughout the various phases of the change management life cycle. Additionally, identify, implement, and follow a quality control review process to make sure that the change process was completely and accurately followed prior to closing the change ticket.

B. <u>Effective Monitoring of Service Organizations Needs Improvement</u>

Conditions:

The Department and FSA rely on service organizations to host and administer financial and mixed systems, such as NTT Data Services[1] and PIVOT, which hosted the Department's core financial management system and consolidated general ledger, and Next Generation Data Center (NGDC) [2] and Amazon Web Services (AWS), which host FSA's financial information, student loan information, and loan origination and disbursement systems. Each servicer has either begun or concluded their contracts with the Department or FSA within the last two fiscal years. We noted the following deficiencies with the testing performed over the design and operation of the controls at these service organizations:

1. The Department management did not receive a System and Organization Controls (SOC) 1, Type 2, reports from NTT and PIVOT to cover the controls at the service organizations.

2. The SOC 1, Type 2, report for the NGDC service organization did not sufficiently provide assurance over key processes and controls at NGDC. Specifically, we noted the following:

   - The SOC 1, Type 2, report covered the period of May 1, 2018 through April 30, 2019 but did not cover the remaining five months of the current fiscal year. We noted that a bridge letter would not be sufficient to cover the operating effectiveness of the controls for the remainder of the fiscal year.
   - The SOC 1, Type 2, report only covered physical security and environmental controls. It did not address controls over security management, logical access, change and configuration management, production control, incident handling, and backups.

   In addition, the testing performed by FSA was not sufficient to address relevant internal control over financial reporting considerations that should have been addressed through management's internal control processes and/or an adequately scoped SOC 1, Type 2 report issued by service organizations' auditors.

3. The AWS SOC 1 report covered the period of October 1, 2018 through March 31, 2019 but did not cover the remaining six months of the current fiscal year.

Cause/Effect:

The Department's plan for the systems migration from NTT to PIVOT did not ensure testing of controls at the service organizations would be performed for FY 2019.

FSA's monitoring controls were insufficient to ensure that the collective controls at the service organization and at FSA were properly designed and implemented throughout the fiscal year.

The Department and FSA have limited assurance on the implementation and operating effectiveness of the hosting controls and processes they are relying on for their systems, at the service organization. Therefore, the Department and FSA may not be aware of existing or potential weaknesses that could impact the integrity of their financial and mixed systems production data.

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[1] In April 2019, the Department of Education began migrating its core financial management system and consolidated general ledger from the legacy service organization, NTT, to the new service organization, PIVOT.

[2] FSA has a contractual relationship with the Mid-Atlantic Data Center (MDC) to host its financial and mixed systems and refers to this service organization as NGDC.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2017*,* and (the Green Book) *Section 4 – Additional Considerations, Service Organizations* and *Principle 16 – Perform Monitoring.*
- National Institute of Standards and Technology (NIST) Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, security control requirement *SA-9 External Information System Services Control.*

Recommendations:

We recommend that the Department:

1. On an annual basis, obtain an annual SOC1, Type 2, report for the core financial management system and consolidated general ledger that covers the appropriate time period for financial reporting operations and includes IT controls in relevant control areas, such as security management, logical and physical access controls, change and configuration management, backup, and production control.
2. Develop a process to review new and existing contracts with service organizations to require the service organizations to provide appropriate SOC 1, Type 2, reports and bridge letters. Such review should include assessing the relevancy to Department's controls to be tested in the SOC 1 report, the period covered, and understanding of complementary user controls to be performed by the Department.
3. Obtain a bridge letter from the service organization on their environment and/or design and operation of the controls covered in the SOC 1 report did not change from the SOC report date through September 30.

We recommend that the FSA:

1. Ensure the contractual requirements are met to obtain the required SOC report(s) and related bridge letter(s) applicable for the user's operational and business needs, to include internal control over financial reporting considerations. The SOC reports, and bridge letters, as applicable, should cover the appropriate time period for the financial reporting operations.
2. Review and revise, as necessary, contracts with service organizations to ensure appropriate SOC 1, Type 2, reports and bridge letters are required.
3. Consider additional controls for new service organizations to set proper expectations and needs of the user entity with respect to SOC 1, Type 2, reports.

Exhibit C

Compliance Matter

Requirement for Referring Delinquent Student Loan Debts to Treasury

In 2014, Federal Law (31 U.S. Code Section 3716(c) (6)) was amended (Public Law 113-101 (*DATA Act*) Section 5) to require agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset (i.e., collection through the reduction of future Federal payments). Due to the number of entities and systems involved in handling student loan debts and the decentralized nature of such processes, FSA is not yet capable of meeting this accelerated timeline. Accordingly, as of September 30, 2019, the Department and FSA are not in compliance with the requirement to refer student debt delinquent for 120 days to the Department of the Treasury.

To meet this requirement, the Department obtained legal clarification of how certain specific requirements of the amended law apply to the Direct Loan Program and other Department programs, and are improving delinquent debt reporting procedures, increasing the frequency of some debt referrals, and modifying its defaulted loan management system to accommodate this change. The Department is also evaluating the impact of defining defaulted loans earlier in schools' performance reporting and has developed a long-term project plan to incorporate the new referral requirements into various servicer contracts and guaranty agency agreements, so it can initiate the required system programming changes. FSA is also working with the Department in evaluating certain options for other requirements needed to achieve compliance.

Recommendation:

We recommend that the Department continue to execute the corrective actions as outlined in FSA's project plan to comply with the timing requirement for the referral of delinquent non-tax debts.

Management's Response **Exhibit D**

UNITED STATES DEPARTMENT OF EDUCATION

November 8, 2019

MEMORANDUM

TO: Sandra D. Bruce
Deputy Inspector General delegated the duties of Inspector General

FROM: Denise L. Carter
Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

Jason Gray
Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT
Fiscal Years 2019 and 2018 Financial Statements
U.S. Department of Education
ED-OIG/A17T0001

Please convey the Department's sincere thanks to everyone on your staff who worked diligently on this financial statement audit. The Department reviewed the draft Fiscal Year 2019 Financial Statement Audit Report. We concur and agree with the Independent Auditors' Report, including the Opinion on the Financial Statements, Report on Internal Control over Financial Reporting, and Report on Compliance and Other Matters.

We will share the final audit results with responsible senior officials, other interested program managers, and staff. At that time, we will also request the preparation of corrective action plans to be used in the resolution process.

Again, please convey our appreciation to everyone on your staff whose efforts permitted the Department to complete the audit within the established timeframe.

Please contact Gary Wood, Deputy Assistant Secretary, Office of Financial Management, Office of Finance and Operations, at (202) 245-8118 with any questions or comments.

400 MARYLAND AVE. S.W., WASHINGTON, DC 20202-4500
www.ed.gov

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

OTHER INFORMATION

ABOUT THE OTHER INFORMATION SECTION

The Other Information section includes:

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES

OIG's Management and Performance Challenges Report provides a summary of what the OIG believes are the Department's biggest challenges for FY 2020. The OIG identified the following four challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, and (4) Data Quality and Reporting. The full report is available at the **OIG website**.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the agency or through the audit process.

PAYMENT INTEGRITY

This section summarizes the Department's efforts to maintain payment integrity and to develop effective controls designed to prevent, detect, and recover improper payments. It also includes information regarding the Department's high-risk programs.

FRAUD REDUCTION REPORT

This section summarizes the Department's efforts to comply with the *Fraud Reduction and Data Analytics Act of 2015* (FRDAA) and details fraud reduction initiatives undertaken in FY 2019.

REDUCE THE FOOTPRINT

This section summarizes the Department's efforts to comply with Office of Management and Budget (OMB) Management Procedures Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2015-01, the Reduce the Footprint policy implementing guidance. That guidance directs agencies to reduce the total square footage of their domestic office and warehouse inventory compared to an FY 2015 baseline.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

This section reports on the Department's annual inflation adjustments to civil monetary penalties as required under the *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 12, 2019

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Sandra D. Bruce
Deputy Inspector General
Delegated the Duties of Inspector General

SUBJECT: Management Challenges for Fiscal Year 2020

In compliance with the Reports Consolidation Act of 2000, the U.S. Department of Education (Department) Office of Inspector General (OIG) reports annually on the most serious management and performance challenges faced by the Department. In addition to the challenges themselves, these reports include a brief assessment of the Department's progress in addressing the challenges and identity further actions that, if properly implemented, could enhance the effectiveness of the Department's programs and operations.

The Government Performance and Results Modernization Act of 2010 identifies major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse and mismanagement and where a failure to perform well could seriously affect the ability of the Department to achieve its mission or goals. To identify management challenges, the OIG routinely examines past audit, inspection, and investigative work; reviews corrective actions that have not been completed; assesses ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyzes new programs and activities that could post significant challenges because of their breadth and complexity. Our assessment also considers the accomplishments reported by the Department as of September 30, 2019.

Our FY 2020 report identifies four management challenges facing the Department as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. We specifically retained all four management challenges from our FY 2019 report; although the Department has made progress in addressing these challenges, our work continues to identify vulnerabilities within each of these areas. Additional challenges may exist in areas that we have not recently reviewed.

We provided our draft report to Department officials and considered their comments in developing the final report. This report will be posted to our website at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

We look forward to working with the Department to address the FY 2020 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2020

MANAGEMENT CHALLENGE 1—IMPROPER PAYMENTS

"Improper payments" are payments the government makes to the wrong person, in the wrong amount, or for the wrong reason. Although not all improper payments are fraudulent or represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens' trust in government. To reduce instances of improper payments, agencies must properly identify the cause of the improper payment, implement effective mitigation strategies to address the cause, and regularly assess the effectiveness of those strategies, refining them as necessary.

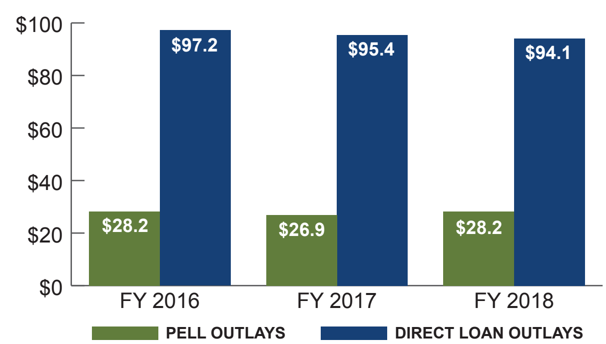
The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires Federal agencies to reduce improper payments and to report annually on their efforts. It specifically requires that each agency, in accordance with guidance prescribed by the Office of Management and Budget (OMB), periodically review all programs and activities that the agency administers and identify those that may be susceptible to significant improper payments. For each program and activity identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology that OMB approved, of the improper payments made by each program and activity. The agency must include those estimates in the accompanying materials to its annual *Agency Financial Report*.

IPERA also requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year. To be considered compliant with IPERA, an agency must (1) publish an Agency Financial Report, (2) conduct a program-specific risk assessment, (3) publish improper payment estimates, (4) publish corrective action plans to reduce improper payments, (5) publish and meet improper payment reduction targets, and (6) report improper payment rates of less than 10 percent. Additionally, an Inspector General must evaluate the accuracy and completeness of the agency's reporting and performance in preventing, reducing, and recapturing improper payments.

Why This Is a Challenge

The Department must ensure that the billions of dollars entrusted to it reach the intended recipients. The Department identified the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments, and OMB has designated these programs as high-priority programs, which are subject to greater levels of oversight. As shown in Figure 15, annual outlays for these two programs were about $123 billion from FY 2016 through FY 2018. In its *FY 2018 Agency Financial Report*, the Department reported improper payments of $2.3 billion (8.15 percent of total outlays) for the Pell program and $3.8 billion (3.99 percent of total outlays) for the Direct Loan program using an OMB-approved nonstatistical sampling and estimation methodology.

Figure 15. Pell and Direct Loan Outlays FY 2016–2018
(Dollars in Billions)



Source: U.S. Department of Education Agency Financial Reports (FY 2016–FY 2018)

The OIG's recent statutory work shows that the Department has made improvements towards meeting related requirements. However, as shown in Table 3, our audits have shown that the Department faces challenges to consistently meet key IPERA requirements.

Table 3. Results of Recent OIG Statutorily Required Improper Payment Audits

FY	Met Reduction Target for Direct Loan Program	Met Reduction Target for Pell Program	Accurate and Complete Improper Payments Estimation Methodology
2014	No	Yes	No
2015	No	Yes	No
2016	No	No	Yes
2017	Yes	No	Yes
2018	Yes	Yes	Yes

While our most recent audit concluded that the Department complied with IPERA for FY 2018, we found that the Department reported inaccurate and incomplete information regarding the amounts of identified and recaptured improper payments in its *FY 2018 Agency Financial Report*. As a result, we could not accurately evaluate the Department's performance in recapturing improper payments for its programs and activities.

In FY 2019, the Department implemented significant changes to its reporting on improper payments; specifically, it introduced new improper payment estimation methodologies for the Pell and Direct Loan programs and began estimating improper payments for two additional programs. Before FY 2019, FSA used OMB-approved nonstatistical sampling and estimation methodologies for its Pell and Direct Loan programs. Additionally, for FY 2019, the Immediate Aid to Restart School Operations Program and the Temporary Emergency Impact Aid for Displaced Students Program were designated as susceptible to significant improper payments. The Department plans to use statistically valid methodologies to estimate improper payments for all four programs. While the implementation of statistically valid estimation methodologies should improve the accuracy and reliability of the Department's improper payment estimates, we have not yet reviewed these new estimates and our past audits identified weaknesses in the Department's design and implementation of the methodologies used to estimate improper payments.

Other audit work has identified potential improper payments in the student financial assistance programs and by State educational agencies (SEAs) and local educational agencies (LEAs). Our semiannual reports to Congress from April 1, 2016, through March 31, 2019, included more than $712 million in questioned costs from audit activity and more than $84 million restitution payments from investigative activity. These examples demonstrate there may be other potential opportunities for the Department to identify and prevent improper payments.

Planned projects include our annual review of the Department's compliance with the improper payment reporting requirements and its performance in preventing, reducing, and recapturing improper payments. We will also complete a required risk assessment of the Department's purchase card program and, if deemed necessary, conduct an audit of Department purchase card transactions.

Progress in Meeting the Challenge

The Department stated that it implemented a statistically valid improper payment estimation methodology in FY 2019 that addressed the acknowledged limitations of the prior nonstatistically valid estimation methodology for both the Pell and Direct Loan programs. The methodology is based on a larger, random sample of the complete population of over 5,700 schools and uses data from the compliance audits performed by external auditors, as opposed to the prior methodology that used a smaller, nonstatistical sample of a subset of schools selected for program reviews. The Department noted that the new sampling methodology exceeded OMB's precision requirements for estimates of the percentage of improper payments.

According to the Department, this methodology improves the accuracy of the improper payment estimates allowing for more precise root cause analyses to improve corrective actions and improve the effectiveness of correction action plans to mitigate identified root causes. The Department further stated that using the new methodology has resulted in significantly lower improper payment estimates for the Pell Grant and Direct Loan Programs.

According to the Department, it remains committed to maintaining the integrity of payments to ensure that the billions entrusted to it reach intended recipients in the right amount and for the right purpose. To accomplish this, the Department stated it establishes policies, business processes, and controls over key payment activities, to include those pertaining to payment data quality, cash management, banking information, and financial reports. The Department noted that payment integrity includes robust controls designed to prevent, detect, and recover improper payments. In designing controls, the Department strives to strike the right balance between making timely and accurate payments and ensuring the controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department noted it must rely heavily on controls established by external entities that receive Department payments, including Federal, State, and private organizations and institutions, because those entities further distribute funds that they receive from the Department to subordinate organizations and individuals. Because these "third party" controls are outside of the Department's operational authority, they present a higher risk than the payments made directly by the Department, as evidenced by the Department's root cause analysis.

In addition, the Department stated that it is coordinating with the Treasury Department and OMB to pursue legislation that would authorize the Internal Revenue Service to disclose tax return information directly to the Department for the purpose of administering programs authorized by Title IV of the *Higher Education Act of 1965*, through which the Department awarded more than $122 billion in FY 2019. Several bills have been introduced in Congress that would amend the Internal Revenue Code to allow the Internal Revenue Service to disclose tax return information to authorized Department officials for purposes of determining eligibility for, and amount of, Federal student financial aid. The Department expects the exemption would allow for significant simplification of and improvement to the administration of Title IV programs, including reduction in improper payments.

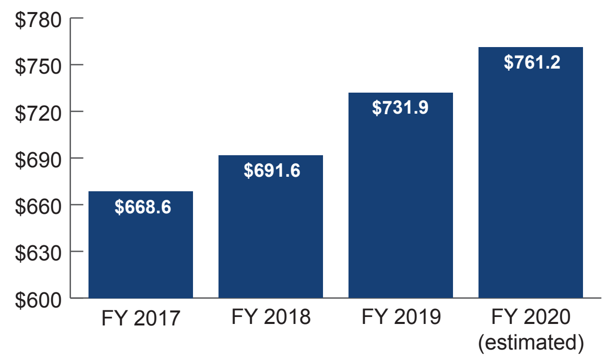
What the Department Needs to Do

This year marks a potential turning point in the Department's Improper Payments Management Challenge. The Department's development of a statistically valid estimation methodology is intended to allow for a more robust and accurate estimate of improper payments. The Department's draft estimates using this measure indicate that improper payments are much lower than what was estimated using its previous alternative approaches. However, the OIG has not assessed the Department's new estimation methodology or the accuracy and validity of the Department's new estimates. The OIG will review the accuracy and validity of these measurements as part of the FY 2019 IPERA audit. Depending on whether the OIG finds issues with the new estimation methodology and estimates, this Management Challenge Area is subject to review and reconsideration. We support the Department's efforts to pursue legislation that would allow it access to taxpayer information in order to reduce improper payments.

MANAGEMENT CHALLENGE 2—INFORMATION TECHNOLOGY SECURITY

The Department's systems house millions of sensitive records on students, their parents, and others, and are used to process billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized people (including Department employees, contractor employees, and other third parties such as school financial aid administrators). As shown in Figure 16, the Department's total spending for information technology investments for FY 2019 was about $731 million and may exceed $760 million in FY 2020. The estimated FY 2020 information technology spending is an increase of about 13.8 percent from FY 2017 levels.

Figure 16. Department Total Information Technology Spending FY 2017–2020
(Dollars in Millions)



Source: Information Technology Agency Summary, **ITDashboard.gov**

Through the Office of the Chief Information Officer (OCIO), the Department monitors and evaluates the contractor-provided information technology services through a service-level agreement framework and develops and maintains common business solutions required by multiple program offices. OCIO is responsible for implementing the operating principles established by legislation and regulation, establishing a management framework to improve the planning and control of information technology investments, and leading change to improve the efficiency and effectiveness of the Department's operations. In addition to OCIO, Federal Student Aid (FSA) has its own chief information officer, whose primary responsibility is to promote the effective use of technology to achieve FSA's strategic objectives through sound technology planning and investments, integrated technology architectures and standards, effective systems development, and production support.

The *Federal Information Security Modernization Act of 2014* (FISMA) requires the OIG to assess the effectiveness of the agency's information security program. FISMA mandates that this evaluation includes (1) testing of the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems and (2) an assessment of the effectiveness of the information security policies, procedures, and practices of the agency.

Why This Is a Challenge

In light of increased occurrences of high-profile data breaches (public and private sector), the importance of safeguarding the Department's information and information systems cannot be understated. Protecting this complex information technology infrastructure from constantly evolving cyber threats is an enormous responsibility and challenge. Without adequate management, operational, and technical security controls, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability. For the last several years, information technology security audits and financial statement audits have identified security controls that need improvement to adequately protect the Department's systems and data.

Our recent reports on the Department's compliance with FISMA, performed by the OIG with contractor assistance, noted that the Department and FSA made progress in strengthening their information security programs. However, as shown in Table 4, our FY 2017 and FY 2018 FISMA audits included findings and repeat findings across all five cybersecurity framework security functions developed by the Council of the Inspectors General on Integrity and Efficiency, OMB, and the Department of Homeland Security and within each of their related metric domains. Both audits concluded that the Department and FSA were not effective in any of the five security functions—Identify, Protect, Detect, Respond, and Recover.

Table 4. Results of OIG FISMA Audits—Cybersecurity Framework Security Functions and Metric Domains with Findings and Repeat Findings

	Identify		Protect				Detect	Respond	Recover
FY	Risk Management	Contractor Systems	Configuration Management	Identity and Access Management	Data Protection and Privacy	Security and Privacy Training	Information Security Continuous Monitoring	Incident Response	Contingency Planning
2018	Repeat Finding[1]	N/A[2]	Repeat Finding	Repeat Finding	Finding	Repeat Finding	Repeat Finding	Repeat Finding	Repeat Finding
2017	Finding	Finding	Finding	Finding	N/A[3]	Finding	Repeat Finding	Repeat Finding	Finding

[1] Repeat findings are current report findings with the same or similar conditions contained in prior OIG reports.
[2] Contractor systems was not a metric domain for the FY 2018 FISMA audit.
[3] Data protection and privacy was not a metric domain for the FY 2018 FISMA audit.

Each of our recent FISMA reports recommended ways the Department and FSA could increase the effectiveness of their information security program so that they fully comply with all applicable requirements. Our FY 2018 FISMA audit specifically noted that the Department and FSA could strengthen their controls in areas such as (1) corrective action plan remediation (risk management); (2) reliance on unsupported operating systems, databases, and applications in its production environments (configuration management); (3) removing access of terminated users to the Department's network (identity and access management); (4) protecting personally identifiable information (data protection and privacy); (5) fully implementing its Continuous Diagnostics and Mitigation program (information security continuous monitoring); and (6) ensuring functionality of data loss prevention tools (incident response). We made recommendations to help the Department and FSA fully comply with all applicable requirements.

Recent audits of the Department's financial statements, performed by an independent public accountant with OIG oversight, have consistently identified information technology control as a significant deficiency. While the independent public accountants noted that the Department and FSA management demonstrated progress in addressing some of the deficiencies, they also generally concluded that ineffective information technology controls increase the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications.

Our investigative work in this area identified a cyber-crime scheme targeting Federal student financial assistance funds. This involved the use of phishing to obtain student's log in credentials and then using this information to access school's systems to change the student's direct deposit information. We issued a memorandum that informed the Department that the lack of two-factor authentication contributed to this incident and recommended the Department take steps to advise schools of this threat. The Department subsequently issued a public advisory regarding the scheme.

Planned projects in this area will determine whether the Department's and FSA's overall information technology security programs and practices were generally effective as they relate to Federal information security requirements.

Progress in Meeting the Challenge

The Department stated that it successfully completed an information technology migration that transitioned core services and capabilities to new service providers during FY 2019. The Department stated this included the deployment of new tools that make the Department's information technology environment more secure. The Department cited specific improvements that included improved spam filtering, antiphishing, and geo-blocking capabilities.

The Department also noted that it revised its Information Security Program's policy framework to include a new review and approval process for cybersecurity policies, standards, and instructions. The Department believed that multiple new features, including automated workflows and defined review timelines, will improve the Department's ability to provide critical time sensitive guidance to Department information technology systems stakeholders.

The Department stated that it made significant progress to maintain an accurate system inventory, communicate the impact of identified cybersecurity risks, and actively manage its Plans of Actions and Milestones.[3] As part of this ongoing work, the Department continued to publish Cybersecurity Framework Risk Scorecards that serve as a tool to prioritize and mitigate risks to the Department's information systems. The Department added that the Cybersecurity Framework Risk Scorecard was enhanced during FY 2019 to allow for automated risk scoring, improved accessibility, more granular and user-friendly data filtering capabilities, and enhanced data modeling. The Department also stated that it had increased communication through targeted briefings for specific stakeholders on subjects that included Cybersecurity Framework Risk Scorecard results, phishing exercises, and current cyber threats. The Department believed that these processes enabled it to better prioritize resources to resolve identified vulnerabilities. The Department reported that this prioritization led to the closure of all past due Plans of Action and Milestones for the Department's High Value Assets. The Department also noted that it had reduced total Plans of Action and Milestones by more than 83 percent and delayed Plans of Action and Milestones by 95 percent.

The Department stated that it had made substantial progress in the development of an enterprise Identity Credential and Access Management solution. The Department expects this solution will provide the ability to centrally and securely manage enterprise identity, user accounts, and user's roles within and across Department systems and applications. The Department stated that it plans to deploy the Identity Credential and Access Management solution into the Department's production environment in FY 2020.

The Department noted that it has worked with the Department of Homeland Security to mature its Continuous Diagnostics and Mitigation implementation by incorporating additional program elements of the Dynamic and Evolving Federal Enterprise Network Defense series of task orders. The Department reported that it also engaged with non-government organizations to expand and improve information sharing and communication to protect our nation's students from cyber threats. The Department believes it has opportunities to contribute operationally, tactically, and strategically to strengthen cybersecurity protections within the educational community. For example, in FY 2019, the Department was able to leverage the relationship with the education community to quickly collaborate on a cybersecurity alert and enlist its assistance with promulgating the message.

[3] Plans of Action and Milestones are management tools for tracking the mitigation of cyber security program and system level findings and weaknesses.

Finally, the Department stated that it has managed a significant amount of transition risk and made significant progress during FY 2019 to strengthen the Department's information security program. It believed that the infrastructure, processes, and tools deployed in FY 2019 created an environment for further growth in maturing its programs during FY 2020.

What the Department Needs to Do

The Department relies on information technology to manage its core business operations and deliver products and services to its many stakeholders. The OIG has consistently reported concerns regarding the overall effectiveness of the Department's information technology security program through our annual FISMA audits, financial statement audits, and management challenges reports. While the Department reported significant progress towards addressing long-standing concerns, managing information technology security programs and practices to effectively reduce risk to the Department's operations is a clear and ongoing management challenge. Specifically, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

We commend the Department for addressing these weaknesses and continuing to place a priority on improving its information technology security program. Our FISMA report for FY 2018 noted that the Department and FSA had made improvements in developing and strengthening their security programs, but also identified continued weaknesses. Overall, the Department needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management, identity and access management, and information security continuous monitoring. Within configuration management, we identified weaknesses where (1) the Department is not consistently ensuring the use of secure connections; (2) the Department and FSA continued to use outdated secure connection protocols; and (3) FSA is using unsupported operating systems, databases, and applications in its production environment. Within identity and access management, we identified weaknesses where (1) the Department has not fully implemented its identity, credential, and access management strategy; (2) FSA has not fully implemented a process for identifying, managing, or tracking activity of privileged accounts; and (3) the Department did not remove terminated users from its network. For information security continuous monitoring, stakeholders are unable to perform monitoring functions in the Cyber Security Assessment and Management tool.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes. To that end, the Department needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

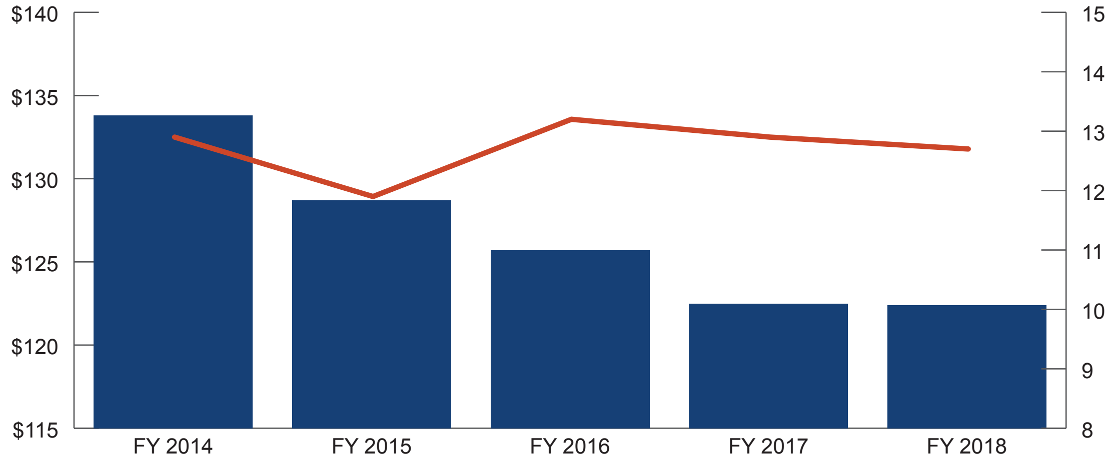
MANAGEMENT CHALLENGE 3—OVERSIGHT AND MONITORING

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended and programs are achieving goals and objectives. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Two subareas are included in this management challenge: student financial assistance programs and grantees.

Oversight and Monitoring—Student Financial Assistance Programs

FSA, as a principal office of the Department, seeks to ensure that all eligible individuals can benefit from Federal financial assistance for education beyond high school. FSA is the nation's largest provider of student financial aid and is responsible for implementing and managing the Federal student financial assistance programs authorized under Title IV of the *Higher Education Act of 1965*, as amended. These programs provide grants, loans, and work-study funds to students attending colleges or career schools. FSA also oversees about 6,000 postsecondary institutions that participate in the Federal student aid programs.

Figure 17. Student Aid Delivered and Postsecondary Students Receiving Aid FY 2014–FY 2018



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
TOTAL FEDARAL STUDENT AID DELIVERED (IN BILLIONS OF $)	$133.8	$128.7	$125.7	$122.5	$122.4
TOTAL POSTSECONDARY STUDENTS RECEIVING AID (IN MILLIONS)	12.9	11.9	13.2	12.9	12.7

Source: U.S. Department of Education Agency Financial Reports FY 2014–FY 2018

In FY 2018, FSA performed these functions with an administrative budget of $1.5 billion and 1,257 employees, along with contractors that provide outsourced business operations. As shown in Figure 17, FSA delivered an average of about $126.2 billion in Federal student aid to more than 12.7 million students each year from FY 2014 to FY 2018.

Within the Department, FSA administers the Federal student assistance programs, and the Office of Postsecondary Education develops Federal postsecondary education policy and regulations for the Federal student assistance programs. The Office of Postsecondary Education also administers the review process for accrediting agencies to ensure that the Department recognizes only agencies that are reliable authorities for evaluating the quality of education and training postsecondary institutions and programs offer.

Why This Is a Challenge

The Department must provide effective oversight and monitoring of the student financial assistance programs to ensure that the programs are not subject to fraud, waste, and abuse. The Department's responsibilities include coordinating and monitoring the activity of many Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department. These entities include lenders, guaranty agencies, postsecondary institutions, contracted servicers, collection agencies, and accrediting agencies.

Our audits involving the oversight and monitoring of student financial assistance programs continue to identify instances of noncompliance as well as opportunities for the Department to further improve its processes. The OIG's audit related work within this area has covered a wide range of activities, including the following.

Activities Reviewed	Review Results
Accreditation	We found that the Department's process for reviewing agency petitions for recognition did not provide reasonable assurance that Department recognized only agencies meeting Federal criteria. We also reported that OPE's post-recognition oversight was not adequate to ensure agencies consistently and effectively carried out their responsibilities.
Contractor Oversight	In our audit of FSA's oversight of loan servicers, we found that FSA did not track all identified instances of loan servicer noncompliance and rarely held loan servicers accountable for noncompliance with requirements. We also noted that information that FSA collected was not always sufficient to ensure that loan servicers complied with requirements for servicing federally held student loans. In an audit of FSA's contractor personnel security clearance process, we found that FSA had not effectively implemented Department requirements and ensured that all contractor employees had appropriate security screening.
Satisfactory Academic Progress	We found that FSA did not always ensure that schools completed corrective actions related to satisfactory academic progress findings that independent public accountants identified in compliance audits and FSA identified in program reviews.
School Closures	We found that FSA could enhance its policies and procedures to help ensure that it takes timely and appropriate action to resolve schools' composite score appeals. FSA should also implement controls to prevent schools from manipulating their composite scores to avoid sanctions or increased oversight.
School Compliance with the Higher Education Act and Tile IV Regulations	We found that a school became ineligible to participate in the Title IV programs because it did not comply with the institutional eligibility requirement that limits the percentage of regular students who may enroll in correspondence courses. We also found that the school did not always comply with the requirements governing disbursements or return of Title IV aid.
Verification of Free Application for Federal Student Aid (FAFSA) Data	We found that FSA did not evaluate its process for selecting FAFSA data elements that institutions were required to verify and generally did not effectively evaluate and monitor its processes for selecting students for verification. We also performed a series of external audits of selected schools to assess their compliance with Federal verification and reporting requirements. Of five schools covered by these audits, two did not always complete verification of applicant data in accordance with Federal requirements, and one did not always accurately report verification results to FSA.

The OIG's investigative work continues to identify fraud, waste, and abuse of student financial assistance program funds. This includes the following areas.

Area	Example of Related Investigative Activity
Institutions	An OIG investigation identified an instance where a school violated the Federal ban on incentive compensation. Title IV of the Higher Education Act prohibits any institution that receives Federal student aid from compensating student recruiters with a commission, bonus, or other incentive payment based on the recruiters' success in securing student enrollment. The incentive compensation ban protects students against admissions and recruitment practices that serve the financial interests of the recruiter rather than the educational needs of the student.
School Officials	OIG investigations identified improper activities of school officials that included falsifying student eligibility information, embezzling portions of student's Federal student financial assistance awards, using a corporate credit card for personal benefit, and overriding academic holds on students' financial aid records to allow improper award and disbursement of Federal student assistance.
Program Participants	OIG investigations identified instances where program participants gave kickback payments in exchange for unjustified financial aid payments, used fraudulently obtained social security numbers to obtain Direct Loans, and made false claims of earning a high school diploma to receive student financial assistance.
Distance Education Fraud Rings	Fraud rings are large, loosely affiliated groups of criminals who seek to exploit vulnerabilities in distance education programs. The OIG has investigated numerous instances where these groups use the identities of others (with or without their consent) in order to fraudulently obtain Federal student aid.

Our ongoing audit and inspection work in this area includes reviews of the Department's compliance with regulations in its recognition of a selected accreditor, involvement in and oversight of activities related to the sale and operations of a chain of career colleges, and controls over institutional processes for completing verification and reporting results. Additional planned projects for FY 2020 include audits of schools' compliance with career pathway programs and ability to benefit provisions, schools' use of online program management providers, FSA's transition to the Next Generation Financial Services Environment, and FSA's implementation of its Next Generation Payment Vehicle Account Program pilot.

Progress in Meeting the Challenge

The Department and FSA stated that they continue to improve the risk-based oversight and monitoring of the student financial assistance programs, including the oversight and monitoring of servicers and vendors, schools, accrediting agencies, and the provision of aid to program participants.

Oversight and Monitoring of Contractors, Including Servicers and Vendors

FSA stated that its current oversight and monitoring environment includes policies and procedures that work to ensure high performance from contractors and to prevent fraud, waste and abuse. FSA added that it is focused on enforcing high-quality loan servicer performance to improve the value of products and services that FSA provides. According to FSA, its Chief Operating Officer has conducted onsite visits with all loan servicers to emphasize expectations for consistent and high-quality service. FSA stated that it conducts daily monitoring and oversight of all loan servicers, including regularly monitoring all servicers' telephone interactions with borrowers. FSA stated that it compiles customer satisfaction survey scores and default prevention statistics for each Federal loan servicer every 6 months to determine each servicer's allocation of loan volume. FSA also noted that it has implemented improvements in response to specific issues identified within this area by the OIG.

According to FSA, because it continually strives to improve oversight and monitoring of contractors, it has launched the Next Gen FSA initiative. SFA stated that a key element of Next Gen FSA will be restructuring systems, processes, and contracts to introduce even greater accountability based on more target standards, metrics, and incentives and disincentives to drive outstanding performance, particularly from loan servicers. Under Next Gen FSA, FSA plans to take an enhanced approach to vendor oversight.

Oversight and Monitoring of Schools

To improve its oversight and monitoring of schools participating in Title IV programs, FSA stated that it has worked to address weaknesses in the single audit process in order to improve its use as an oversight and monitoring tool for schools' disbursements of Pell Grants and Direct Loans. FSA further stated that it plans to deploy an analysis model, as early as the end of FY 2020, to continually monitor partner data and performance. FSA noted that this will improve its ability to identify schools most at-risk and allow it to more effectively use oversight and monitoring resources by informing and prioritizing support for schools. FSA also stated that it has implemented improvements in response to specific issues within this area that were identified by the OIG.

Oversight and Monitoring of Accrediting Agencies

According to the Department, over the course of the next several years, it will implement additional risk-based procedures to evaluate an accrediting agency's ability to effectively determine and measure schools' compliance with accreditation standards. Additionally, the Department will develop a risk-based methodology to identify agencies at higher risk of failing to meet statutory and regulatory requirements and additional procedures to prioritize oversight of those higher risk agencies.

Oversight & Monitoring of Applicants, Aid Recipients, and Borrowers

FSA stated that it has implemented an improved model for verification selection and evaluation of data elements from the Federal student aid application. According to FSA, this allows it to better identify applicants for which errors will result in a change in their Federal aid award, potentially reducing improper payments. FSA stated that it continually seeks to improve its verification process for the Federal student aid application and is seeking cost-effective options to verify borrower income and family size reporting when borrowers apply for income driven repayment plans. The Department has worked with the Treasury Department and OMB to propose legislation for an exemption to the Internal Revenue Code that would allow FSA to directly access tax return information. The exemption would greatly reduce verification burden at the time of application for financial aid and would enable FSA to verify borrower's information when applying for income-driven repayment plans. Additionally, FSA anticipates undertaking a 12-month pilot project to assess the incidence of error or fraud in determining monthly payment amounts under income-driven repayment plans. Based on the results of the pilot project, FSA will determine the additional procedures needed, if any, to review and verify income for borrowers reporting zero income on income-driven repayment plan applications and procedures to review and substantiate borrowers' reported family size.

FSA stated that it implemented a case management platform to improve the processing of OIG distance education fraud ring referrals during FY 2019. FSA stated that this platform allows it to more easily obtain and analyze the data from the referrals to better detect and prevent fraud.

What the Department Needs to Do

Through the Next Gen FSA initiative, FSA seeks to create an improved, world-class customer experience for FSA's millions of customers. FSA envisions that this initiative will create a more agile, flexible model that will streamline FSA's existing operations, improve the integrity of the Title IV programs, and transform how it provides oversight of organizations that support its mission. The Next Gen FSA initiative involves a multistage procurement process intended to identify vendors most capable of supporting the implementation. While the Next Gen FSA initiative has significant potential to improve FSA's ability to oversee and hold accountable its key contractors servicing Federal student aid, the initiative is still in its early phases of implementation. It will be important for FSA to ensure that this initiative is effectively implemented and that it follows through to hold its contractors accountable for effectively administering their responsibilities. The Department should position itself to clearly demonstrate the effectiveness of its initiatives to improve oversight of student financial assistance programs by setting goals for and measuring results that demonstrate progress of its efforts.

Our audits and investigations of student financial assistance program participants and audits of the Department's related oversight and monitoring processes will continue to assess a variety of effectiveness and compliance elements, with a particular focus on FSA's implementation of its Next Gen initiative. This area remains a management challenge given our continued findings in this area.

Oversight and Monitoring—Grantees

The Department is responsible for administering education programs that Congress authorized and the President signed into law. This responsibility includes awarding program funds to eligible recipients and monitoring their progress in meeting program objectives, ensuring that programs are administered fairly, ensuring grants are executed in conformance with both authorizing statutes and laws prohibiting discrimination in federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance. The funding for many grant programs flows through primary recipients, such as SEAs, to subrecipients, such as LEAs or other entities. The primary recipients must oversee and monitor the subrecipients' activities to ensure compliance with Federal requirements.

The Department's early learning, elementary, and secondary education programs annually serve about 18,300 public school districts and over 55 million students attending more than 98,000 public schools and 34,000 private schools. The Department awards discretionary grants using competitive processes and priorities and formula grants using formulas determined by Congress. In all cases, the Department's activities are governed by the program authorizing legislation and implementing regulations. One of the key programs the Department administers is Title I, Part A. Under the President's FY 2020 budget request, this program would deliver more than $15.8 billion for local programs that provide extra academic support to help about 25 million students in high-poverty schools meet State academic standards. Another key program is the *Individuals with Disabilities Education Act*, Part B Grants to States. This program would provide more than $12.3 billion to help States and school districts meet the special educational needs of an estimated 7 million students with disabilities.

Why This Is a Challenge

Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our recent audits related to several grant programs identified weaknesses in grantee oversight and monitoring that included concerns with SEA and LEA controls and Department oversight processes.

Our recent audits at the SEA and LEA levels identified weaknesses that could have been limited through more effective oversight and monitoring. The internal control issues identified within these areas could impact the effectiveness of the entities reviewed and their ability to achieve intended programmatic results. This included work related to the following programs and activities.

Area Reviewed	Review Results
Adult Education	We identified opportunities for an SEA to better ensure that it used funds in compliance with applicable laws and regulations and obtained and reviewed single audit reports of subgrantees.
Auditee Response to Prior Audit Findings	In our series of work on the status of corrective actions on previously reported Title I findings at four school districts, we found weaknesses in the design or implementation of related procedures at three of the four districts.
Disaster Recovery	We have issued two reports relating to disaster recovery funding authorized under the *Bipartisan Budget Act of 2018*. We identified weaknesses at two SEAs in areas that included programmatic monitoring processes, internal audit division staffing, processes to assess fraud risks, internal controls over procurement, and segregation of duties.
McKinney-Vento Homeless Assistance Act	We found that an SEA generally provided effective oversight of LEAs and coordinated with other entities to implement selected requirements related to identifying and educating homeless children and youths. However, we noted that the SEA could improve its internal controls by better documenting policies, procedures, and roles.
Statewide Longitudinal Data Systems	We found that an SEA's Statewide Longitudinal Data System and data warehouse did not meet minimum security requirements. This increased the risk of breaches that could compromise any stored personally identifiable information. We identified similar issues in earlier audits of two other SEAs' internal controls to protect personally identifiable information in their Statewide Longitudinal Data Systems.
Single Audit Resolution	We issued a management information report to highlight areas of concern related to work performed in three States. The report included suggested actions that the Department should take to improve SEA oversight of the LEA single audit resolution process.

Our recent audits of the Department's oversight and monitoring processes over several grant programs identified internal control weaknesses and opportunities for improvement. These weaknesses could limit the Department's ability to ensure that grantees demonstrated progress towards meeting programmatic objectives and properly safeguarded and used Federal education funds. Our work included audits within the following areas.

Area Reviewed	Review Results
Federal Funding for Charter Schools	We found that the Department's oversight and monitoring efforts were not effective to ensure that the SEAs performed charter school closure processes in accordance with Federal laws and regulations. The Department did not provide adequate guidance to SEAs on how to effectively manage charter school closures and did not monitor SEAs to ensure that they had an adequate internal control system for the closure of charter schools.
Indian Education	We identified weaknesses in the Department's monitoring activities that included a lack of policies and procedures on monitoring grantees' performance and use of funds. We found that monitoring efforts were primarily limited to ensuring that grantees spent funds by established deadlines.
Rehabilitative Services	We identified weaknesses in controls over the data quality of case service reports in areas that included monitoring procedures, data certifications, and procedures related to the use of edit check programs.
Statewide Longitudinal Data Systems	We found that the Department lacked controls to ensure that grantees followed grant requirements regarding the protection of personally identifiable information in their Statewide Longitudinal Data Systems. This included a lack of monitoring to ensure that grantees followed their State laws and regulations regarding IT system security to prevent and detect unauthorized access and disclosure of personally identifiable information.

The OIG's investigative work continues to identify fraud relating to Federal education grant programs. This includes the following areas.

Subject Area	Example of Related Investigative Activity
Contractors	OIG investigations identified instances were contractors invoiced for services that it did not perform, fraudulently obtained contracts, committed bribery, and made kickback payments.
LEA Officials	OIG investigations identified instances where LEA officials allowed fraudulent credit card use in exchange for kickbacks, embezzled cash, and executed a scheme to obtain funds for personal use by creating false invoices and issuing fraudulent checks.
Charter School Officials	OIG investigation identified instances where charter school officials improperly awarded a no-bid contract for equipment on campus that had not been constructed in exchange for cash payments, embezzled funds intended for the operation of a charter school, and used school credit cards to purchase items for personal use.

Ongoing work in this area includes reviews of the Charter School Program Grants for Replication and Expansion of High-Quality Charter Schools, Immediate Aid to Restart School Operations and Temporary Emergency Impact Aid for Displaced Students programs, and oversight of virtual charter schools' implementation of selected requirements under IDEA. Planned projects for FY 2020 include work on statewide accountability systems under the Every Student Succeeds Act, controls over Student Support and Academic Enrichment Program grants, and the oversight and implementation of requirements related to annual determinations for LEAs under IDEA.

Progress in Meeting the Challenge

The Department stated that it focused on several key milestones in FY 2019 to improve grantee oversight and monitoring at the SEA and LEA levels and to improve oversight and monitoring of grant programs. The Department reported accomplishments in grantee oversight and monitoring across multiple offices. These efforts included actions to implement risk-based oversight and monitoring and improving processes to provide timely and effective guidance and technical assistance. For example, according to the Department, the Risk Management Services division continued its long-standing efforts to identify and mitigate risk across the Department's formula and discretionary grant programs. In addition, the Department reported it took actions to monitor the timely publishing of State report cards and also took actions across multiple offices to identify employee skill gaps in grants administration and then to develop strategies to close those gaps.

The Department also noted that the Office of Special Education and Rehabilitative Services revised the Differentiated Monitoring and Support component of its accountability system, Results Driven Accountability, in order to improve its focus and efficiency before the release of the OIG's audit report. It also has developed written policies and procedures that further address the OIG's recommendations.

The Department stated that the Institute of Education Sciences has provided more effective guidance and technical assistance to grantees on privacy issues related to their Statewide Longitudinal Data Systems in several ways that resulted in (1) expanded technical assistance from information security and data privacy experts to help States address the technical issues raised in the OIG's audit report; and (2) revised application requirements for new Statewide Longitudinal Data Systems awards to provide information on compliance with applicable Federal and State data privacy and information technology security requirements up front. These requirements allow applicants to request infrastructure support to meet security requirements. The Institute of Education Sciences is also collecting and maintaining data security and privacy documentation (policy and processes) as part of its grantee site visit preparation process.

What the Department Needs to Do

The Department's oversight and monitoring of grantees remains a management challenge given our continued findings in this area. However, the Department continues to report progress in enhancing its grantee oversight processes, citing numerous actions it has taken to address risks, including those identified in a number of OIG audit reports, and to improve outcomes across multiple program offices. The Department should periodically assess the results of these efforts, identify the most promising approaches, and determine whether these best practices can be effectively applied in other program offices.

The Department should also continue its efforts to offer common training, encourage effective collaboration and communication within and across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients—to include both technical assistance and monitoring. Given the flexibilities offered by the *Every Student Succeeds Act*, the Department needs to ensure that its monitoring approaches support State and local efforts while providing effective oversight of financial stewardship and ensuring progress towards positive program outcomes. Further, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight, including those conducting single audits under OMB 2 C.F.R. 200, Subpart F, given its generally limited staffing in relation to the amount of Federal funding that it oversees.

MANAGEMENT CHALLENGE 4—DATA QUALITY AND REPORTING

The Department collects, analyzes, and reports on data for many purposes that include enhancing the public's ability to access high-value education-related information, reporting on programmatic performance, informing management decisions, and improving education in the United States. The Department collects data from numerous sources, including States, which compile information relating to about 18,300 public school districts and 98,000 public schools; over 7,300 postsecondary institutions, including universities and colleges, as well as institutions offering technical and vocational education beyond the high school level; and surveys of private schools, public elementary and secondary schools, students, teachers, and principals.

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and complete. The Department relies on program data to evaluate program performance and inform management decisions. Our recent audit work identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department and at SEAs and LEAs. This included the following areas.

Area Reviewed	Review Results
Adult Education	We found that an SEA used incomplete data obtained from two educational regions, two adult education centers, and a subgrantee to prepare its program performance report.
Borrower Defense	We found that FSA did not have an adequate information system to manage borrower defense claim data. We also identified weaknesses with FSA's procedures to review and process borrower defense claims.
Graduation Rates	In a series of three reports on SEAs' processes to calculate and report graduation rates, we concluded that internal controls at each of the three SEAs reviewed did not provide reasonable assurance that reported graduation rates were accurate and complete during our audit period. We identified specific weaknesses that included lack of oversight of LEA controls over data quality and processes. Specifically, some LEAs improperly included or excluded students from graduate rate calculations based on Federal requirements.
Income-Driven Repayment Plans	We found that the Department could have provided more detailed information on specific income-driven repayment plans and its loan forgiveness programs to fully inform decision makers and the public about current and future program management and financial implications of these plans and programs.
McKinney-Vento Homeless Assistance Act	We found that an SEA conducted edits and reasonableness checks of data that LEAs submitted, but it did not review LEA homeless student data when conducting monitoring reviews. We also noted that LEAs were not required to certify that controls over the data were working as intended and known issues were disclosed.

Ongoing work in this area includes multiple reviews of the accuracy and completeness of displaced student count data provided by SEAs to the Department along with multiple reviews of the accuracy and completeness of campus crime statistics provided to the Department under the Clery Act. Planned projects for FY 2020 include work to assess the effectiveness of the Department's processes to assist State Vocational Rehabilitation Program grantees in improving their financial reporting.

Progress in Meeting the Challenge

The Department noted that under Goal 3 of its Strategic Plan, it is committed to strengthening the quality, accessibility, and use of education data. In response to additional authorities granted by the President and Congress to manage education data as a strategic asset, the Department stated it is developing a coherent and coordinated approach to data governance, data management, and data quality to ensure that education data provide high value for internal decision makers and external stakeholders. Additionally, the Department reported that in response to Evidence Act requirements, it has named a chief data officer, statistical official, and evaluation officer, each of whom has responsibility for data quality within their own sphere of authority. Further, to facilitate coordination and in adherence with OMB guidance, the Department stated it has established an agency-wide Data Governance Board which will be chaired by the chief data officer and meet regularly beginning in November 2019 to set and enforce policies for managing data as a strategic asset. The chief data officer also leads the Department's new Office of the Chief Data Officer, which is responsible for managing and improving the Department's ability to leverage its data routinely for program operations and to inform policy. The chief data officer, with the Data Governance Board, is beginning the process of selecting a data maturity assessment model which will be used to evaluate the current state of the Department's data and data-related infrastructure.

The Department also noted that it continues to support complementary data governance initiatives, including a Data Strategy Team and the ED*Facts* Data Governance Board. The Department stated that during FY 2019, the Data Strategy Team offered 10 data management trainings to 15 program offices on topics including improving data quality, understanding differential privacy protections, and using data visualization, among others. According to the Department, the Data Strategy Team developed eight data governance and management tools and templates for Department offices, including an example data dictionary, a data terms glossary, and a data quality documentation guide. The Department further stated that The Data Strategy Team also assists the Office of Elementary and Secondary Education in planning and managing its Data Governance Team, which was created to better understand the data collected by the office and to create Office of Elementary and Secondary Education-wide strategies and standards for use throughout the data lifecycle. Finally, the Department stated that the Office of Elementary and Secondary Education continued to improve its data verification process in FY 2019 by expanding data quality checks, including at the LEA level, and increasing standardization.

According to the Department, the ED*Facts* Data Governance Board consolidated all business rules used within the ED*Facts* system into a Business Rules Single Inventory document available to States to support their efforts to build internal controls. The Department stated it also continues to improve coordination and collaboration among offices using submitted data on graduation rates, the subject of multiple recent OIG audit reports. The Department noted that this has resulted in consistent feedback back to States in a more timely fashion, and has helped identify questionable data resulting in follow up with State data submitters. The Department reported that during this past year, the ED*Facts* data governance process resulted in 37 States receiving a total of 300 data quality questions or comments from stakeholder program offices related to Adjusted Cohort Graduation Rates. According to the Department, all identified issues were resolved through resubmission or explained through data quality comments from the State explaining the observed issue.

What the Department Needs to Do

The Department's efforts to improve the overall quality of data that it collects and reports remain important to its program management and reporting. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, findings from our recent audit reports show that this area remains an ongoing challenge.

The Department's efforts to promote strong data management practices across its program offices, which include building on data verification processes by expanding data quality checks at all levels and increasing standardization, are important steps to improving data quality. In addition, efforts to perform outreach to States and other entities that report data to the Department are critical to reinforcing the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should also continue its implementation of requirements under the Evidence Act, the Information Quality Act, and other laws and regulations whose principal aims include improving data quality and reporting.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditors' report can be found beginning on page 82 and the Department's management assurances on page 17.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**1**	**0**	**0**	**0**	**1**

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting—*Federal Managers' Financial Integrity Act* (FMFIA) 2

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

The Department had no material weaknesses in the design or operation of the internal control over financial reporting.

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: The Department systems conform to financial management system requirements.

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Nonconformances	**0**	**0**	**0**	**0**	**0**	**0**

Compliance with *Federal Financial Management Improvement Act* (FFMIA)

	Agency	Auditor
1. System Requirements	**No lack of compliance noted**	**No lack of compliance noted**
2. Federal Accounting Standards	**No lack of compliance noted**	**No lack of compliance noted**
3. United States Standard General Ledger at Transaction Level	**No lack of compliance noted**	**No lack of compliance noted**

PAYMENT INTEGRITY

I. PAYMENT REPORTING

OMB Memorandum M-18-20 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payment for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.

The Department places a high value on maintaining the integrity of all types of payments made to ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. The Department ensures payment integrity by establishing effective policies, business processes, systems, and controls over key payment activities, including those pertaining to: payment data quality, cash management, banking information, third-party oversight, assessments of audit reports, and financial reporting. The number and dollar value of improper payments are key indicators of payment integrity. Accordingly, the Department maintains a robust internal control framework that includes internal controls designed to help prevent, detect, and recover improper payments. In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute funds they receive from the Department to subordinate organizations and individuals. Because these "third-party" controls are outside of the Department's operational control, they present a higher risk to the Department, as evidenced by our root cause analysis. When control deficiencies are detected, either within the Department or at external entities, the Department seeks to identify their root causes, develop corrective action plans, and track corrective actions through to completion.

To further promote payment integrity, the Department continues to develop its Payment Integrity Monitoring Application, which detects anomalies in grants payment data. Case management files for payment anomalies are established within the application for follow-up investigation by the Department's grants program officials to validate improper payments and determine root causes. Additionally, the Department continues to develop its internal control framework to address gaps, strengthen internal control processes, and align assessments with enterprise risk management. Both efforts reflect the Department's recognition of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer.

Readers can obtain more detailed information on improper payments at **https://paymentaccuracy.gov**.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2019, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. Also, in FY 2019, the Department began monitoring outlays of grant programs receiving funding for disaster relief. According to OMB Memorandum M-18-14, *Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations*, any disaster-related program with $10 million or more in outlays in a given fiscal year is deemed susceptible to significant improper payments. The Department identified two programs that met this criterion: the

Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) and Immediate Aid to Restart School Operations (RESTART) programs.

The Department continues to place additional emphasis to ensure payment integrity and minimize improper payments in these important programs as required by OMB guidance. Details on improper payment estimates, root causes, and corrective actions for the programs are included within the Improper Payment Estimates, Payment Reporting - Root Cause Categories, and Improper Payment Corrective Actions sub-sections that follow.

PELL GRANT

The Pell Grant program, authorized under Title IV of the *Higher Education Act of 1965* (HEA), provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education.

DIRECT LOAN

The Direct Loan program, added to HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents.

TEMPORARY EMERGENCY IMPACT AID FOR DISPLACED STUDENTS

The Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program awards emergency impact aid funding to State educational agencies (SEAs). SEAs provide subgrants to local educational agencies (LEAs) to reimburse the costs of educating students enrolled in public schools (both traditional and charter) and non-public elementary and secondary schools, who were displaced by a covered disaster or emergency.

IMMEDIATE AID TO RESTART SCHOOL OPERATIONS

The Immediate Aid to Restart School Operations (RESTART) program awards grants to eligible SEAs to assist eligible LEAs and non-public schools with expenses related to the restart of elementary schools and secondary schools in areas impacted by a covered disaster or emergency. Funds may be used to assist school administrators and personnel in restarting school operations, re-opening schools, and reenrolling students.

IMPROPER PAYMENT ESTIMATES

In FY 2019, the Department used statistically valid and rigorous sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, Emergency Impact Aid and RESTART programs. Please refer to **Section VII, Sampling and Estimation Methodology**, for additional details about these methodologies.

In FY 2018, the Department collaborated with stakeholders to identify an approach to overcome previously identified challenges with implementing a statistically valid estimation methodology for the Pell Grant and Direct Loan programs, and in FY 2019, FSA implemented a new statistically valid and rigorous estimation methodology. This new methodology improves the accuracy of the improper payment estimates. The prior, non-statistical methodology relied on non-random, limited-size sampling of the 100-300 annual FSA Program Compliance reviews which target high-risk schools of the approximately 5,700 schools that receive Title IV aid. The new methodology implemented in FY 2019 is based on a larger, random sample of the universe of schools receiving Title IV aid. As this is the first year implementing the new methodology, modest reduction targets were set. The reduction target for the Pell Grant program is 2.22 percent and the reduction target for the Direct Loan program is 0.51 percent.

According to OMB guidance, reduction targets for programs are not expected to be published until a full baseline has been established and reported. Baselines for the Emergency Impact Aid and RESTART programs will not be established until the conclusion of a 24-month reporting cycle in FY 2020.

Readers can obtain more detailed information on reporting improper payment estimates in FY 2019 and prior years at **https://paymentaccuracy.gov**.

Figure 18. FY 2019 Pell Grant Estimates
(Dollars in Millions)

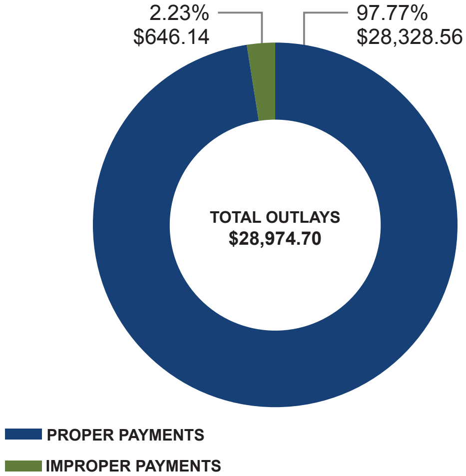
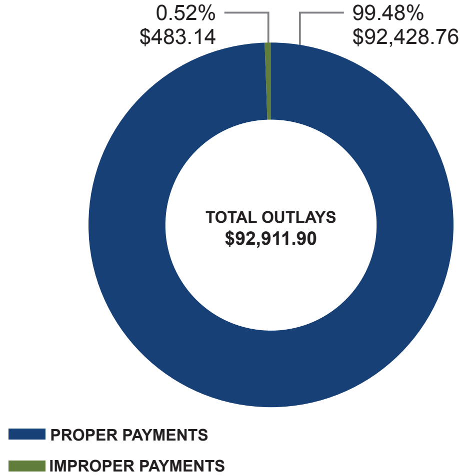


Figure 19. FY 2019 Direct Loan Estimates
(Dollars in Millions)



The FY 2019 Pell Grant estimates include results from the Free Application for Federal Student Aid (FAFSA®) Internal Revenue Service (IRS) Data Statistical Study which estimates Pell Grant improper payment rates based on a comparison between information reported by applicants on the FAFSA and income details reported to the IRS. Rates from the Study are included in the Pell Grant improper payment estimate as a proxy for improper payments associated with misreported income. This proxy of misreported income accounts for approximately 77% of the estimated FY 2019 Pell Grant improper payments.

Figure 20. FY 2019 Emergency Impact Aid Estimates
(Dollars in Millions)

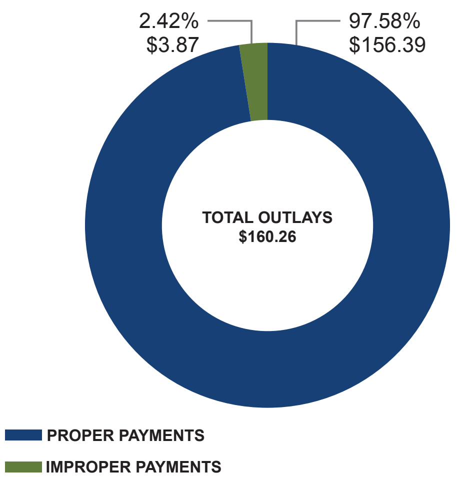
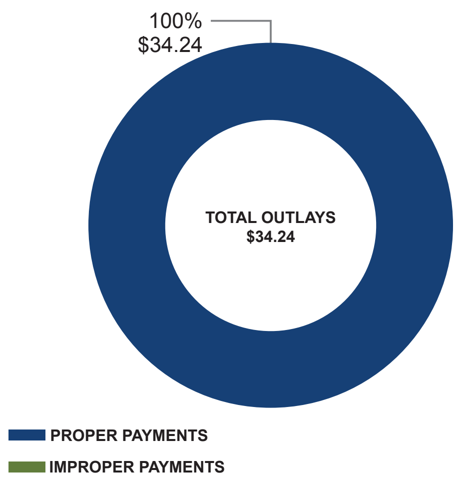


Figure 21. FY 2019 RESTART Estimates
(Dollars in Millions)



The source of the FY 2019 Pell Grant and Direct Loan outlay amounts is FSA's Financial Management System (FMS). The source of Emergency Impact Aid and RESTART outlay amounts is the Office of Finance and Operations (OFO)'s Grants Management System (G5). Emergency Impact Aid and RESTART outlays are taken from prior year program data. No improper payments were identified in FY 2019 for the RESTART program.

Table 5. FY 2019 Improper Payments for Risk-Susceptible Programs

Program	Overpayments (Dollars in Millions)	Overpayments (%)	Underpayments (Dollars in Millions)[1]	Underpayments (%)	Unknown (Dollars in Millions)[2]	Unknown (%)
Pell Grants	$380.04	58.82%	$211.18	32.68%	$54.92	8.50%
Direct Loans	$199.34	41.26%	$40.47	8.38%	$243.33	50.36%
Emergency Impact Aid	$3.87	100%	$0	0%	$0	0%
RESTART	$0	0%	$0	0%	$0	0%
Total	**$583.25**	**51.47%**	**$251.65**	**22.21%**	**$298.25**	**26.32%**

[1] In FY 2019, Emergency Impact Aid's estimated underpayments totaled just $39.50 (not in millions) resulting in an improper payment rate of <0.01%.
[2] For the Pell Grant and Direct Loan programs, "Unknown" improper payments include overpayments and underpayments where the exact amount of the overpayment and underpayment is unknown due to lack of supporting documentation maintained by third parties.

Figure 22. FY 2019 Sources of Improper Payments
(Dollars in Millions)

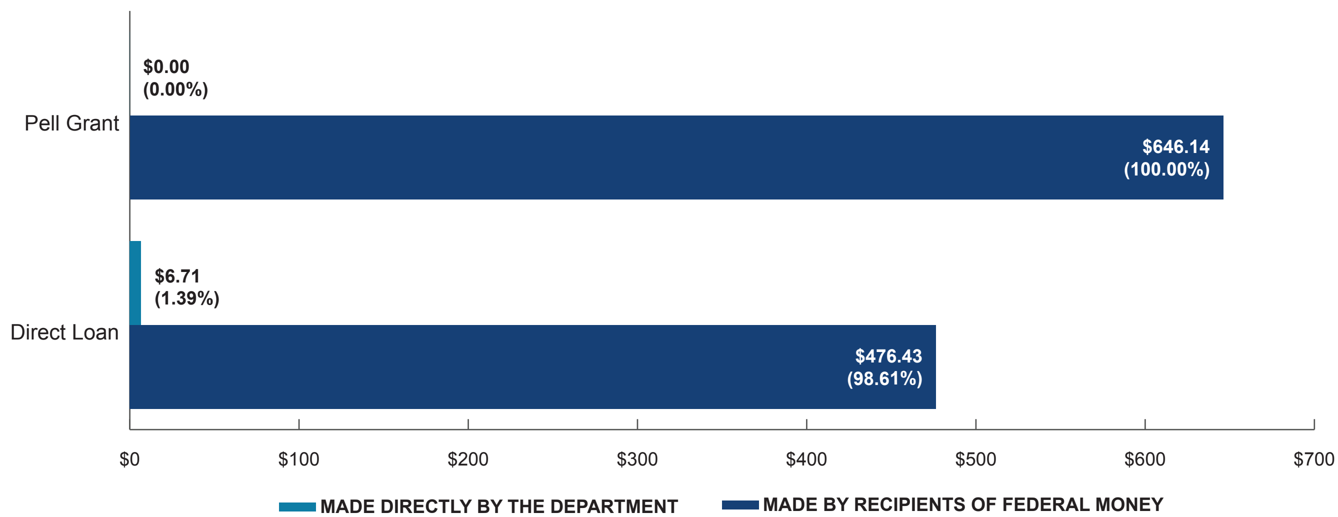


Figure 23. FY 2019 Sources of Improper Payments
(Dollars in Millions)

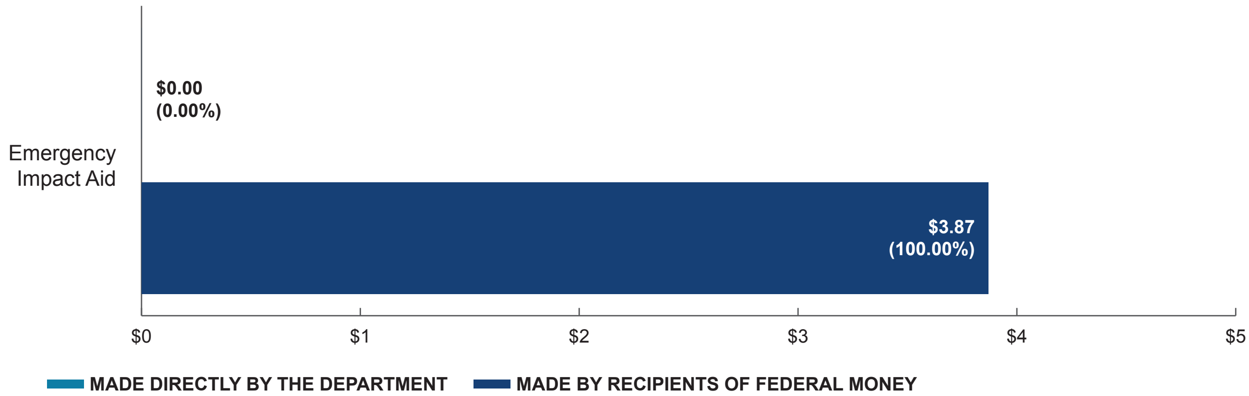


Figure 22 and Figure 23 summarize the estimated amount of improper payments made directly by the Department and the amount of improper payments made by recipients of federal money. For additional details, please refer to the **Payment Reporting – Root Cause Categories** section.

PAYMENT REPORTING - INSUFFICIENT OR LACK OF DOCUMENTATION

Of the $646.14 million and $483.14 million in estimated improper payments for the Pell Grant and Direct Loan programs, respectively, approximately 8.50% and 50.36%, respectively, are categorized as improper due to inability to discern whether the payment was proper as a result of insufficient or lack of documentation.

Documentation deficiencies for the Pell Grant and Direct Loan programs include but are not limited to inadequate tracking of attendance by schools, including inadequate tracking of students' last date of attendance or withdrawal date, lack of other supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

PAYMENT REPORTING - MONETARY LOSS, NON-MONETARY LOSS, AND UNKNOWN

This section presents the portion of the improper payment estimates that are attributed to monetary loss, non-monetary loss, or unknown. Monetary loss, non-monetary loss, and unknown are defined by OMB.

- **Monetary loss to the Federal Government:** An amount that should not have been paid and in theory should/could be recovered.
- **Non-monetary loss to the Federal Government:** Either an underpayment or a payment to the correct recipient for the correct amount where the payment process fails to follow applicable regulation and/or statute.
- **Unknown:** The estimated amount within the improper payment estimate that could be either proper or improper but the Department is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

The monetary loss, non-monetary loss, and unknown amounts reported in Table 6 are estimates. Not all monetary loss is recoverable.

Table 6. FY 2019 Monetary and Non-Monetary Loss for Risk-Susceptible Programs

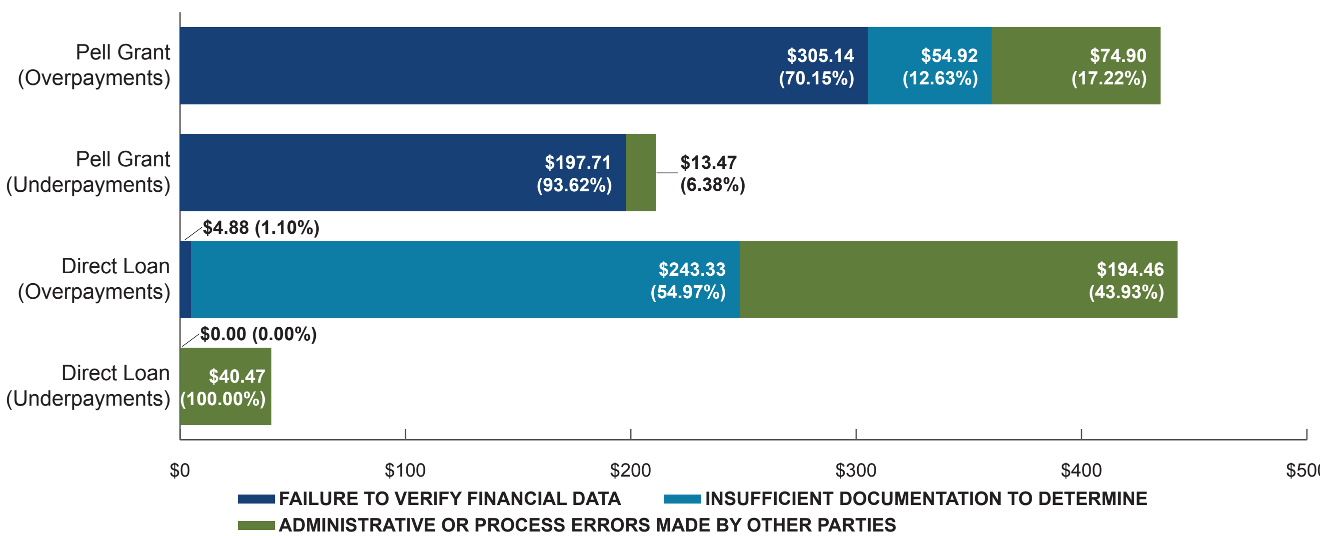
Program	Reporting Category	Reporting Sub-Category	Amount (Dollars in Millions)	Percentage of Improperly Paid Estimate (%)
Pell Grants	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	$380.04	58.82%
		Estimated Non-Monetary loss to the Government	$211.18	32.68%
		Estimated Unknown improper payments	$54.92	8.50%
		Total	**$646.14**	**100.00%**
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	$0.00	0.00%
		Estimated Monetary loss Outside Agency Control	$380.04	58.82%
Direct Loan	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	$189.03	39.13%
		Estimated Non-Monetary loss to the Government	$50.78	10.51%
		Estimated Unknown improper payments	$243.33	50.36%
		Total	**$483.14**	**100.00%**
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	$4.91	1.02%
		Estimated Monetary loss Outside Agency Control	$184.12	38.11%
Emergency Impact Aid	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	$2.88	74.42%
		Estimated Non-Monetary loss to the Government	$.99	25.58%
		Estimated Unknown improper payments	$0.00	0.00%
		Total	**$3.87**	**100.00%**
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	$0.00	0.00%
		Estimated Monetary loss Outside Agency Control	$2.88	74.42%
RESTART	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	$0.00	0.00%
		Estimated Non-Monetary loss to the Government	$0.00	0.00%
		Estimated Unknown improper payments	$0.00	0.00%
		Total	**$0.00**	**0.00%**
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	$0.00	0.00%
		Estimated Monetary loss Outside Agency Control	$0.00	0.00%

Of the estimated monetary loss for the Pell Grant and Direct Loan programs, the majority is outside of the agency's control. As explained previously, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. These "third-party" controls are outside of the Department's operational control. Examples of root causes outside of the Department's operational control are defined further in the following sections.

PAYMENT REPORTING - ROOT CAUSE CATEGORIES

Our analysis indicated that the underlying root causes of improper payments for the Pell Grant and Direct Loan programs in FY 2019 were "Failure to Verify—Financial Data", "Administrative or Process Errors Made by—Other Party" and "Insufficient Documentation to Determine" using categories of error as defined in OMB Circular A-123, Appendix C (OMB Memorandum M-18-20). Specific root causes associated with the "Failure to Verify—Financial Data" category include, but are not limited to, a school's failure to perform or properly complete verification, the process by which schools confirm the accuracy of select data reported by students on their FAFSA, failure of schools to resolve conflicting information reported by applicants, and incorrect self-reporting of an applicant's information that leads to incorrect awards based on Expected Family Contribution (EFC). Specific root causes associated with the "Administrative or Process Errors Made by—Other Party" category include, but are not limited to, credit balance errors; Satisfactory Academic Progress not achieved; student withdrawal deficiencies; disbursement of funds to ineligible recipients; disbursement of funds to students attending ineligible institutions, programs, or locations; incorrect disbursement amounts; disbursements in excess of students' maximum eligibility; documentation deficiencies; improper use of funds; and processing errors at the servicer level. Specific root causes associated with the "Insufficient Documentation to Determine" category include, but are not limited to, inadequate tracking of attendance by schools, including inadequate tracking of students' last date of attendance or withdrawal date, lack of supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

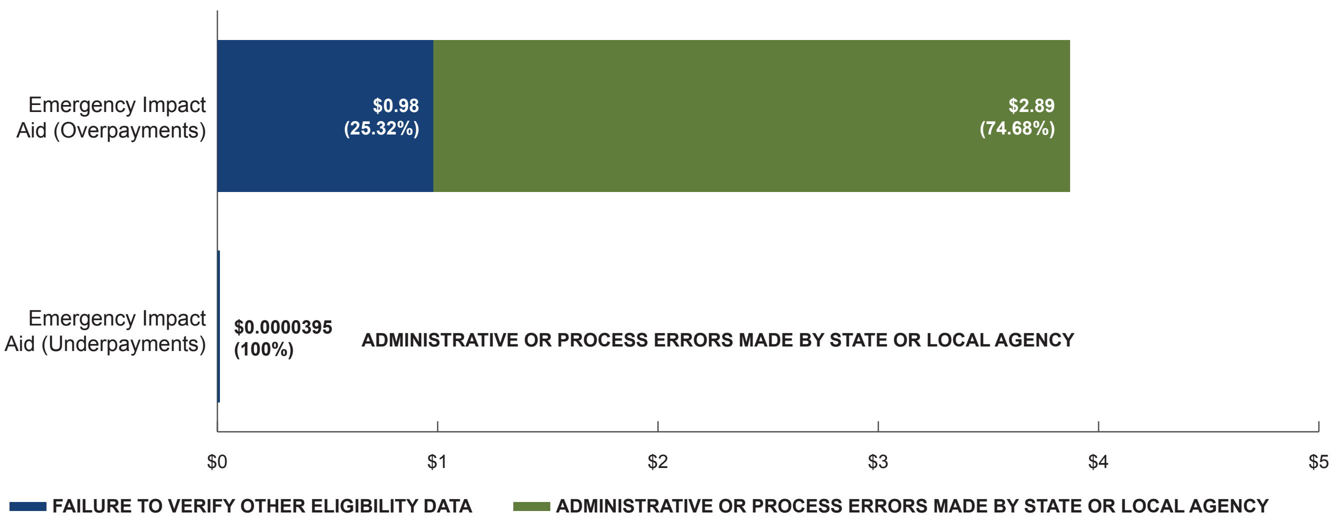
Figure 24. FY 2019 Root Causes of Improper Payments[1]
(Dollars in Millions)



[1] Improper payment estimates attributed to Insufficient Documentation to Determine are reported as overpayments in accordance with OMB reporting requirements.

Figure 25 below shows Emergency Impact Aid root causes for improper payments were attributed to "Administrative or Process Error Made by – State Agency" and "Failure to Verify – Other Eligibility Data", also done at the SEA level. Overpayments for the Emergency Impact Aid program resulted in $0.98 million in estimated improper payments attributed to the "Failure to Verify – Other Eligibility Data" root cause and $2.89 million to the "Administrative or Process Error Made by – State Agency". Estimated underpayments for Emergency Impact Aid totaled $39.50 (not in millions) and was attributed to the "Administrative or Process Error Made by – State Agency" root cause. Root Causes for improper payments include, but are not limited to, the program statutory design that specifically authorizes these types of occurrences. The timeline for dispersing the funds is short and the program statute allows for upward and downward adjustments to student counts as the data are reviewed through either monitoring or audits (even if that review period is beyond the date provided by the state for amending the application). State required audits identified issues in the data and funds were returned to the state based upon downward adjustments.

Figure 25. FY 2019 Root Causes of Improper Payments
(Dollars in Millions)



IMPROPER PAYMENT CORRECTIVE ACTIONS

This section presents the corrective actions for the Pell Grant and Direct Loan programs.

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. FSA's Program Compliance annually conducts approximately 100–300 Program Reviews of the approximately 5,700 eligible schools to assess institutions' compliance with Title IV regulations. Program Compliance evaluates a school's compliance with federal requirements, assesses liabilities for errors in performance, and identifies actions the school must take to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for noncompliance.

FSA's Program Compliance monitors annual compliance audits of schools. A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program unless an allowable waiver or exemption has been granted or, for Single Audit filers, the Title IV programs (major program) have been determined low-risk. Independent auditors perform the compliance audits to monitor schools' administration of FSA programs. If any deficiencies are identified, the school must develop a corrective action plan that addresses the audit report findings. Auditors are required to evaluate whether the school has taken appropriate corrective action to address findings and recommendations from prior audits. FSA's Program Compliance also performs audit resolution. This includes reviewing and evaluating the effectiveness of a school's corrective action and mitigation efforts for noted exceptions in audit reports.

The corrective actions listed below are specific to the root causes of improper payments identified from FY 2019 improper payment fieldwork, and are tailored to reflect the unique processes, procedures, and risks involved with the Pell Grant and Direct Loan programs.

Table 7. Pell Grant and Direct Loan Improper Payment Corrective Actions—Root Cause Category

Corrective Action	Status (Including Planned or Actual Completion Dates)[1]	Root Cause Category
Pursue legislation that would provide an exemption to the IRS Tax Code Section 6103	Long-term. The Department is coordinating with the Treasury Department and OMB to pursue legislation that would provide an exemption to the IRS Tax Code Section 6103 to further streamline FSA's ability to receive and verify applicants' and borrowers' income data. FSA expects this to have a meaningful impact on improper payments, reduce burden on applicants and schools, and reduce burden on borrowers, helping them avoid delinquency and default. Several bills have been introduced in Congress that would amend the Internal Revenue Code to allow IRS to disclose tax return information to authorized Department officials for purposes of determining eligibility for, and amount of, federal student financial aid. FSA does not have control over the completion date as this corrective action is dependent on the legislative process. The corrective action will be re-assessed at the end of FY 2020. Therefore, the planned completion date is tentatively set as September 30, 2020.	Misreported income – Information reported by an applicant on its FAFSA is used to calculate EFC. Schools use the EFC to determine federal student aid eligibility and financial aid award in accordance with Title IV requirements. Verification Deficiencies – Verification is the process where schools, in partnership with FSA, confirm the accuracy of select data reported by students on their FAFSA. FSA's Central Processing System selects which applications are to be verified. Schools also have the authority to verify additional students. Students selected for verification are placed in one of several verification tracking groups to determine which FAFSA information must be verified. Items verified include Adjusted Gross Income (AGI), taxes paid, and other tax data. Income verification helps detect and prevent misreported income.
Continue to utilize and promote the IRS Data Retrieval Tool (DRT)	On-going. The IRS DRT enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online FAFSA. The IRS DRT remains the fastest, most accurate way to input tax return information into the FAFSA form. To increase IRS DRT usage, and thereby reduce improper payments associated with misreported income, FSA has taken action to vigorously increase access to and promote the tool. As part of the ongoing effort to expand usage of the IRS DRT by applicants and parents, FSA publishes information about the benefits and use of the IRS DRT, including on its blog, and sends electronic announcements via Information for Financial Aid Professionals (IFAP) urging institutions to promote the use of the IRS DRT. FSA actively monitors the impact of its promotion of the IRS DRT. For example, FSA reports IRS DRT usage figures, disaggregated by dependency status and tax filing status on a quarterly basis. FSA also conducts an annual FAFSA/IRS Data Statistical Study (Study). This Study includes an analysis of Pell applicants based on IRS DRT usage. Additionally, FSA monitors reports from schools and IRS DRT users via annual surveys, usability studies, and the FSA Feedback System, among other mechanisms. The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.	
Analyze verification data to inform the upcoming award year cycle	On-going. In FY 2019, FSA completed an analysis of the verification data to inform the upcoming award year cycle before launch (to allow for system changes) using the most recently available data at that time. FSA also conducts a monthly review of the verification percentages to determine what percentage of applicants were selected for verification. Through this process, FSA verifies that the selection process is working as intended. In FY 2020, FSA will continue to refine the verification selection process. As with prior years' verification selection, data-based statistical analysis will continue to be used by FSA to select for verification the 2020–2021 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts. The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.	

[1] FSA does not attempt to quantify the reduction of the improper payment estimates in terms of percentage or amount due to these corrective actions. The quantification of results is not feasible because this is FSA's first year using a statistically valid estimation methodology. Therefore, there are no prior year results to compare against. Also, FSA has multiple corrective actions for several of the root causes.

Publish an updated listing of FAFSA information schools and applicants may be required to verify	Reoccurring (annually). FSA published an updated listing of FAFSA information schools and applicants may be required to verify for the 2020–2021 award year. This notice was published in the Federal Register on May 24, 2019. Reevaluating the FAFSA information schools and applicants may be required to verify helps target higher-risk areas while reducing the documentation burden on schools and students. In FY 2020, FSA will continue to enhance verification procedures, requiring selected schools to verify specific information reported on the FAFSA by student aid applicants. FSA will publish an updated notice in the Federal Register announcing the FAFSA information schools and financial aid applicants may be required to verify, as well as the acceptable documentation for verifying FAFSA information. The planned completion date is June 30, 2020. The corrective action will be re-assessed in FY 2020 and may be renewed, intensified, or expanded for FY 2021.	Misreported income – Information reported by an applicant on its FAFSA is used to calculate EFC. Schools use the EFC to determine federal student aid eligibility and financial aid award in accordance with Title IV requirements. Verification Deficiencies – Verification is the process where schools, in partnership with FSA, confirm the accuracy of select data reported by students on their FAFSA. FSA's Central Processing System selects which applications are to be verified. Schools also have the authority to verify additional students. Students selected for verification are placed in one of several verification tracking groups to determine which FAFSA information must be verified. Items verified include Adjusted Gross Income (AGI), taxes paid, and other tax data. Income verification helps detect and prevent misreported income.
Publish updates to questions and answers about verification requirements, if identified	On-going. FSA published questions and answers about verification on its website. Questions and answers were updated in FY 2019 to help clarify verification requirements. These questions and answers provide clarity on verification requirements, reducing the risk of verification deficiencies. FSA will continue to update the frequently asked questions and answers, if updates are identified. The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.	

Publish and deliver updated free training, guidance, and resources	Ongoing. The Department annually publishes and delivers updated free training, guidance, and resources. This content is annually updated, if not more frequently, to target the root causes of improper payments and other frequently identified compliance issues. These free training, guidance, and resources include the: - FSA Training Conference for Financial Aid Professionals. From November 27 to November 30, 2018, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. More than 2,000 unique schools registered for the conference. All 50 states were represented as well as the U.S. territories to include Guam, Puerto Rico, and U.S. Virgin Islands. More than 200 Foreign School officials also attended from countries all over the world. The FY 2019 Training Conference included sessions related to the root causes of improper payments. The session recordings are publicly available. The FSA Training Conference also provides schools direct access to federal staff, and one-on-one time with subject matter specialists. In FY 2020, FSA will again hold and promote the FSA Training Conference. - FSA Handbook. FSA annually updates and publishes the FSA Handbook for college financial aid administrators and counselors. The FSA Handbook includes an Application and Verification Guide, and Volumes on Student Eligibility, School Eligibility and Operations, Calculating Awards and Packaging, Processing Aid and Managing FSA Funds, and Withdrawals and the Return of Title IV Funds. Each volume provides examples and guidance to help schools appropriately administer federal student aid. - FSA Coach. FSA offers free training via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. FSA annually updates training content to address annual updates for the new award year, provide interactive exercises and self-assessments, and target the root causes of improper payments and other frequently identified compliance issues. New for 2019, the Department launched the Financial Aid Administrator's Tool Kit. The new FAA Tool Kit, included within FSA Coach, offers quick access to Federal Student Aid resources, reference guides, and training material, and is designed to assist financial aid professionals in administering the federal student aid programs in compliance with federal regulations. In addition to providing links to key FSA resources, the Tool Kit also includes short videos to assist with navigating several FSA products. - FSA Assessments. FSA designed, in collaboration with financial aid professionals, FSA Assessments that help schools with compliance and improvement activities associated with each of the root causes of improper payments. The FSA Assessments contain links to applicable laws and regulations as well as guidance, worksheets, and checklists to help schools comply with these requirements. - HomeRoom, the Department's official blog. The Department maintains a blog to provide insights on the activities of schools, programs, grantees, and other education stakeholders to promote continuing discussion of educational innovation and reform, including activities to help address the root causes of improper payments. For example, on September 10, 2019, the Department published an article about 7 Things You Need to Know Before You Fill Out the 2020-21 FAFSA Form. FSA solicits input on the effectiveness of these training and resources, and invests in improving these critical sources of information to better serve program participants, as described above. The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.	Multiple root causes: verification deficiencies; credit balance deficiencies; Satisfactory Academic Progress deficiencies; student withdrawal deficiencies; ineligible recipients; ineligible institutions, programs, or locations; incorrect amounts; documentation deficiencies; improper use of funds; maximum eligibility deficiencies; and misreported income.

Initiate an assessment of the feasibility and effectiveness of servicers implementing additional levels of quality assurance over processing of Loan Verification Certificates (LVCs)	Completed. In FY 2019, FSA surveyed the Title IV Additional Servicers (TIVAS) and reviewed their Direct Loan Consolidation procedures. FSA identified a flawed automated TIVAS process which was causing improper payments. The process was revised to address the root cause of improper payments. This corrective action will eliminate improper payments associated with the flawed automated process. The actual completion date was May 2019.	Incorrect processing of Loan Verification Certificates (LVCs)
Meet with the TIVAS to discuss incorrect processing of LVCs	Completed. In FY 2019, FSA met with the TIVAS to solicit ideas on how to best address incorrect processing of LVCs. No additional or alternative corrective actions were identified. The actual completion date was September 12, 2019.	
Update TIVAS Direct Loan Consolidation procedure	Completed. The TIVAS updated its Direct Loan Consolidation procedures to help mitigate the risk of Direct Loan Consolidation manual errors. The actual completion date was September 24, 2019.	Incorrect Direct Loan Consolidation manual entry or oversight
Implement a new reconciliation process to mitigate the risk of incorrect Direct Loan Refund calculations	Completed. The new process was implemented at the TIVAS. As a result, issues identified from the new reconciliation process are researched, and any incorrectly processed Direct Loan Refunds are cancelled and corrected prior to resulting in improper payments. The actual completion date was July 23, 2019.	Incorrect calculation of Direct Loan Refund

Corrective actions are required when a program's improper payments exceed statutory thresholds, which did not apply to the Emergency Impact Aid and RESTART programs in FY 2019.

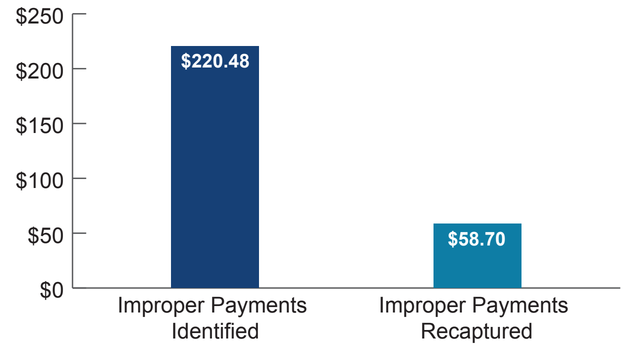
II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

Agencies are required to conduct recovery audits for all programs and activities that expend more than $1 million in a fiscal year, if conducting such audits would be cost-effective. The Department determined that payment recapture audits would not be cost effective for any of its loan and grant programs or for contracts. A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

The Department identifies and recovers improper payments through sources other than payment recapture audits. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in compliance audits, OIG audits, and Department-conducted program reviews. The Department also analyzes the return of grant funds from recipients to determine if they are due to improper payments. When an improper payment is detected and deemed collectable, the Department establishes an account receivable and pursues collections. Recoveries are also made through grant program, payroll, and other offsets. Recipients of Department funds can appeal management's decisions regarding funds to be returned to the Department or they may go bankrupt before the Department can collect, thereby delaying or decreasing the amounts the Department is able to collect. Additionally, the Department has wide discretion to decide not to collect improper payments from grantees in cases where it determines that pursuing collections would cause more harm to the federal interest. For these and other reasons, not all identified improper payments will ultimately be collected and collections will not necessarily be made in the same year as when the improper payments were identified.

In FY 2019, the Department identified $220.48 million in improper payments and recovered $58.70 million in improper payments (or 27 percent), as depicted in Figure 26. For detailed information on identified and recovered improper payments, readers can visit **https://paymentaccuracy.gov**. The Department continues to work to improve its methods to identify, collect, and report on improper payment collections.

Figure 26. Improper Payments Identified and Recaptured in FY 2019
(Dollars in Millions)



III. AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY (DNP) INITIATIVE

The Department continues its efforts to prevent and detect improper payments via the Department of Treasury's Do Not Pay (DNP) Business Center Portal as required by the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), as amended by the *Bipartisan Budget Act of 2013 and the Federal Improper Payments Coordination Act of 2015* (FIPCA). During FY 2019, 1,607,013 payments, totaling $184.3 billion, were reviewed for possible improper payments through the DNP Portal screening, which includes the Death Master File and the System for Award Management File (SAM). The Department continues to validate that potential improper payments identified through this screening process were properly adjudicated and reported to Treasury timely.

Readers can learn more about DNP at **https://fiscal.treasury.gov/DNP/**.

IV. BARRIERS

The Department must rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational authority. In designing controls, the Department strives to strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that the controls are not too costly and burdensome to fund recipients. Additionally, there are limitations to the availability of data necessary to verify FAFSA information without increasing the burden on schools and students. For example, the Internal Revenue Code does not currently permit a database match with the IRS. Such a match would eliminate the need to rely on tax transcripts submitted by the applicant (and the applicant's parent, if the applicant is a dependent) to verify income data in cases where the IRS DRT is not used to transfer tax information directly into the FAFSA form.

A detailed discussion of program-specific barriers can be found in the **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

V. ACCOUNTABILITY

The Department offices, managers, and staff are held accountable for promoting payment integrity by being held accountable for maintaining effective controls in their day-to-day jobs and key management officials have specific expectations related to payment integrity included in their annual performance plans. Additionally, Senior Accountable Officials are identified for the Department and FSA.

VI. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

FSA Programs

FSA has the internal controls, human capital, and information systems and other infrastructure to reduce Pell Grant and Direct Loan improper payments. However, as noted in Section IV. Barriers, the Department must also rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational control. Additionally, there are limitations on FSA's ability to obtain data necessary to verify FAFSA information without increasing the burden on schools and students. In its most recent budget submission, the Department included information on pursuing legislation to aid an income data match between FSA and the Internal Revenue Service. Such a match would eliminate the need to rely on tax transcripts submitted by the applicant and allow FSA to verify income directly with the IRS.

Audit Follow-up

The Department gathers and manages thousands of audits of grantees related to our loan and grant programs. Audit records are managed, maintained, and analyzed in the Department's automated audit tracking systems. Audits are a key source of identifying risks and in identifying potential improper payments made by outside entities. The Department has demonstrated tremendous success in working with grant recipients to resolve audit findings timely. The Department is continuously looking for options to gain further insight from audit reports and is partnering with OMB and others to do so.

VII. SAMPLING AND ESTIMATION METHODOLOGY

For FY 2019 AFR reporting, the Department used a statistically valid and rigorous estimation methodology for estimating improper payments for the Pell Grant and Direct Loan programs. The Department submitted the statistically valid and rigorous estimation methodology to OMB on June 26, 2019. This statistical methodology uses a random sample of annual compliance audits. A small population of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA accounts for these disbursements through a statistically valid sampling process.

Additionally, on June 27, 2019, the Department submitted its statistically valid and rigorous methodologies for estimating improper payments for the Emergency Impact Aid and RESTART programs. The Department selected statistical payment samples to estimate the percentage and dollar value of improper payments for each program's disbursements associated with supplemental disaster relief funding. Sample design was developed in accordance with the *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012*, the *Improper Payments Elimination and Recovery Act (IPERA) of 2010*, the *Improper Payments Information Act (IPIA) of 2002*, and the sampling guidance provided in OMB Circular A-123, Appendix C (as revised by OMB document M-18-20, *Requirements for Payment Integrity Improvement*). The Department obtained FY 2018 disbursement data for all disaster-related programs via the Department's grants management system (G5). These data were based on amounts distributed from

SEAs to LEAs. For each state, the sampling timeframe represents the list of prior FY payments from which the statistical samples were selected.

The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

VIII. RISK ASSESSMENTS

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program and activity that is not reporting an improper payment estimate. In FY 2019, the Department assessed improper payment risk for 266 grant activities (formula grants and discretionary grant competitions) under approximately 120 program authorities identified with disbursements in FY 2018. This risk assessment did not identify any additional Education programs as being susceptible to significant improper payments. In FY 2019, the Department did not conduct risk assessments of FSA-managed programs, as all FSA-managed programs and activities were previously assessed for risk in FY 2017.

FRAUD REDUCTION REPORT

The Department continues to participate actively with OMB and other agencies in a government-wide workgroup that is collaborating on an implementation plan for the *Fraud Reduction and Data Analytics Act (FRDAA) of 2015*. The Department will continue to work with OMB to implement the FRDAA.

The Department recognizes the challenges that often surround fraud risk management and is taking action to address each challenge. These challenges include limited resources to conduct fraud risk management activities and difficulties in definitively separating fraud from other negative outcomes.

The Department is exploring ways to refine or enhance its business processes to be in a better position to define, deter, detect, and take action on fraud. For Title IV programs, FSA has established a Fraud Risk Group (FRG) within its Enterprise Risk Management Office to build capacity and expertise for and to dedicate resources to fraud risk identification and mitigation. The FRG established an Enterprise Fraud Risk Advisory Group to promote the integration of fraud risk management practices and processes into the daily operations of FSA to assist in achieving FSA's strategic goals and objectives. Its primary responsibility is to provide oversight, planning, and coordination of enterprise fraud risk management activities.

In 2018, responsibility for receiving, processing, and taking action on fraud referrals from the Department's Office of the Inspector General (OIG) was transferred from FSA's Finance Office to FRG. FRG launched a new initiative to implement workflow and case management capabilities to perform analysis of all OIG fraud referrals within the existing Customer Engagement Management Systems (CEMS) infrastructure. The fraud referral module went live in December 2018, and data migration of historical referral information was completed in July 2019. This module will enable more comprehensive analysis across all OIG fraud referrals and provide better tracking of referrals and possible recoveries of resultant improper payments. This common and interactive case processing tool will also reduce fraud review/case processing time and provide analytics to allow for better fraud detection and prevention. FSA is also exploring ways to leverage data analytics to better detect and combat fraud in operations.

In FY 2019, the Department revised its improper payment risk assessment methodology to include a fraud risk factor to assist in identifying fraud risk in non-FSA programs. This revised methodology was used to assess the improper payment risk of 266 grant activities (formula grants and discretionary grant competitions) under approximately 120 program authorities in FY 2019. The Department has also catalogued internal controls related to fraud prevention and detection, which includes over 150 detective and preventive controls related to its grant and administrative payments.

Finally, to combat improper use of federal funding under the *Every Student Succeeds Act (ESSA)*, the Department requires that each recipient and subrecipient publicly display the contact information of the Department's OIG hotline to facilitate the reporting of suspected improper use of ESSA funding. Furthermore, in accordance with 2 CFR 200 (Uniform Guidance), each recipient and subrecipient provides assurances of truthfulness and accuracy of the information they provide in applications and in response to monitoring and compliance reviews.

REDUCE THE FOOTPRINT

The Department's Space Modernization Program strives to bring a new approach to its workplaces: by building greater employee performance and productivity through innovative space designs and technology enhancements, while reducing the agency's space footprint and associated out-year costs. The Reduce the Footprint effort will allow the agency to meet the federal space guidelines (150–180 usable square footage per person vs. the current usable square footage per person of 338).

THE DEPARTMENT CHALLENGES ARE:

- If requested funding is not received, future planned projects will be at risk. As a result, the Department may be faced with future increased rent payments while continuing to occupy oversized, inefficient space.
- Existing lease terms of several properties restrict the Department's movement to more efficient space.

THE DEPARTMENT STRATEGY IS TO:

- Renew workspaces including sit-stand desks and ergonomic chairs.
- Allow more natural light into workspaces by providing more open workspace.
- Improve use of shared, common, and multi–functional spaces.
- Enhance technology.
- Provide electronic file storage and reduce paper file storage, resulting in a reduced footprint.

The square footage totals are for the office and warehouse domestic assets, which are assets located in the 50 states, Washington, D.C., and United States territories. The square footage total includes owned and leased assets. The Department does not own any assets; they are all leased. Updated square footage information is posted on the **performance.gov** website.

Table 8. Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2018	Change (FY 2015 Baseline to FY 2018)
Usable Area, or Usable Square Footage per Person	1,548,425	1,382,553	(165,872)

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

Location for Penalty Update Details:

https://www.federalregister.gov/documents/2019/02/01/2019-00670/adjustment-of-civil-monetary-penalties-for-inflation

Table 9.

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	15-Jan-18	2-01-19	$38,549
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	15-Jan-18	2-01-19	$32,110
Violation of Title IV of the HEA	20 USC 1082(g)	15-Jan-18	2-01-19	$57,317
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	15-Jan-18	2-01-19	$57,317
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	15-Jan-18	2-01-19	$1,692
Improper lobbying for government grants and contracts	31 USC 1352(c)(1)	15-Jan-18	2-01-19	$20,134 to $201,340
False claims and statements	31 USC 3802(a)(1)	15-Jan-18	2-01-19	$11,463

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APPENDICES

APPENDIX A: SELECTED DEPARTMENT WEB LINKS AND EDUCATION RESOURCES

COLLEGE COMPLETION TOOLKIT

The College Completion Toolkit provides information that governors and other state leaders can use to help colleges in their state increase student completion rates. It highlights key strategies and offers models to learn from, as well as other useful resources. **https://www.ed.gov/college-completion/completion-toolkit**

COLLEGE COST LISTS

The Department provides college affordability and transparency lists under the *Higher Education Opportunity Act of 2008*. Each list is broken out into nine different sectors to allow students to compare costs at similar types of institutions, including career and technical programs. **http://collegecost.ed.gov/**

COLLEGE NAVIGATOR

College Navigator consists of the latest data from the Integrated Postsecondary Education Data System, the core postsecondary education data collection program for the National Center for Education Statistics, as well as data from Federal Student Aid on cohort default rates, the Office of Postsecondary Education on campus safety and accreditation, and information on veterans from the Veterans Benefits Administration. **https://nces.ed.gov/collegenavigator/**

COLLEGE PREPARATION CHECKLIST

This Departmental tool gives prospective college students step-by-step instructions on how to prepare academically and financially for education beyond high school. Each section is split into subsections for students and parents, explaining what needs to be done and which publications or websites might be useful to them. **http://studentaid.ed.gov**

Additional resources within the checklist assist students in finding scholarships and grants.

https://studentaid.ed.gov/sa/prepare-for-college/checklists

https://studentaid.ed.gov/sa/types/grants-scholarships/finding-scholarships

COLLEGE SCORECARD

The Department's College Scorecard makes it easier to find out more about a college's affordability and value. The College Scorecard continues to be a tool that provides clear, accessible, and reliable data on college cost, graduation, debt, and postcollege earnings. The College Scorecard continues to move the field forward in informing college choices with the help of technology and open data, making it possible for anyone—a student, a school, a policymaker, or a researcher—to decide which factors to evaluate. **https://collegescorecard.ed.gov/**

CONDITION OF EDUCATION AND DIGEST OF EDUCATION STATISTICS

The Condition of Education is a congressionally mandated annual report that summarizes developments and trends in education using the latest available statistics. The report presents statistical indicators containing text, figures, and data from early learning through graduate-level education, as well as labor force outcomes and international comparisons. **https://nces.ed.gov/programs/coe/**

The primary purpose of the Digest of Education Statistics is to provide a compilation of statistical information covering the broad field of American education from prekindergarten through graduate school. The Digest includes a selection of data from many sources, both government and private, and draws especially on the results of surveys and activities carried out by the National Center for Education Statistics. **https://nces.ed.gov/programs/digest/**

COLLEGE FINANCING PLAN

The College Financing Plan is a consumer tool that participating institutions use to notify students about their financial aid package. It is a standardized form that is designed to simplify the information that prospective students receive about costs and financial aid so that they can easily compare institutions and make informed decisions about where to attend school. **https://www2.ed.gov/policy/highered/guid/aid-offer/index.html**

GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

The Government Accountability Office supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people. **http://www.gao.gov/docsearch/agency.php**

GRANTS INFORMATION AND RESOURCES

In addition to student loans and grants, the Department offers other discretionary grants. These are awarded using a competitive process, and formula grants use formulas determined by Congress with no application process. This site lists Department discretionary grant competitions previously announced, as well as those planned for later announcement, for new awards organized according to the Department's principal program offices. **http://www2.ed.gov/fund/grant/find/edlite-forecast.html**

For more information on the Department's programs, see **http://www2.ed.gov/programs**.

NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS

The National Assessment of Educational Progress assesses samples of students in grades 4, 8, and 12 in various academic subjects. Results of the assessments are reported for the nation and states in terms of achievement levels—*Basic, Proficient*, and *Advanced*. **https://nces.ed.gov/nationsreportcard/**

OFFICE OF INSPECTOR GENERAL (OIG)

The Office of Inspector General conducts independent and objective audits, investigations, inspections, and other activities to promote the efficiency, effectiveness, and integrity of the Department's programs and operations. **http://www.ed.gov/about/offices/list/oig/index.html**

For a list of recent reports, go to **http://www2.ed.gov/about/offices/list/oig/reports.html**.

ONE-STOP SHOPPING FOR STUDENT LOANS

The Department provides a site from which students can manage their loans. **http://studentloans.gov/**

PERFORMANCE DATA

ED*Facts* is a Department initiative to put performance data at the center of policy, management, and budget decisions for all K–12 educational programs. ED*Facts* centralizes performance data supplied by K–12 state educational agencies with other data assets, such as financial grant information, within the Department to enable better analysis and use in policy development, planning, and management. **http://www.ed.gov/about/inits/ed/edfacts/index.html**

PRACTICE GUIDES FOR EDUCATORS

The Department offers guides that help educators address everyday challenges faced in classrooms and schools. Developed by a panel of nationally recognized experts, practice guides consist of actionable recommendations, strategies for overcoming potential roadblocks, and an indication of the strength of evidence supporting each recommendation. The guides themselves are subjected to rigorous external peer review. Users can sort by subject area, academic level, and intended audience to find the most recent, relevant, and useful guides. **https://ies.ed.gov/ncee/wwc/PracticeGuides**

EDUCATION RESOURCES INFORMATION CENTER (ERIC)

The Department offers ERIC—the world's largest free, digital library of education research. It is composed of 1.7 million bibliographic records and 400,000 full-text materials indexed from 1966 to the present. Each ERIC bibliographic record contains an abstract of a journal article or grey literature document (for example, a technical report or conference paper), along with such indexed information as author, title, and publication date. **https://eric.ed.gov**

REGIONAL EDUCATIONAL LABORATORY (REL) PROGRAM

The Department administers the REL program to support the use of research and evidence to help states and school districts improve their education programs and, ultimately, student performance. To do this, each regional REL contractor works with teachers, administrators, and policymakers to identify "high-leverage" problems of practice and build the research capacity of local stakeholders. Each REL develops partnerships with state- and local-level education agencies to gather and analyze data, conduct evaluations, and provide technical assistance that address these "high-leverage" problems. **https://ies.ed.gov/ncee/edlabs/**

PROGRAM INVENTORY

The *GPRA Modernization Act of 2010*, **P.L. 111-352**, requires that the OMB establish a single website with a central inventory of all federal programs, including the purpose of each program and its contribution to the mission and goals of the Department. The initial Federal Program Inventory was published in May 2013. The Department described each program within 27 budgetary accounts, as well as how the programs support the Department's broader strategic goals and objectives.

Since that time, Congress passed the *Digital Accountability and Transparency Act* (DATA Act) requiring new public reporting requirements, which impact the definition of programs used in this guidance. OMB is currently working with agencies to merge the implementation of the DATA Act and the Federal Program Inventory requirements to the extent possible to avoid duplicative efforts. While OMB and agencies determine the right implementation strategy, the initial Federal Program Inventory remains available on **performance.gov** or at **http://www2.ed.gov/programs/inventory.pdf**.

PROJECTIONS OF EDUCATION STATISTICS TO 2027

For the 50 states and the District of Columbia, the tables, figures, and text in this report contain data on projections of public elementary and secondary enrollment and public high school graduates to the year 2027. The report includes a methodology section that describes the models and assumptions used to develop national and state-level projections. **https://nces.ed.gov/pubs2019/2019001.pdf**

RESOURCES FOR ADULT, CAREER, AND TECHNICAL EDUCATION

The Department, through the Perkins Collaborative Resource Network, offers resources and tools for the development and implementation of comprehensive career guidance programs. This includes guides for students, parents, teachers, counselors, and administrators across relevant topics, such as planning and exploring careers, selecting institutions, finances, and guidance evaluation. This source is an example of interdepartmental cooperation between the Department and the U.S. Department of Labor. **http://cte.ed.gov**

To support the *Workforce Innovation and Opportunity Act* (WIOA), the Department offers professional development resources through the Literacy Information and Communication System (LINCS). This initiative seeks to expand evidence-based practice in the field of adult education and literacy. LINCS serves as Office of Career, Technical, and Adult Education's (OCTAE) primary outreach and dissemination mechanism to adult educators and provides high-quality, on-demand educational opportunities to practitioners of adult education. LINCS is comprised of: the LINCS Resource Collection, which provides online access to high-quality, evidence-based materials and instructional resources; the LINCS Community, a virtual professional learning space where adult educators can engage in discussions focused on critical topics to the field of adult education; a Learning Portal that offers anytime, anywhere professional development courses; a Professional Development Center that provides technical assistance to states in meeting the state leadership requirements set forth in WIOA; and the Learner Center, which provides access to federally developed or federally reviewed resources to assist adult learners in reaching their learning goals. Through these efforts, LINCS demonstrates OCTAE's commitment to delivering high-quality, on-demand educational opportunities to practitioners of adult education and literacy, so those practitioners can help adult learners successfully transition to postsecondary education and 21st century jobs. **http://lincs.ed.gov/**

APPENDIX B: GLOSSARY OF ACRONYMS AND ABBREVIATIONS

ABCP	Asset-Backed Commercial Paper
AFR	*Agency Financial Report*
AGI	Adjusted Gross Income
APG	Agency Priority Goals
APR	*Annual Performance Report*
AR	Abandon rate
CDO	Department Chief Data Officer
CEAR	Certificate of Excellence in Accountability Reporting
CEMS	Customer Engagement Management Systems
CFO	Chief Financial Officer
CPSS	Contracts and Purchasing Support System
CPT	Contingency Plan Testing
CSF	Cyber Security Framework
CSP	Charter School Program
CSRS	Civil Service Retirement System
DATA	*Digital Accountability and Transparency Act of 2014*
DCIA	*Debt Collection Improvement Act of 1996*
DGB	ED Data Governance Board
DL	Direct Loan
DMCS	Debt Management and Collection System
DNP	Do Not Pay
DOL	U.S. Department of Labor
DRT	Data Retrieval Tool
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDCAPS	Education Central Automated Processing System
EDGAR	Education Department General Administrative Regulations
EDSOC	The Department of Education Security Operations Center
EFC	Expected Family Contribution
ELG	Evidence Leadership Group
EO	Evaluation Officer
ERIC	Education Resources Information Center
ERM	Enterprise Risk Management
ESEA	*Elementary and Secondary Education Act*
ESSA	*Every Student Succeeds Act*
FAFSA®	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*
FERS	Federal Employees Retirement System
FAA	Financial Aid Administrator
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FIO	Financial Improvement Operations
FIPCA	*Federal Improper Payments Coordination Act of 2015*
FISMA	*Federal Information Security Modernization Act of 2014*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FMS	Financial Management System

FMSS	Financial Management Support System
FPRD	Final Program Review Determination
FR	Financial Report of the U.S. Government
FSA	Federal Student Aid
FY	Fiscal Year
FRDAA	*Fraud Reduction and Data Analytics Act of 2015*
FRG	Fraud Risk Group
G5	Grants Management System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GLBA	*Gramm-Leach-Bliley Act*
GPRA	*Government Performance and Results Act of 1993*
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
HBCUs	Historically Black Colleges and Universities
HCERA	*Health Care and Education Reconciliation Act of 2010*
HCM	Heightened cash monitoring
HEA	*Higher Education Act of 1965*
HEAL	Health Education Assistance Loans
HHS	U.S. Department of Health and Human Services
IDEA	*Individuals with Disabilities Education Act*
IDR	Income-Driven Repayment
IES	Institute of Education Sciences
IFAP	Information for Financial Aid Professionals
IHE	Institutions of Higher Education
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IPIA	*Improper Payments Information Act of 2002*
IRP	Incident Response Plan
IRS	Internal Revenue Service
IRS DRT	IRS Data Retrieval Tool
ISCM	Information Security Continuous Monitoring
IT	Information Technology
LEA	Local Educational Agency
LEU	Lifetime Eligibility Used
LINCS	Literacy Information and Communication System
LVC	Loan Verification Certificate
NLSCD	National Longitudinal School Choice Database
Next Gen FSA	Next Generation Financial Services Environment
NCES	National Center for Education Statistics
NSLDS®	National Student Loan Data System
OCDO	Office of the Chief Data Officer
OCIO	Office of the Chief Information Officer
OFM	Office of Financial Management
OFO	Office of Finance and Operations
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OGA	Office of Grants Administration

OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSERS	Office of Special Education and Rehabilitative Services
P–12	Prekindergarten through 12th grade
PAYE	Pay as You Earn
Pell Program	Pell Grant Program
PEPS	Postsecondary Education Participants System
PII	Personally Identifiable Information
PIMA	Payment Integrity Monitoring Application
PIV	Personal Identity Verification
PLUS	Parent Loan for Undergraduate Students
POA&Ms	Plan of Actions & Milestones
PSLF	Public Service Loan Forgiveness
PTAC	Privacy Technical Assistance Center
REACH	Research on Education Access and Choice
REL	Regional Educational Laboratory
RESTART	Immediate Aid to Restart School Operations
RRTF	Regulatory Reform Task Force
SAFRA	*Student Aid and Fiscal Responsibility Act (SAFRA Act)*
SAP	Satisfactory Academic Progress
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SEA	State Educational Agency
SMC	Senior Management Council
STEM	Science, technology, engineering and mathematics
SULA	Subsidized Usage Limit Applies
TBMS	Technology Business Management Solutions
TEACH	Teacher Education Assistance for College and Higher Education Grant
TIVAS	Title IV Additional Servicers
TPD	Total and permanent disability
Treasury	U.S. Department of Treasury
WIOA	*Workforce Innovation and Opportunity Act*

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Within the Office of Finance and Operations (OFO), the Office of Financial Management is responsible for certifying, processing, reconciling, evaluating, and reporting all agency financial transactions; preparing annual financial statements and related notes and schedules; and coordinating the external audit of the agency's financial statements.

Also, within OFO, the Office of Budget Service has lead responsibility for multiple functions including developing and implementing the Department's Budget. The Office of Grants Administration (OGA) develops, manages, and provides policy guidance and oversight of the Department's grant management activities and operations.

The Contracts and Acquisitions Division, within OFO's Office of Acquisition Management, is responsible for the solicitation, award, administration, and closeout of all contracts and other acquisition instruments for the Department.

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OTHER CONTRIBUTORS

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An electronic version is available
on the World Wide Web at
http://www2.ed.gov/about/reports/annual/index.html

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