FY 2020

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 16, 2020

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**.

To become connected to the Department through social media, please visit the Department's website at **www.ed.gov**. Our Twitter page is at **@usedgov**, and our blog is at **Homeroom**.

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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 2020, in addition to the *Agency Financial Report* (AFR), the Department will post to its website the *Annual Performance Report and Annual Performance Plan* (Report and Plan). This Report and Plan 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 2022 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 (Department) fiscal year (FY) 2020 *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 advance the mission of the Department 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, processes, and practices.

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:

- **Chief Financial Officers Act of 1990.**
- **Department of Education Organization Act of 1979.**
- **Federal Credit Reform Act of 1990.**
- **Federal Financial Management Improvement Act of 1996.**
- **Federal Information Security Management Act of 2002.**
- **Federal Managers' Financial Integrity Act of 1982.**
- **Fraud Reduction and Data Analytics Act of 2015.**
- **General Education Provisions Act.**
- **Government Management Reform Act of 1994.**
- **Government Performance and Results Act Modernization Act of 2010.**
- **Improper Payments Elimination and Recovery Improvement Act of 2012.**
- **Improper Payments Elimination and Recovery Act of 2010.**
- **Payment Integrity Information Act of 2019.**
- **Reports Consolidation Act of 2000.**

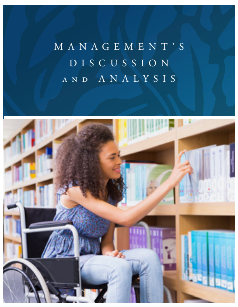
Also, Federal Student Aid (FSA), a principal office of the Department and a designated Performance-Based Organization, produces a separate Annual Report that details its financial and program performance. Summary level information about FSA activities can be found in the applicable sections of this report.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

CERTIFICATE OF EXCELLENCE

The Department won its 16th prestigious Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its FY 2019 AFR.

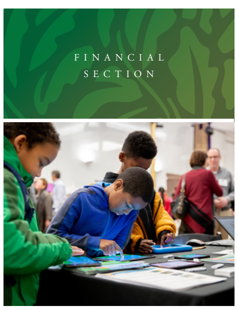
HOW THIS REPORT IS ORGANIZED

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.



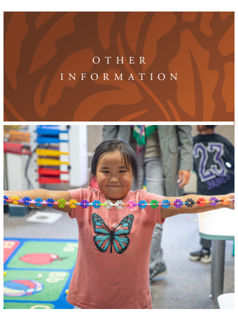
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the report from the independent auditors.



OTHER INFORMATION

This section provides the Office of Inspector General's Management and Performance Challenges for FY 2021, a summary of financial statement audit and management assurances, Payment Integrity Information Act reporting details, civil monetary penalty adjustment for inflation, *GONE Act* and grant closeout process reporting, and Real Property information.

APPENDICES

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

KEY ACCOMPLISHMENTS AND UPDATES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Coronavirus Aid, Relief, and Economic Security Act*, also known as the *CARES Act*, was enacted on March 27, 2020 in response to the COVID-19 pandemic. The *CARES Act's* appropriated funding is reflected in the COVID-19 Funding Flow Chart (Figure 1) on page 10.

MANAGEMENT'S DISCUSSION AND ANALYSIS

High level summaries of the Department's response to the COVID-19 pandemic can be found in each of the four major Strategic Goals, see pages 5–8.

FINANCIAL SECTION

The Department received an unmodified or "clean" opinion on its financial statements for the 19th consecutive year. Please see page 90 for the Auditors' Report.

FINANCIAL SECTION

There is one new note to the financial statements for FY 2020, see page 75.

OTHER INFORMATION

The Department has established an overarching fraud risk governance structure which promotes consistent organizational behavior by producing guidelines and assigning responsibility for fraud risk management, including the implementation of strong antifraud procedures and controls.

OTHER INFORMATION

The Department successfully streamlined the Payment Integrity and Fraud Reduction Report sections, in adherence to new OMB A-136 guidelines, into the Payment Integrity Information Act Reporting section, see pages 137–140.

APPENDICES

A new acronym has been added to the Glossary this year: *CARES Act*, which stands for the *Coronavirus Aid, Relief, and Economic Security Act*.

APPENDICES

The Projection of Education Statistics link has been updated to reflect 2028 projections.

MESSAGE FROM THE SECRETARY

November 16, 2020

Education is an investment in individuals — that is, helping every student develop his or her abilities and preparing every student to pursue his or her passion. The education of each student is about his or her future, and it is ultimately about our nation's future. The Trump Administration's unwavering commitment to empowering families and expanding education freedom has shaped the U.S. Department of Education's (Department) accomplishments over the past fiscal year and informs our plans for fiscal year (FY) 2021.

The COVID-19 pandemic brought many challenges, and in response, we put the immediate needs of students and families first. In addition to ensuring the prompt release of the financial support authorized by the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*, we announced a streamlined process for states to submit waivers to opt out of federal testing requirements for the 2019-2020 school year, and we took steps to make the transition to virtual learning easier. In addition, we delivered timely information to support schools, educators, and families.

The *CARES Act* provided almost $31 billion for states to do what's right for students and to ensure that learning could continue during the pandemic. In addition to the Governor's Emergency Education Relief Fund (almost $3 billon), the Elementary and Secondary Emergency Relief Fund (more than $13 billion), and the Higher Education Emergency Relief Fund ($14 billion), the legislation also provided relief for student loan borrowers and allowed K-12 schools to repurpose funds for technology infrastructure and training in distance learning.

The Department implemented the *CARES Act* according to its terms. We took action well before the congressionally required 30-day deadline to provide funding applications to the states and then approved funding requests within 30 days of receipt of the applications.

From the beginning, we insisted — and still do — that learning must continue for all students during our national emergency. Accordingly, we specifically chose not to waive any of the core tenets of the *Individuals with Disabilities Education Act*.

With respect to our FY 2021 budget that was released in February 2020, the Administration proposed the return of power to the people, to those closest to students, and to students themselves. The budget consolidated nearly all federal K-12 programs into a single block grant, right-sizing the federal role in education and affording states needed flexibility to meet the unique needs of students in their respective states. The Governor's Emergency Education Relief Fund authorized by the *CARES Act* actually included elements of our FY 2021 budget proposal.

The Administration again proposed Education Freedom Scholarships to expand options and choices for all families across America. The proposal provides five billion dollars in dollar-for-dollar federal tax credits for voluntary donations to state-identified, nonprofit organizations that give scholarships directly to students. Education Freedom Scholarships empower students and families to choose the educational setting that works best for them — regardless of where they live, who they know, how much they make, and how they learn. Families control the use of scholarships for their child's elementary and secondary education, which may include career and technical education, apprenticeships, and dual and concurrent enrollment.

In addition to Education Freedom Scholarships, the Department published in May of this year our Final Rule under Title IX of the *Education Amendments of 1972*. This rule strengthens protections for survivors of sexual misconduct and restores due process to ensure that students can pursue an education free from sexual discrimination. The regulation, effective on August 14, 2020, holds schools accountable for failing to respond equitably and promptly to sexual misconduct and ensures a more fair and reliable adjudication process. The regulation provides a consistent, legally sound framework on which survivors, the accused, and schools can rely; protects K-12 students by requiring elementary and secondary schools to promptly respond to a notice of sexual harassment; and restores fairness on campuses by upholding all students' rights.

On the career and technical education front, over the past year the Trump Administration has continued to promote multiple pathways to career success and lifelong learning. We have worked closely with states as they have implemented the *Strengthening Career and Technical Education Act for the 21st Century Act* (Perkins V). These efforts have included offering flexibilities for career and technical education (CTE) leaders required to submit their state CTE plan for FY 2020-2023, enabling them to focus on serving students during the COVID-19 pandemic with high-quality, career-focused education that is tailored to each student's needs and strengths and that is responsive to 21st century realities.

With respect to innovation, Next Gen Federal Student Aid (FSA) provides a centralized hub for customers to retrieve student aid information and improves the ways in which students, parents, and borrowers can interact with and access benefits administered by FSA. In December 2019, the first major implementation of Next Gen kicked off with the consolidation of multiple websites into a single digital source, StudentAid.gov. Customers can learn about available types of student aid, find the right payment plan, complete loan counseling, and fill out the Free Application for Federal Student Aid® form.

Because we believe in the importance of investing in every student and helping students expand their knowledge and skills, the Department invited a new cohort of 67 schools to participate in our Second Chance Pell experiment in April, providing need-based Federal Pell Grants to individuals incarcerated in federal and state prisons. More than 4,000 credentials — including postsecondary certificates, associate degrees, and bachelor's degrees — have been awarded to Second Chance Pell students in three years.

Achieving FSA's mission requires bold thinking. We have encouraged Congress to consider establishing FSA as a standalone government corporation, entirely separate from the Department and run by a professional, apolitical Board of Governors. This move would better position the agency to deliver world-class services to students and their families and to manage what has become the nation's largest consumer lender, with nearly $1.6 trillion in outstanding loans.

We also updated and greatly improved the College Scorecard to help students find customized, accessible, and relevant data on potential debt one might incur attending certain schools and earnings that could be anticipated based on fields of study. The College Scorecard includes debt and earnings information for two-year, four-year, certificate, and some graduate programs as well as information on graduation rates and apprenticeships.

Apart from the Department's focus on individual students, education freedom, and regular program activities, the stewardship of taxpayer funds is, and has been, a priority for us. 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 2020 financial statements. The internal control report identified one material weakness, "Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement." The Department remains committed to evaluating its internal controls for improvement opportunities.

The Department's FY 2020 activities reflect the leadership of President Trump and the hard work of our staff to meet this decisive moment. It is time to unleash a new era of innovation in education. Every student must be able to pursue an education that aligns with his or her talents, interests, and values. We must invest in education that empowers states, communities, and families to transform learning and that provides students with opportunities that are more individualized and responsive than ever. If we each embrace the expansion of education freedom, this nation can meet any challenge and seize any opportunity.

Betsy DeVos

Betsy DeVos

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CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL SECTION

OTHER INFORMATION (UNAUDITED)

APPENDICES

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THE MANAGEMENT'S DISCUSSION AND ANALYSIS

The U.S. Department of Education (Department) continued to enhance the content quality, report layout, and public accessibility of the fiscal year (FY) 2020 *Agency Financial Report* (AFR) by refining graphics and providing more useful, balanced, and easily understood information about the Coronavirus Aid, Relief, and Economic Security Act, also known as the *CARES Act*, and 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 2020. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2020 will be provided in the Department's *FY 2020 Annual Performance Report and FY 2022 Annual Performance Plan* to be released online at the same time as the President's FY 2022 Budget in February 2021. 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 has 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, Direct Loans, Next Gen Federal Student Aid (Next Gen 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 an education, colleges and universities, state education agencies, and school districts by engaging in four major categories of activities:

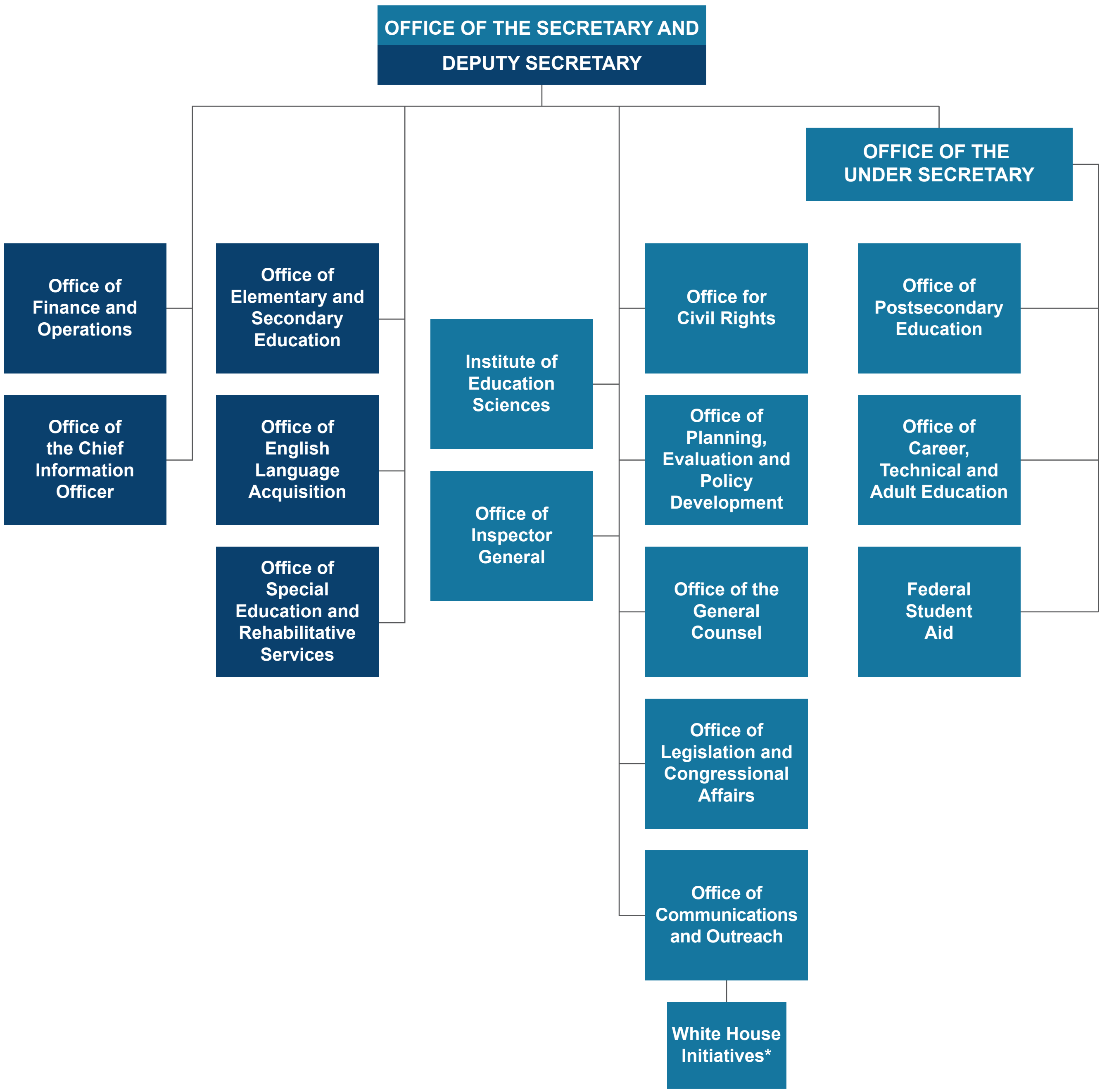
- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds.
- Supporting data collection and research on America's schools.
- Identifying major issues in education and focusing national attention on them.
- 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 2020

This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2020 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*[1], 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 five FY 2019-20 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 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[2]

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] GPRA Modernization Act of 2010 amends the Government Performance and Results Act of 1993 (GPRA).

[2] The FY 2020 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 five APGs for FY 2020-2021. Improving education starts with allowing greater decision-making authority at the state and local levels and empowering parents and students with educational options. These goals seek to increase education choices, enhance multiple pathways for student success in career and job ready skills, improve the Department's Federal Student Aid customer service, improve student privacy protection and cybersecurity at institutions of higher education (IHEs), and provide regulatory relief and burden reduction to stakeholders. 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 *Goal Action Plans* and quarterly updates for the APGs are available on **https://www.performance.gov/education/**.

APG	Related Strategic Objective
Education Freedom: Improve awareness of and access to high-quality K-12 education opportunities for students and families. By September 30, 2021, the Department will increase both the number and percentage of total charter school students and total scholarship students nationwide. • Charter school enrollment will increase from 3.29 million to 3.51 million (6.90 percent of all students in public schools). • The number of scholarship students, including participants in state-based vouchers, tax-credit scholarship, and education savings account program, will increase from 482,000 to 579,250 (1.10 percent of the total school age population). • The number of parents who receive support and engagement through technical assistance and other resources will increase by 5 percent per year.	**Strategic Objective 1.1:** Increase high-quality educational options and empower students and parents to choose an education that meets their needs.
Multiple Pathways to Success: Improve nationwide awareness of and access to career pathways that support job skills development and career readiness. By September 30, 2021, the Department will, through programs such as the Career and Technical Education and Adult Education State Grants: • Support the creation and expansion of integrated education and training (IET) programs in all 50 states, Puerto Rico, and the District of Columbia. • Increase enrollment of participants in IET programs to 56,000. • Support the enrollment of Career and Technical Education concentrators in science, technology, engineering, and mathematics (STEM) fields. • Increase by 25,000 the number of federal financial aid recipients who earn a postsecondary credential in STEM.	**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 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.
FSA Customer Service: Leverage the Next Generation Financial Services Environment (Next Gen FSA) to improve and personalize customers' experience with Federal Student Aid (FSA). By September 30, 2021, FSA will transform its relationship with prospective and current customers through deployment of significant components of the Next Gen FSA that result in a personalized experience: • The number of individuals submitting a Free Application for Federal Student Aid® (FAFSA®) through a mobile device will increase to 2.6 million. • The overall customer satisfaction level throughout the student aid life cycle, as measured by the FSA Customer Satisfaction score[1], will increase.	**Strategic Objective 2.4:** Improve quality of service for customers across the entire student aid life cycle.
Student Privacy and Cybersecurity: Improve student privacy and cybersecurity at institutions of higher education (IHEs) through outreach and compliance efforts. By September 30, 2021, the Department will participate in 12 engagements with sector-related non-governmental organizations to inform the development of five best practice programmatic improvements.	**Strategic Objective 3.2:** Improve privacy protections for, and transparency of, education data both at the Department and in the education community.
Regulatory Reform: Provide regulatory relief to education stakeholders as necessary and appropriate. (Related Strategic Objective: 4.1) By September 30, 2021, the Department will provide regulatory relief for education stakeholders by taking no fewer than eight deregulatory actions, which includes reduction in paperwork burden.	**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.

[1] The Federal Student Aid Customer Satisfaction Score is an annual composite metric that measures the overall customer satisfaction level throughout the student aid life cycle for *Free Application for Federal Student Aid®* (FAFSA®) applicants (mobile and FAFSA.gov), Title IV aid recipients in school, and borrowers in repayment. The score is based on the American Customer Satisfaction Index surveys.

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 Department supports improved learning outcomes by awarding approximately $40 billion to states, school districts, and nonprofit organizations.

The Department encourages families to be aware of educational opportunities and choices available so that they can make the best choice for their student's needs. Access to high-quality educational opportunities should be afforded to all students. In FY 2020, the Department conducted outreach to states, schools, and other educational organizations to promote school choice. As learning outcomes are not just affected in the classrooms, the Department launched a state information sharing tool on schoolsafety.gov which allows schools to share safety plans, compare policies, and learn from each other in an effort to create safe learning environments.

In response to the COVID-19 pandemic, the Equity Assistance Centers funded by the Department developed a set of resources to facilitate equitable learning opportunities in virtual educational environments. In FY 2020, the Department supported P–12 schools impacted by COVID-19 with more than $13.3 billion in funding. Funding included Elementary and Secondary School Emergency Relief Fund grants and the Education Stabilization Fund-Rethink K-12 Education Models Grants.

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. In FY 2020, $31.6 billion was appropriated to the Department in support of this Strategic Goal 2. More than 5,000 grants were awarded to support colleges and universities in their efforts to promote and expand access and improvements to post-secondary education that will contribute to the global success of our nation. In addition, funding for Strategic Goal 2 also supports the Department's enhancements to customer service for customers and stakeholders of Federal Student Aid.

The Department continues efforts to help prepare the nation's workforce of tomorrow with the right skills and credentials of today. In FY 2020, the Department conducted a Teaching Skills that Matter symposium with more than 1,000 teachers to help adult education instructors integrate employability skills development with academic instruction. In addition, the Department continued to prioritize workforce preparation during the COVID-19 pandemic through various virtual and technical outreach activities.

In FY 2020, the Department had much success in implementing *CARES Act* provisions. Approximately $14 billion in funding was appropriated for the *CARES Act* Higher Education Emergency Relief Fund Programs. The Department succeeded in distributing 90 percent of the funding to IHEs within 30 days of authorization. The additional 10 percent was distributed within the following three days. Portions of this funding were used to provide emergency financial aid to students.

The Federal Student Aid office provides more than $120 billion annually to students and their families. Enhancing the service provided to customers and stakeholders continues to be priority. The Department has made improvements to the **StudentAid.gov** website that enhances customers' individual experience by making information readily available at any time and educating customers on loan repayment. Because the *CARES Act* put student loans in administrative forbearance and eliminated interest, the Federal Student Aid office ensured borrowers were aware of the changes and how the changes impacted their payments and balance.

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. Approximately $556 million in discretionary resources was appropriated to support Strategic Goal 3 in FY 2020.

The Department is committed to protecting student's education data both within the Department and at educational institutions. In support of this commitment, in FY 2020, the Department collaborated with IHEs to respond to more than 400 cybersecurity incidents by providing technical assistance to assist with remediation and improving their cybersecurity postures. As the COVID-19 pandemic forced many schools to transition to virtual learning, the Department responded to more than 750 technical assistance inquiries. The Department was also proactive in its approach to cybersecurity by conducting outreach and meeting with 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. In FY 2020, $623 million was appropriated to support Goal 4.

The Department continually performs comprehensive reviews of the Department's regulations, guidance, and information collections to identify and take appropriate action with regard to those that are overly burdensome, inconsistent with Administration priorities, unnecessary, outdated, or ineffective. In FY 2020, there was savings from burden reduction of $113.5 million (annualized) and $1.622 billion (present value), both over a perpetual time horizon.

Strategic Goal 4 also includes the responsibility of the Department to implement Enterprise Risk Management (ERM). The Department uses a coordinated approach to identify, measure, and assess challenges related to mission delivery and resource management. In FY 2020, the Department joined an Office of Management and Budget pilot to test, assess, and validate sections or components of ERM. The Department continues to assess ERM maturity and identify likelihoods and impacts to Department operations and mission.

Strategic Goal 4 also includes the responsibility to ensure the Department's workforce is properly trained and accountable. In FY 2020, the Department implemented a strategy focused on improving employee engagement, performance, and competency development. The Department continues its efforts to provide professional development where gaps in competency have been identified. During the COVID-19 pandemic, the Department continues to foster employee engagement through virtual platforms as most employees telework.

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 19 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2020 are on pages 40–85 and the Independent Auditors' Report begins on page 90.

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.

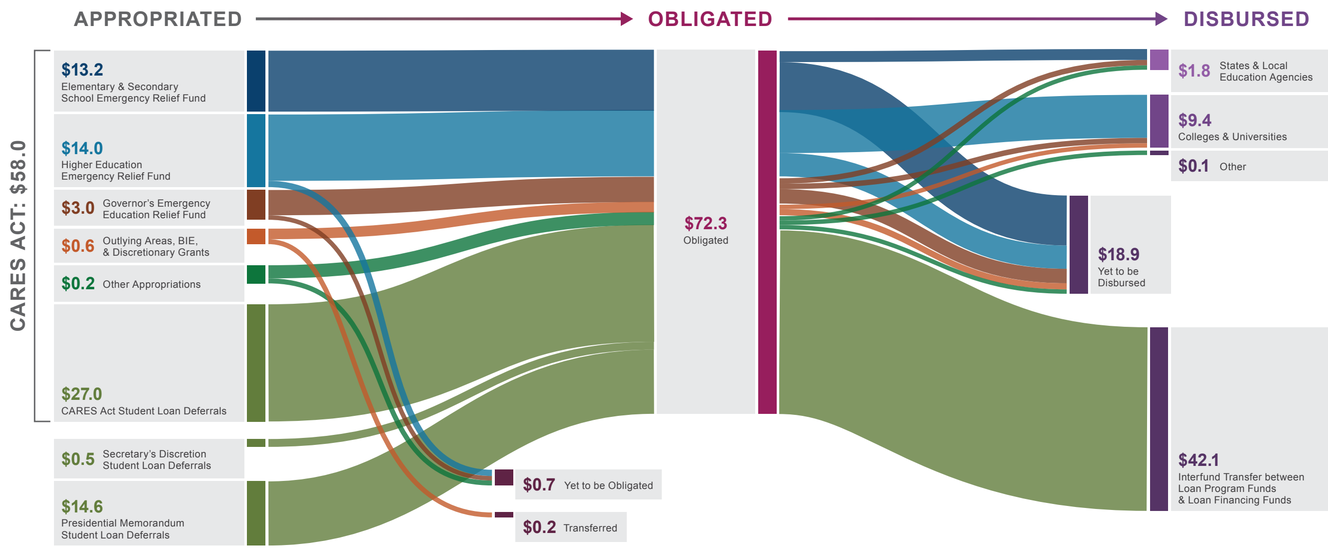
FINANCIAL STATEMENT IMPACTS OF COVID-19 ACTIVITIES

Most of the significant changes to the Department's financial statements resulted from the impacts due to COVID-19 activities. The *CARES Act* totaled roughly $2 trillion dollars and included almost $31 billion of direct appropriations to the Department for educational purposes. The largest component of this funding established a $30.8 billion Education Stabilization Fund for K-12 and higher education. This fund is comprised of categories including: (1) the Elementary and Secondary School Emergency Relief Fund; (2) the Higher Education Emergency Relief Fund; (3) the Governor's Emergency Education Relief Fund; and (4) funds provided for outlying areas and discretionary grants. The *CARES Act* also provided other direct appropriations – primarily to

Table 1. Key Financial Statement Changes
(Dollars in Billions)

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2020	FY 2019	Amount	Percentage	Amount	Percentage
Balance Sheets						
Fund Balance with Treasury	$ 136.0	$ 104.9	$ 31.1	29.6%	$ 19.6	63.0%
Statements of Net Cost						
Expand Postsecondary Opportunities, Improve Outcomes to Foster Economic Opportunity, and Promote Productive Citizenry	149.4	116.0	33.4	28.8%	51.3	153.6%
Statements of Budgetary Resources						
Appropriations (Discretionary and Mandatory)	245.0	118.5	126.5	106.8%	73.2	57.9%
New Obligations and Upward Adjustments (Total)	430.8	323.1	107.7	33.3%	72.3	67.1%
Unobligated Balance, End of Year (Total)	42.6	35.1	7.5	21.4%	0.7	9.3%
Outlays, Net	218.0	116.6	101.4	87.0%	53.4	52.7%
Disbursements, Net	(42.9)	40.1	(83.0)	-207.0%	42.1	-50.7%

Figure 1. COVID-19 Funding Flow
(Dollars in Billions)



fund increased grants for Safe Schools & Citizenship Education grants, Historically Black Colleges and Universities loan deferrals, and loan administration costs.

The *CARES Act* provided support for student loan borrowers, primarily by suspending nearly all federal loan payments until September 30, 2020, interest free. The Department extended certain provisions of the student loan deferrals not covered by the *CARES Act* to defaulted guaranteed loans held by the Department. The Administration subsequently issued a Presidential Memorandum which extended the student loan deferrals through December 31, 2020. The Department also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student debt provisions of the *CARES Act* and the Presidential Memorandum are provided through indefinite appropriations.

The cost impacts of the student loan repayment deferrals were recorded as loan modifications, a component of subsidy expense, which reduced the overall loan receivable balances for the Direct Loan and Federal Family Education Loan (FFEL) programs by $38.6 billion and $3.3 billion, respectively. Detailed explanations of these loan modifications are provided in the Analysis of Direct Loan Program Subsidy Expense section beginning on page 16 and in Note 5 of the financial statements beginning on page 57.

The direct and indirect funding stemming from the *CARES Act* and the Presidential Memorandum is reflected in Figure 1.

Elementary and Secondary School Emergency Relief (ESSER) Fund—$13.2 billion provided for state education agencies (SEAs) and local educational agencies (LEAs) to support continued learning for K-12 students whose educations have been disrupted by COVID-19.

Higher Education Emergency Relief (HEER) Fund—$14.0 billion provided for IHEs to address needs directly related to COVID-19, including transitioning courses to distance education and granting aid to students for educational costs such as food, housing, course materials, health care, and child care.

Governor's Emergency Education Relief (GEER) Fund—$3.0 billion provided to state governors to ensure education continues for students of all ages impacted by the COVID-19 national emergency.

Outlying Areas, Bureau of Indian Education (BIE), and Discretionary Grants—$0.6 billion provided for outlying areas and discretionary grants to states with the highest COVID-19 burdens.

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 $1,309.4 billion as of September 30, 2020. As shown in Figure 2, the vast majority of the assets relate to credit program receivables, $1,171.0 billion, which comprised 89.4 percent of all assets. Direct Loans comprise the largest share of these receivables. All other assets totaled $138.4 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,264.5 billion as of September 30, 2020. As shown in Figure 3, the vast majority of the Department's liabilities are also 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 $1,160.1 billion as of September 30, 2020.

Figure 4 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 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 2016 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 have many options to stretch out their repayment terms and reduce their monthly payments.

In accordance with the *Federal Credit Reform Act of 1990*, 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.

Figure 2. Assets by Type

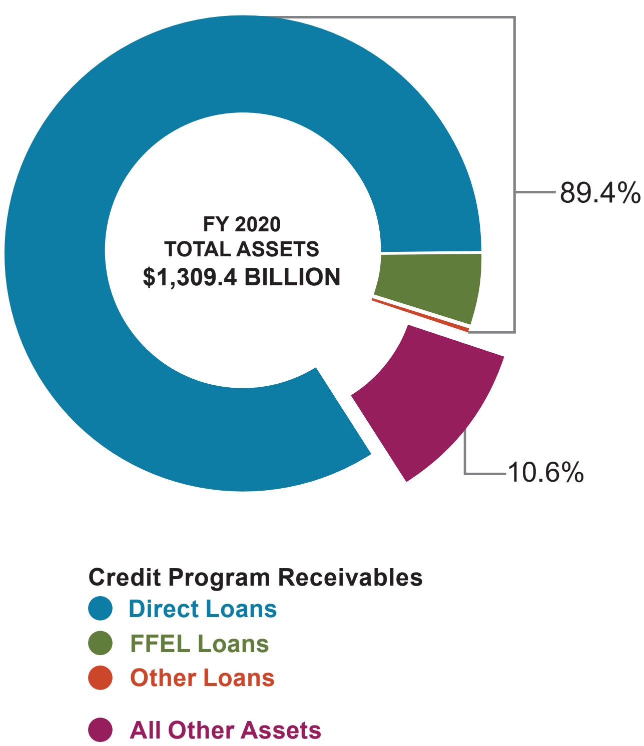


Figure 3. Liabilities by Type

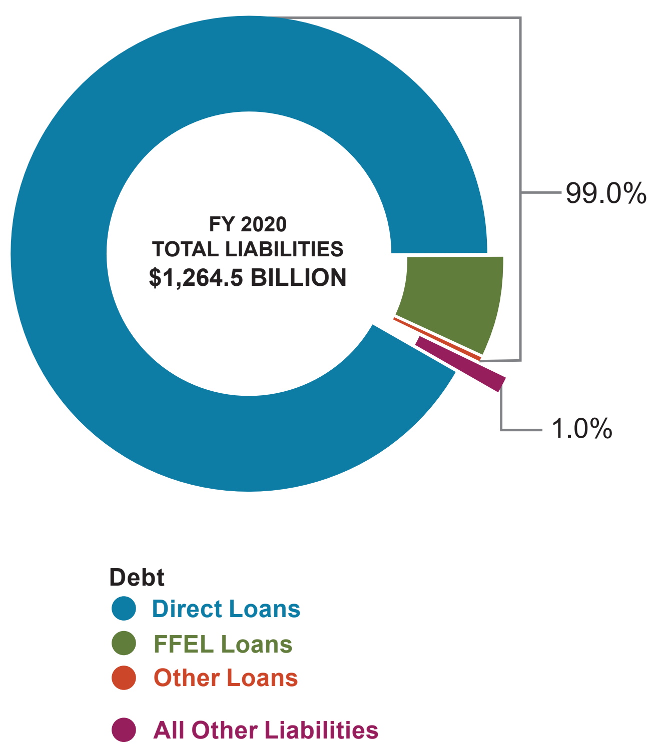
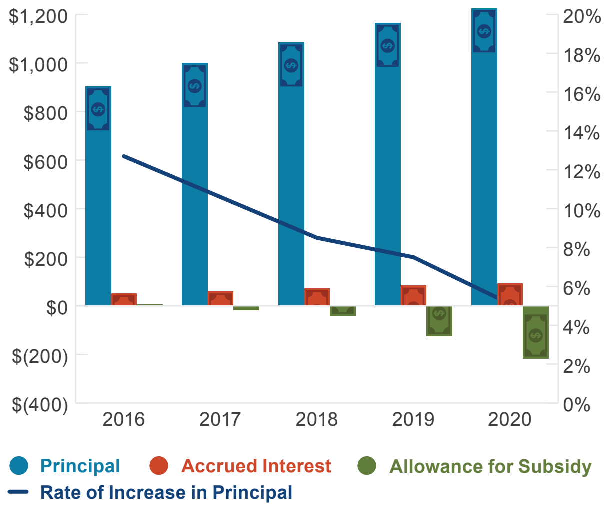


Figure 4. Components of Direct Loan Receivables, Net
(Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2016	2017	2018	2019	2020
Principal	**$ 902.8**	**$ 998.8**	**$1,083.7**	**$1,164.9**	**$1,224.8**
Rate of Increase in Principal	12.7%	10.6%	8.5%	7.5%	5.1%
Accrued Interest	$ 50.8	$ 59.5	$ 72.0	$ 83.3	$ 92.1
Allowance for Subsidy	$ 5.3	$ (16.8)	$ (40.7)	$(124.4)	$(216.4)
Total No. of Direct Loan Recipients (in Millions)	**31.5**	**33.0**	**34.2**	**35.1**	**35.9**

The positive allowance for subsidy balance in FY 2016 represented estimates of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. This 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 2016 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.

In addition to the impact of the IDR plans, the negative subsidy allowance also increased in FY 2020 due to actions taken to defer student loans in response to COVID-1 (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 16).

Table 2 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. The balances reported for "Current Repayment" and "Delinquent" are significantly lower than prior years, primarily due to the COVID-19 student loan deferrals that placed loans in forbearance and subsequently cured delinquencies.

Loans in the Delinquent category are past due anywhere from 31 to 360 days. Default/Bankruptcy/Other includes loans that are more than 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 FY 2020 delinquent balance is zero due to the ongoing deferral of all student loans through December 31, 2020.

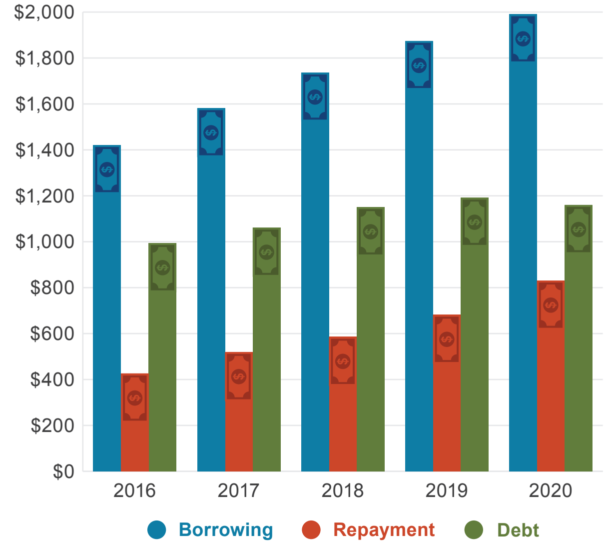
Table 2. Payment Status of Direct Loan Principal and Interest Balance
(Dollars in Billions)

Loan Status	Fiscal Year				
	2016	2017	2018	2019	2020
Total No. of Direct Loan Recipients (in Millions)	31.5	33.0	34.2	35.1	35.9
Total Dollar Amount of Direct Loans Outstanding	**953.6**	**1,058.4**	**1,155.7**	**1,248.1**	**1,316.9**
Current Repayment[1]	406.7	467.8	531.2	594.7	14.7
% Current Repayment	42.6%	44.2%	46.0%	47.6%	1.1%
In School, Grace Period, and Education Deferments	289.5	291.7	295.5	294.8	282.8
% In School, Grace Period, and Education Deferments	30.4%	27.6%	25.6%	23.6%	21.5%
Forbearance and Noneducation Deferments	106.6	122.5	121.5	133.2	887.5
% Forbearance and Noneducation Deferments	11.2%	11.6%	10.5%	10.7%	67.4%
Delinquent (Past Due 31-360 Days)	71.9	79.7	92.5	90.8	0.0
% Delinquent (Past Due 31-360 Days)	7.5%	7.5%	8.0%	7.3%	0.0%
Default/ Bankruptcy/ Other*	78.9	96.7	115.0	134.6	131.9
% Default/ Bankruptcy/ Other*	8.3%	9.1%	10.0%	10.8%	10.0%

[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.

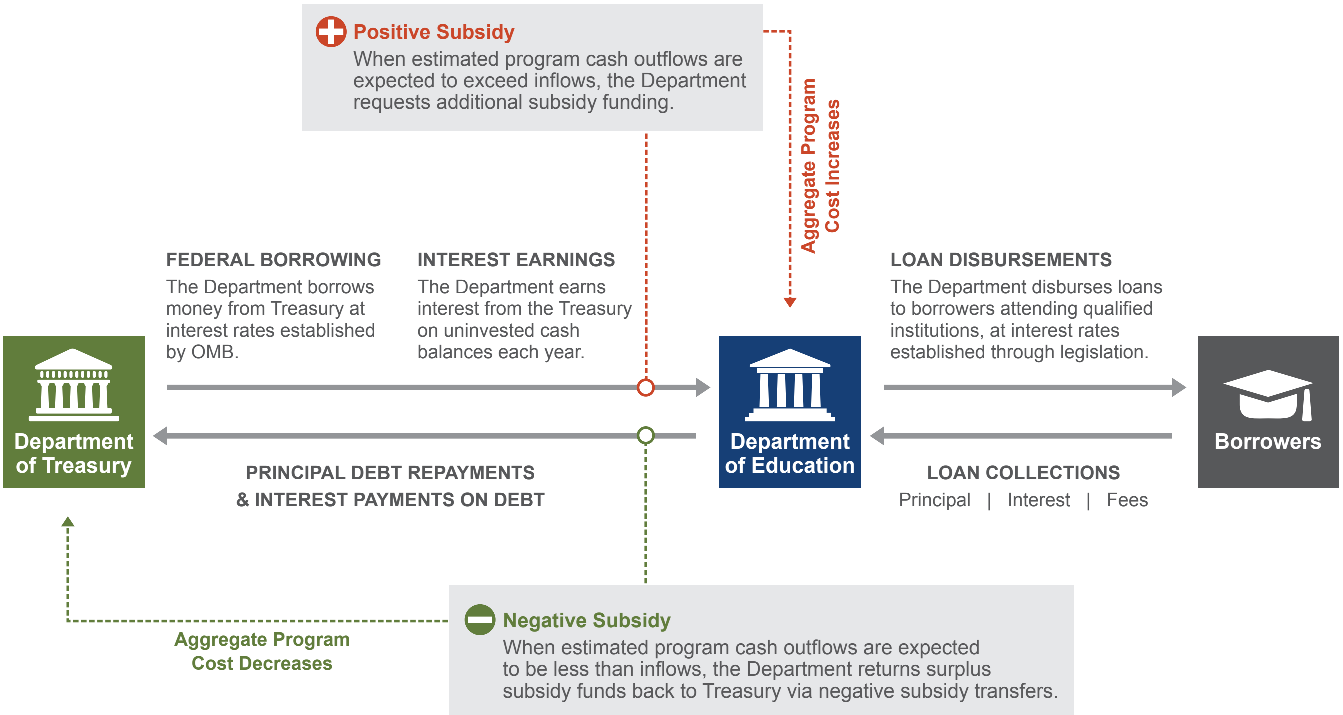
* Adjusted to eliminate differences between NSLDS and FSA Total Reported Direct Loan Portfolio (Principal and Interest)

Figure 5. Direct Loan Program Cumulative Financing Activity
(Dollars in Billions)



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 5 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 14 of this report.

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	2016	2017	2018	2019	2020
Net Borrowing	**84.4**	**67.3**	**89.1**	**41.5**	**(32.0)**
Borrowing from Treasury	147.0	160.5	155.3	137.6	116.9
Debt Repayments to Treasury	(62.6)	(93.2)	(66.2)	(96.1)	(148.9)
Interest Expense to Treasury	(30.5)	(31.3)	(32.3)	(33.8)	(34.7)
Interest Earned from Treasury	3.9	4.3	3.9	4.1	4.8
Cumulative Taxpayer Cost / (Savings)	(5.3)	16.8	40.7	124.4	216.4
Current Subsidy Expense (Revenue)	16.1	5.3	4.4	61.5	100.9

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2016	2017	2018	2019	2020
Loan Disbursements	**140.5**	**142.5**	**134.1**	**130.7**	**117.4**
Stafford Subsidized	23.8	23.4	20.3	20.0	19.1
Stafford Unsubsidized	52.3	51.4	49.0	48.1	46.1
PLUS	19.0	18.7	23.1	22.7	21.7
Consolidation[1]	45.5	49.0	41.6	39.8	30.4
Loan Collections[2]	**73.2**	**82.0**	**84.9**	**91.3**	**69.9**
Principal	55.9	62.6	63.5	67.0	55.3
Interest	15.5	17.6	19.5	22.4	12.9
Fees	1.8	1.9	1.9	1.9	1.7

* Numbers may not add up due to rounding.

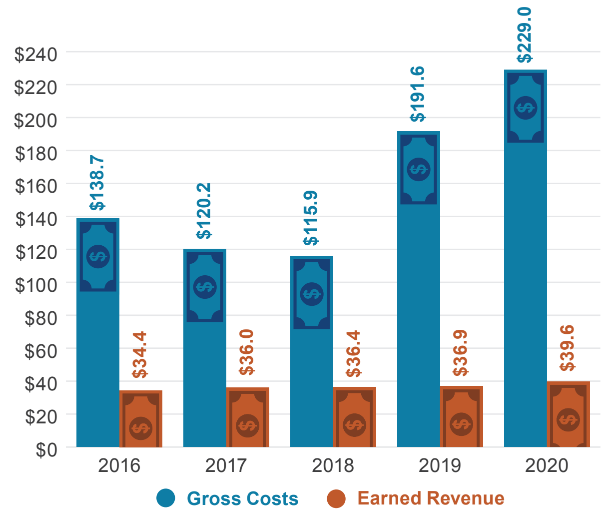
[1] Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

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

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 7 shows the Department's gross costs and earned revenue over the past five years.

Figure 7. Gross Costs & Earned Revenue
(Dollars in Billions)

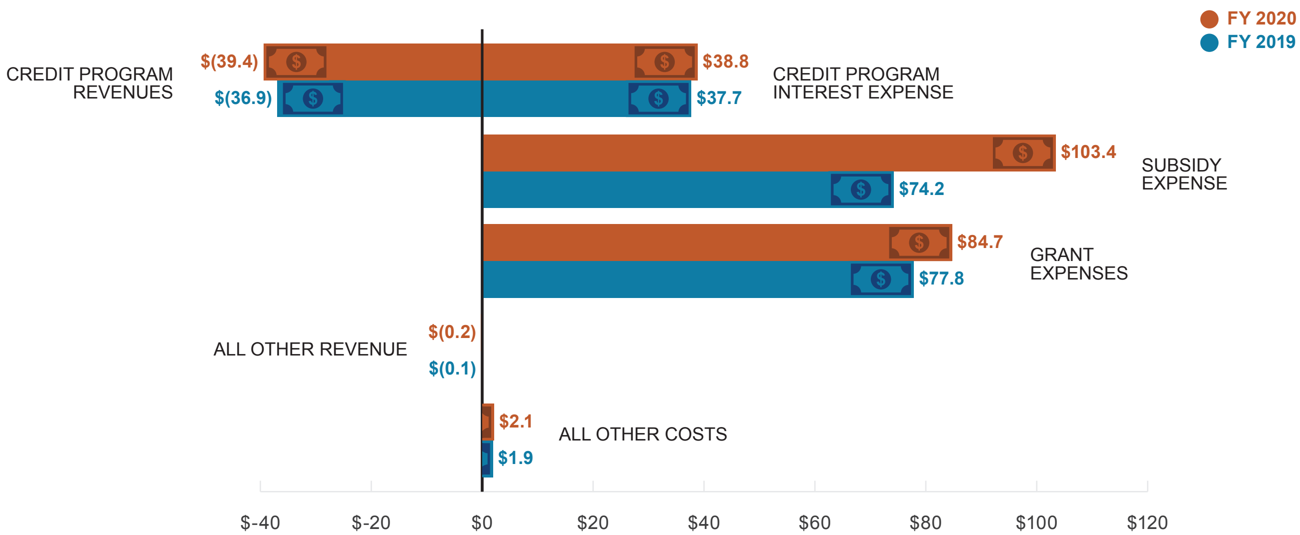


GROSS COSTS AND EXCHANGE REVENUE BY TYPE

As shown in Figure 8, 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 10).

Figure 8. Primary Components of Gross Costs and Earned Revenue
(Dollars in Billions)



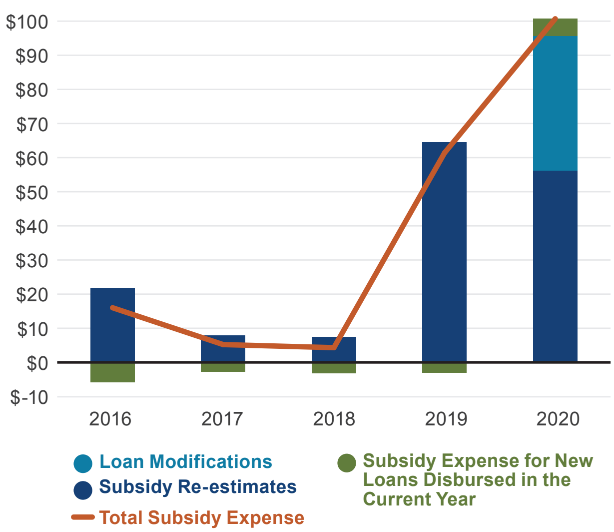
ANALYSIS OF DIRECT LOAN PROGRAM SUBSIDY EXPENSE

The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. The increase in the Department's gross costs from FY 2019 is primarily the result of an increase in the subsidy expense for Direct Loans in FY 2020, the primary components of which included year-end subsidy re-estimates and loan modifications.

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 9 shows these three components of the Direct Loan program subsidy expense for the past five years.

Figure 9. Direct Loan Program Subsidy Expense
(Dollars in Billions)



	2016	2017	2018	2019	2020
Subsidy Expense for New Loans Disbursed in the Current Year	$ (5.7)	$ (2.6)	$ (3.1)	$ (3.0)	$ 5.1
Subsidy Re-estimates	21.8	7.9	7.4	64.5	56.1
Loan Modification	-	-	0.1	-	39.7
Total Subsidy Expense	**$ 16.1**	**$ 5.3**	**$ 4.4**	**$ 61.5**	**$100.9**

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. Subsidy expense for new loans disbursed in the current year was positive in FY 2020 due to rising enrollment in IDR plans and a reduction in projected future income of borrowers in IDR plans.

The Direct Loan program subsidy re-estimate for FY 2020 totaled $56.1 billion. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, loan volume, and contract collection costs.

- **IDR Model Changes (including Public Service Loan Forgiveness (PSLF)).** The Department completed a standard IDR data update to reflect the immediate prior cycle for defaults, prepayments and Death, Disability, and Bankruptcy (DDB). The DDB update includes adjustments for the Total Permanent Disability for Veterans regulation. In addition, an existing borrower income file was calibrated using an additional year of IDR application data through 2018. The additional year of borrower income data taken from IDR applications has been substantially lower than projected. As such, the Department reduced its projections of future borrower income by 35%, increasing costs associated with IDR. The Department also analyzed the actual PSLF approval rates and supplementary data. As a result of that analysis, the PSLF approval rate was adjusted downward for initial cohorts to better reflect the actual data. Trends indicate that there has been some improvement in PSLF approval rates over time as borrowers better understand the application process. PSLF estimates were revised to reflect the most recent borrower behavior and adjust the temporal element to ramp up PSLF forgiveness over time. The combined effect of these updates led to a net upward re-estimate of $35.5 billion.

- **Repayment Plans.** The Department updated the data and made an adjustment to exclude special consolidation of FFEL loans in FY 2012 and FY 2013 from the model. These loans are modeled separately and were less likely to enroll in income dependent repayment plans than typical consolidation loans. The combined effect of these changes led to a net upward re-estimate of $6.5 billion.

- **Default.** In addition to the adjustments for the *CARES Act*, the Department updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics through June 2020. The combined effect of these changes led to a net upward re-estimate of $1.8 billion.

- **2019 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 $4.8 billion for these current year assumption changes attributable to the FY 2019 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 $5.9 billion.

- **Interactive Effects.** The re-estimate includes a net upward re-estimate of $1.5 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.

The Direct Loan program modifications were primarily the result of student loan deferral actions provided by Congress and the Administration in response to COVID-19. The student loan deferrals increased the government's cost of student loans and were recognized as loan modifications for FY 2020. These modifications included the following:

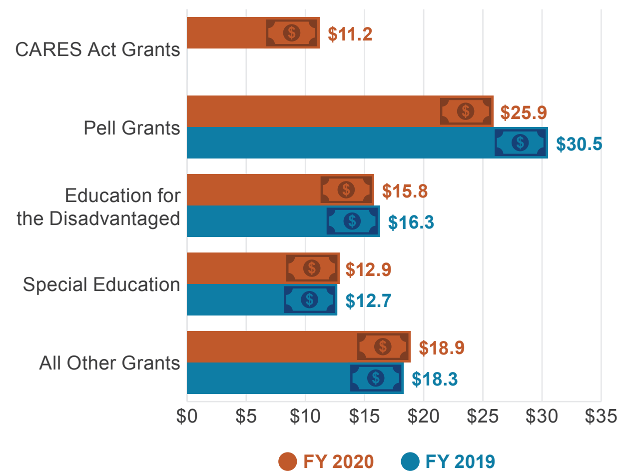
- **CARES Act.** The *CARES Act* automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans starting in March through September 30, 2020. The relief for borrowers resulted in an upward modification cost of $24.6 billion, with an additional $459 million for cancelled loans for students that did not complete the semester due to a qualifying emergency. There was a net positive $82 million modification adjustment transfer associated with this modification, bringing the total to $25.0 billion.

- **Presidential Memorandum.** On August 8, 2020, the President signed a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of $13.5 billion. There was a net negative $66 million modification adjustment transfer associated with this modification, bringing the total to $13.6 billion.

- **Total and Permanent Disability.** The Department recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of $1.0 billion. There was a net negative $98 million modification adjustment transfer associated with this modification, bringing the total to $1.1 billion.

GRANT EXPENSES

Figure 10. Grant Expenses by Program Areas
(Dollars in Billions)



As shown in Figure 10, overall grant expenses increased primarily as a result of the *CARES Act*—primarily the Education Stabilization Fund grants described on pages 76–77.

In addition to the *CARES Act* funded grants, the Department has more than 100 other grant and loan programs. The three largest of these 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 grants that provide financial assistance through SEAs to LEAs 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—**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 IHEs 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.

STATEMENTS OF CHANGES IN NET POSITION

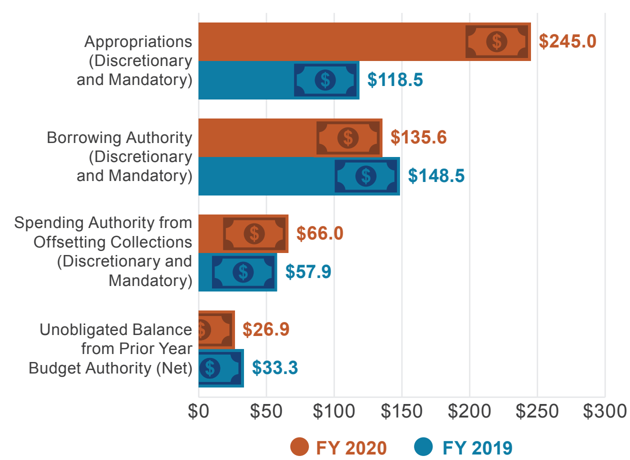
The consolidated statements of changes in net position report the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended 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.

Figure 11 shows the components of the Department's budgetary resources which totaled $473.4 billion for the year ended September 30, 2020, increasing from $358.2 billion, or approximately 32.2 percent from the prior year. This increase was primarily due to increases in appropriations received totaling $126.5 billion, of which $73.2 billion was for direct and indirect appropriations for COVID-19 activity. An increase of $45.5 billion in appropriations received for executed re-estimates in FY 2020 versus FY 2019 also contributed to this overall increase (see the following outlay discussion).

Figure 11. Components of Budgetary Resources
(Dollars in Billions)



New obligations incurred increased by $107.7 billion, or approximately 33.3 percent, due primarily to grants funded by the *CARES Act* and loan modifications for COVID-19 student loan deferrals.

The combined statements of budgetary resources also present the Department's summary disbursement and collection amounts for which Table 3 provides additional detail.

Table 3. Outlays, Distributed Offsetting Receipts, and Disbursements, Net
(Dollars in Billions)

	FY 2020	FY 2019
Outlays, Net		
Credit Programs	$ 129.8	$ 36.8
Grants	85.5	76.9
Contractual Services	2.0	2.2
Personnel Compensation and Benefits	0.7	0.6
Other	-	0.1
Total Outlays, Net	$ 218.0	$ 116.6
Distributed Offsetting Receipts		
Negative Subsidies and Downward Reestimates of Subsidies	(12.3)	(12.1)
Repayment of Perkins Loans and Capital Contributions	(1.3)	(0.1)
Other	-	(0.1)
Total Distributed Offsetting Receipts	$ (13.6)	$ (12.3)
Disbursements, Net		
Direct Loan Program		
Gross Disbursements	$ 158.2	$ 175.5
Offsetting Collections	(188.1)	(128.7)
Total Direct Loan Program Disbursements, Net	(29.9)	46.8
FEEL Program		
Gross Disbursements	17.5	14.7
Offsetting Collections	(30.6)	(21.5)
Total FEEL Program Disbursements, Net	(13.1)	(6.8)
Other Loan Programs		
Gross Disbursements	0.5	0.3
Offsetting Collections	(0.4)	(0.2)
Total Other Loan Program Disbursements, Net	0.1	0.1
Total Disbursements, Net	**$ (42.9)**	**$ 40.1**

Outlays, net is comprised of gross outlays and offsetting collections in the Department's budgetary funds. Outlays, net increased $101.4 billion (87.0 percent) due primarily to transfers from the Department's credit program budgetary funds to its credit program non-budgetary financing funds for (1) increased executed re-estimates in FY 2020 versus FY 2019 ($45.5 billion), and (2) COVID-19 related loan modifications recognized in FY 2020 ($42.2 billion).

Disbursements, net is comprised of gross outlays and offsetting collections in the Department's credit program non-budgetary financing funds. Disbursements, net decreased $83.0 billion, primarily due to the transfers to the Department's credit program non-budgetary financing funds from its credit program budgetary funds for the aforementioned executed re-estimate and COVID-19 loan modifications.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

The Secretary of the Department of Education's Fiscal Year 2020 Statement of Assurance provided below is the final report produced by the Department's annual assurance process.

STATEMENT OF ASSURANCE
FISCAL YEAR 2020
November 16, 2020

The Department of Education's (the Department) management is responsible for managing risks and maintaining effective internal control to meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

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 assessed risk and 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. Management evaluated the Department's financial management systems for substantial compliance with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over reporting with consideration of its Data Quality Plan in accordance with Appendix A of OMB Circular A-123.

With the exception of a material weakness in financial reporting reported in the Independent Auditors' Report, 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 the Department's management with reasonable assurance that the objectives of Sections 2 and 4 of the FMFIA were achieved as of September 30, 2020.

Betsy DeVos

Betsy DeVos

INTRODUCTION

Strong risk management practices and internal control help the Department 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 (ERM) 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 control:

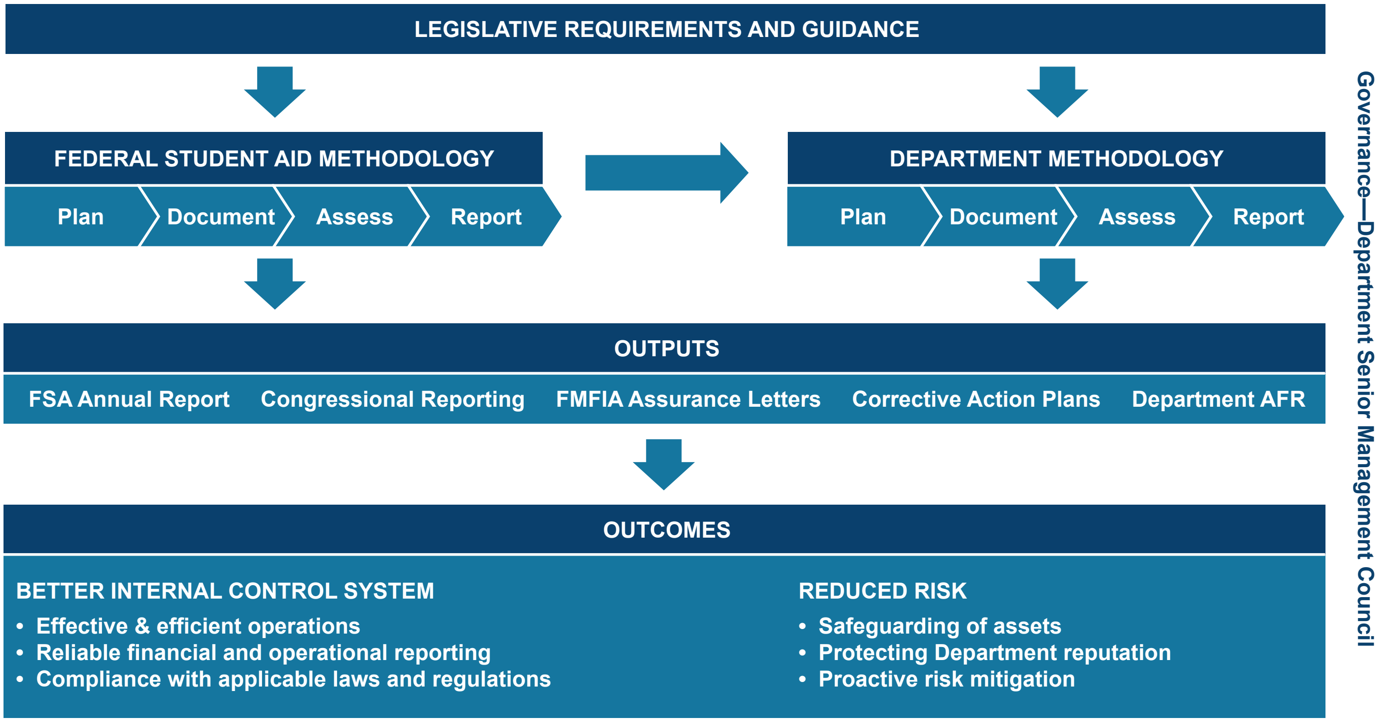
- *Operations*—Effectiveness and efficiency of operations.
- *Reporting*—Reliability of reporting for internal and external use.
- *Compliance*—Compliance with applicable laws and regulations.

This section describes the Department's internal control framework, offers an analysis of the effectiveness of its internal controls, and explains assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2020 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 continues to 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 (SMC). 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 that 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 as well as annual internal control training for all employees, to provide reasonable, but not absolute, assurance that its internal controls are well designed, 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 (GAO) 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 2020, 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. The Department acknowledges that it has areas of control that need further strengthening, such as those identified elsewhere in this report, as well as the major challenges identified by the Department's OIG in its FY 2021 Management Challenges report. As an example, data quality and reporting are a challenge identified by OIG. 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. The establishment of a Data Quality Plan integrated into testing of controls is helping to address this challenge identified by the OIG.

In accordance with OMB Circular A-123, the Department also conducted a separate 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. Key activities include:

- Maintaining process documentation for the Department's significant business processes and subprocesses.
- Maintaining an extensive library of key financial, operations, and Information Technology (IT) controls.
- Providing technical assistance to principal offices to help them understand and monitor key controls.
- Refining the Data Quality Plan to improve reporting controls and data quality.
- Implementing a risk-based control testing strategy.
- Developing corrective action plans when internal control deficiencies are found and tracking progress against those plans.

In FY 2020, the Department tested 86 key financial controls for both grants and non-grants areas. The internal controls assessment detected some control deficiencies, but none that would rise to the level of material weakness. Corrective actions have been initiated for the deficiencies identified. In addition, numerous recommendations have been provided to process owners to strengthen internal controls in their processes, such as verifying immaterial differences, obtaining electronic signatures, and updating policies and procedures.

Further, operational internal controls have been formally aligned with the agency's overall ERM strategy and assessed accordingly. No control deficiencies have been reported for FY 2020 related to this assessment.

ANALYSIS OF FINANCIAL MANAGEMENT SYSTEMS

The *Federal Financial Management Improvement Act of 1996* (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 enhance financial reporting and compliance activities. The Department's core financial applications are together under common management control as part of the Education Central Automated Processing System (EDCAPS). EDCAPS is a suite of financial applications (subsystems), including commercial off-the-shelf, 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.
- Administrative processes (e.g., purchasing, travel, and miscellaneous payments).

EDCAPS is composed of four main integrated components:

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

Across all its components, EDCAPS is serving approximately 2,800 Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States and territories. EDCAPS is serving approximately 40,500 external users, mostly users of the G5. In FY 2020, 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 2020:

- 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 (FFATA) and Digital Accountability and Transparency Act of 2014 (DATA Act)*.
- Transmitting the entire Department's payments through the Department of Treasury Secure Payment System.

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 Plan 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 (IPP).
- FSA-Financial Management System financial data.

- Lockbox.
- Department of the Treasury systems.
- 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 the Chief Counsel of the Department of the Treasury's Bureau of the Fiscal Service to interpret the impact of this revised *DATA Act*'s delinquent debt referral requirement on Title IV debt. In July 2015, the Fiscal Service's Chief Counsel determined 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 (TOP) referral requirement for Title IV debt owned by FSA at the time of delinquency is 271 days delinquent, and the requirement 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, 2020, the Department and FSA were not in compliance with the DCIA TOP 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 2020, FSA continued to implement changes to its default loan servicing systems, procedures, and internal business process for referring eligible debts to the Treasury Offset Program sooner. FSA will build DCIA requirements into the NextGen FSA servicing platform. This area of noncompliance is noted in the independent auditors' 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 2020 to improve cybersecurity capabilities and functions, some of which included:

- Office of the Chief Information Officer (OCIO) established the Department's cybersecurity risk tolerance and appetite which integrates with the Department's overall Enterprise Risk Management (ERM) program. Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) have been established to support tracking and reporting progress made towards the Department's OCIO ERM target profile.
- OCIO publishes monthly Department Cyber Security Framework (CSF) Risk Scorecards as part of the Department's Information Security Continuous Monitoring efforts to identify cybersecurity risks, issues, and opportunities for improvements in our cybersecurity protections. The Department CSF Risk Scorecard provides a detailed analysis tool for Authorizing Officials, Information System Owners, and Information System Security Officers to prioritize and mitigate risks to the Department's information systems.

- In FY 2020, the CSF Risk Scorecard was enhanced to include risk scoring and reporting for privacy controls as well as additional reporting views for the recently released security authorization documentation and incident response plan testing status scoring risk factors. These enhancements further enable the Department's stakeholders to effectively manage system level security and privacy risks while ensuring authorization documentation and processes are continuously monitored for effectiveness. CSF Risk Scorecard visualizations were also expanded upon to include specific views for FSA servicers and pertinent investment review board reporting to streamline communication of risk to appropriate stakeholders. These recent CSF Risk Scorecard enhancements have provided the Department's executives with new capabilities to identify trends, patterns, and opportunities for improvement across the organization. Additionally, the scorecard is now updated daily for a timely view of risk.
- OCIO disseminated monthly 'State of IT' principal office-level reports for continued outreach to executive stakeholders to take the appropriate actions as necessary based on cyber data, trends, metrics, and key insights specific to their organization offered through cybersecurity data visualizations.
- The average time to close a Plan of Action and Milestones (POA&M) was reduced from 167 days in 2019 to 47 days in 2020. The number of accepted POA&Ms also dropped from 53 to 29 during the same time period. At the closing of FY 2020, the Department achieved a 68 percent net reduction in past due POA&Ms since starting the reporting period on October 1, 2019.These positive metrics are direct indicators of the progress achieved in maturing risk management capabilities and reduction capabilities.
- OCIO authorized the FedRAMP compliant Splunk Cloud as the Department's cybersecurity data lake and began initial configuration for ingestion of Continuous Diagnostics and Mitigation and continuous monitoring data. Currently, ten data sources have been identified for initial operational capabilities. These enhancements allow for better cyber risk visibility and monitoring of Department information systems to enable prompt data driven decisions.
- To mitigate operational impacts of the COVID-19 pandemic, OCIO delivered Personal Identity Verification authentication (PIV-A) as alternative multi-factor authentication solution providing continuity of critical business functions. Additionally, OCIO identified, analyzed, and recommended a cloud-based solution to provide rapid expansion of the Department's VPN capacity supporting the workforce during COVID-19 telework phase. OCIO also performed outreach for increased vigilance during the COVID-19 telework phase. OCIO implemented proactive security monitoring of PIV-A VPN connections by utilizing new data-lake-based Security Information and Event Management (SIEM) software solution. Department employees have also been educated regarding increased phishing and other cybercriminal scams targeting a largely at-home workforce (stimulus checks, spoofing legitimate Government Health organizations, etc.).
- OCIO completed the enhancement of the Department's Network Access Control (NAC) capability for non-government furnished equipment (GFE) within the Department's new IT environment that is superior to capabilities that existed prior to the FY 2019 transition. This provides a foundation to further implement the Department's zero-trust architecture.
- To bolster the Department's email security, OCIO fully deployed and monitored the Office 365 (O365) email Data Loss Prevention (DLP) capability. This capability enhances the Department's overall DLP capabilities and works in concert with network and desktop DLP solutions. OCIO also deployed DLP desktop agents on nearly 100 percent of Department endpoint devices to further enhance the identification of personally identifiable information such as Social Security and credit card numbers. In FY 2020, the Department's DLP solution identified and blocked 9,809 emails which prevented potential sensitive personally identifiable information security incidents.
- Through enhanced reporting of email and web security posture, the Department was able to significantly increase U.S. Department of Homeland Security (DHS) Binding Operational Directive (BOD) 18-01 compliance from 54 percent to 100 percent for email security and 87 percent to 96 percent for Hypertext Transfer Protocol Secure (HTTPS) tracking. Additionally, there were no overdue critical or high vulnerabilities in FY 2020 for ED's public facing assets reported in accordance with DHS BOD 19-02 Cyber Hygiene.

- Cybersecurity and personnel security requirements were incorporated into the Department's acquisition regulations in December 2019. The Office of Acquisition Management issued Acquisition Alert 2020-01, "Education Acquisition Regulation Class Deviation: Cyber and Personnel Security Requirements for Contractors". This deviation ensures active contracts, solicitations, and future contracts communicate the Department's cybersecurity and personnel security requirements to contractors and prospective contractors.

- The Department deployed a "Report Phishing" button on March 25, 2020, to all Department email clients, allowing users to directly report suspicious emails to ED's Security Operations Center (EDSOC) with a single click of a button. Prior to deployment, the average reporting rate for simulated exercises in FY 2019 was 15.21 percent (the highest reporting rate was 27.82 percent in March 2019). A phishing exercise conducted in the third quarter of FY 2020 resulted in a 41 percent reporting rate, with 91 percent of those who reported using the new "Report Phishing" button. The highest reporting rate noted in FY 2020 was 52.5 percent in August 2020 in response to an exercise which appeared to contain an attachment. This was the highest reporting rate since the launch of the phishing program in FY 2014. The Department also improved its overall response time in reporting. During FY 2018 and FY 2019 exercises, the first report from an end user was within an average of two minutes of the exercise launch. In FY 2020, the first report was received within an average of one minute of the exercise launch. In the event the email was an actual attack, early notification would enable the Department to block the internet addresses or domains associated with the email and reduce the potential impact and risk.

- OCIO continued conducting quarterly Department-level system-tailored Incident Response and Contingency Plan testing tabletop exercises virtually, which focused on system contingency planning in the event of a cyber incident and how the Department would respond to such an incident. As of July 2020, 100 percent of the Department's FISMA reportable systems had a valid contingency plan test. Feedback reports were provided to system stakeholders on weaknesses and opportunities for improvement to their contingency plans:
    - Quarterly Risk Management Assessment score.
    - Department Cyber Risk score.
    - Previous year IG FISMA maturity score.
    - DHS Cyber Hygiene Scorecard.

- OCIO continued supporting the Scholarship for Service (SFS) program which is managed by the National Science Foundation in collaboration with the U.S. Office of Personnel Management (OPM) and DHS. This initiative reflects the critical need for IT professionals, industrial control system security professionals, and security managers in federal, state, local, and tribal governments. Upon graduation, scholarship recipients are required to work for a federal, state, local, or tribal government organization in a position related to cybersecurity. The Department spoke to students from SFS about the Department's internship and upcoming employment opportunities. Over 100 students stopped by to learn about the Department's cybersecurity initiatives and how their interests, knowledge, skills, and abilities aligned with future employment opportunities. OCIO continued to support the SFS program during COVID-19 by virtually onboarding a student internship team of eight students who performed a gap analysis, provided recommendations, and aided with next steps for adopting a Zero Trust Architecture environment at the Department.

- OCIO removed and blocked the Zoom video teleconferencing software across the enterprise after increased reports of security vulnerabilities. After thorough review of the risks associated with Zoom to Department users, updated guidance and notifications were communicated, allowing the use of Zoom for external hosted meetings with the understanding that there was no expectation of privacy, and meeting contents could be made public.

- OCIO nominated Subject Matter Experts (SMEs) to support the DHS Supply Chain Risk Management initiative, C-SCRM Cybersecurity Standards Innovation Group (CyberSIG). The SMEs contribute as key members of the CyberSIG under the sponsorship of the General Services Administration and OMB. The CyberSIG provides input into capabilities and requirements that will be used for C-SCRM government wide shared services.

- OCIO established initial operating capabilities in support of standing-up the Department's Information and Communications Technology SCRM program. An inter-agency agreement with the Department of Energy was established to use their operationalized enterprise SCRM program to help identify and reduce potential risks associated with third party vendor relationships. Through this shared service, the Department will receive vendor-specific risk assessment services for our information systems and our vendors.
- OCIO completed an engagement with the National Institute of Standards and Technology's (NIST) Security and Privacy Implementation Collaboration Tiger Team to integrate cybersecurity and privacy more effectively across government and to promote collaborative working relationships between cybersecurity and privacy, regardless of organizational structure/reporting. As a result of this engagement, NIST determined they will not include the collaboration index in revision 5 but will instead develop a template of the index as a supplemental resource for individualized agency use.

FORWARD-LOOKING INFORMATION

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

ENTERPRISE RISK MANAGEMENT

The Department's Enterprise Risk Management (ERM) program supports agency-wide efforts to maximize the Department's value to students and taxpayers through achievement of strategic goals and objectives. The Department's ERM program strategically focuses on the complete spectrum of the organization's significant risks and the combined impact of those risks as an interrelated portfolio rather than simply addressing risks within silos. This coordinated approach leverages data and analytical solutions to identify, measure, and assess challenges related to mission delivery and resource management. Through ERM, the Department seeks to embed a systematic and deliberate view of risk into key management practices, ultimately yielding more effective performance and operational outcomes. 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 took significant steps to further develop the ERM program by establishing the Office of Enterprise Data Analytics and Risk Management (OEDARM), within the Office of Finance and Operations (OFO), to direct the agency's overall ERM strategy and formally align ERM and internal controls processes. OEDARM leadership established a formal Enterprise Risk Management Working Group (ERMWG) with senior representation across the agency to further solidify the Department's ERM governance structure. The ERMWG helped to conduct coordinated risk assessments and incorporated the risks highlighted or exacerbated by the COVID-19 pandemic into short- and long-term risk planning. OEDARM leveraged partnerships with agency leaders to identify, measure, and assess challenges related to mission delivery and develop coordinated, actionable response plans.

OEDARM leadership actively sought to enhance strategic partnerships with ERM colleagues across the government as well as with Department's own Office of Inspector General. To better understand how the Department's ERM program has evolved over time, the Department enrolled in the Office of Management and Budget's Pilot to validate the Federal ERM Maturity Model V1.0, a pilot that will extend through FY 2021. Through the pilot, the Department seeks to 1) test, assess, and validate sections or components of the Model for its iterative refinement; and 2) assess the maturity of the Department's own ERM program. Evaluation will focus on an assessment of the Model's operational viability and the influence of the Model on the Department's risk-informed culture—including executive engagement and resourcing processes—with a goal of identifying potential improvements to the Model.

Throughout FY 2021, the Department plans to further integrate ERM with key management processes to ensure risk indicators and considerations inform budget formulation, strategic planning, and performance management. OEDARM seeks to support a culture of continuous improvement within the Department—where data and awareness of enterprise risk are used to objectively inform strategic and operational decisions and optimize agency performance. To that end, in FY 2021, OEDARM plans to develop and implement a comprehensive ERM training program for all levels of the organization as well as to enhance digital tools for collecting, analyzing, and reporting risk data to promote transparency and accountability across the Department. In light of the current COVID-19 pandemic, the Department has intentionally shifted to an even more comprehensive, strategic approach to risk management—one that seamlessly considers national health emergencies or other significant crises that could adversely impact continuity of operations.

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 describes (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 having a college degree remains high,[1] some students leave school poorly equipped to manage their debt.

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

Recent trends in student loan repayment data show that:

- Nearly 70 percent of the Direct Loan portfolio is in administrative forbearance, the suspended payment status provided to students through the *CARES Act*.
- As of June 2020, nearly 8.2 million Direct Loan recipients were enrolled in IDR plans, representing a 7 percent increase from June 2019 and a 16 percent increase from June 2018. Overall, more than 50 percent of Direct Loan dollars and 32 percent of borrowers in repayment are enrolled in an IDR plan.

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

- Continue conducting outreach efforts to inform student loan borrowers of their repayment options before the emergency loan relief measures expire on December 31, 2020.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Generation Federal Student Aid (Next Gen FSA), see page 33.
- Continue to support the development of additional tools, such as the College Scorecard and Financial Aid Shopping Sheet, to increase transparency around higher education costs and outcomes that may help students and families make informed decisions before college enrollment.

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

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 disbursements and collections associated with a cohort of loans 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, described below, that make estimating lifetime program costs a difficult task.

Legislative, Regulatory, and Policy Risk

There are inherent risks to estimating future lifetime disbursements and collections for a cohort stemming from legislative, regulatory, or administrative actions. For instance, the cost structure of the Direct Loan program may be significantly altered. In addition, the effects on financial modeling and estimation associated with recent legislative, regulatory, and policy action is difficult to interpret given the lack of actual trend data availability. Some examples of current risks include the following:

CARES Act and Presidential Memorandum ("Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic"): The *CARES Act* provided emergency relief measures in the Direct Loan program, including suspending loan payments, halting collections on defaulted loans, and setting interest rates to 0 percent through September 30, 2020. On August 8, 2020, the President directed the Secretary to continue these measures through December 31, 2020. These actions have largely insulated federal student loan performance from economic disruption caused by the coronavirus pandemic, while at the same time reducing the amount of loan repayments being remitted to the Department of Education. As the pandemic is ongoing, there is great uncertainty regarding cost estimates as future legislative and administrative actions could extend these emergency relief measures past December 31, 2020.

Income-Driven Repayment Plans: Without consideration of impacts from the pandemic, IDR plans tend to be more costly to the government than non-IDR plans. For the 2020 loan cohort, it is estimated that the government will recover 40 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 (and the corresponding behavioral dynamics driving selection of plans) also impact the overall cost of loans under each plan. In general, the proliferation of IDR plans has made IDR terms more generous and made the plans available to a greater number of borrowers; however, these plans are traditionally more costly to the government. Also, having more repayment plan options complicates repayment plan selection, since the tradeoff decisions when selecting the 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 are not required to apply for the program or provide any supporting documentation on their employment until after having made the 120 qualifying monthly payments, and data on actual PSLF forgiveness remains rather limited, as borrowers first became eligible in FY 2018.

Data on approved PSLF applications first became available in FY 2018 since borrowers first became eligible for PSLF loan forgiveness starting October 1, 2017, after having made 120 qualifying payments. As of September 30, 2020, the total number of borrowers who received forgiveness totaled 3,469. The value of this forgiveness totaled $260.49 million. Despite the relatively modest numbers 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, 2020, the number of borrowers with certified employment totaled 1,357,699. 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. In addition, many borrowers who file employment certification forms early in their careers may also move into private sector employment before completing the 10 years of qualifying payments and thus may (a) never apply for forgiveness or (b) apply for forgiveness much later after returning to public service work. The *Consolidated Appropriations Act*, FY 2018, and the *Department of Education Appropriations Act*, FY 2019, each provided $350 million toward Temporary Expanded Public Service Loan Forgiveness (TEPSLF) for borrowers who met eligibility for public service employment but were not enrolled in a qualified repayment plan. The *Consolidated Appropriations Act*, FY 2020, provided $50 million for TEPSLF. Future congressional action that may affect eligibility for PSLF continues to be an area of uncertainty. Lastly, although the Department continues to remain informed on and manage the risk associated with estimating participation in this program, uncertainty remains about further borrower outreach to boost participation in the PSLF program.

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 significantly large number of borrower-level events and future economic factors that heavily impact the ultimate cost of student loans. For example, assumptions that need to be estimated for loans originating in FY 2020 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 loan discharge, borrower defense to repayment, etc.); whether the loan will go into deferment or forbearance; whether the loan will go into default and, if so, what collections will be received on the defaulted loan; and, if the loan is in an IDR plan, what the borrower's employment (public sector or not) and income and family status will be over the next 25 years. These projections are generally made based on historical data about borrower characteristics and behavior, which are more difficult to estimate during times of unprecedented uncertainty facing students and borrowers in repayment plans today. 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 2020. 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.

Macroeconomic Risk

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

In 2020, the coronavirus pandemic caused widespread disruption to the American economy. The emergency relief measures provided by Congress and the President resulted in flexibilities for federal student loan borrowers, preventing spikes in delinquency and default rates. Involuntary loan collections from wage garnishment, tax refund reductions, and reductions of federal benefits such as Social Security are also suspended. However, the ultimate impact of the pandemic on long-term Direct Loan program costs is subject to significant uncertainty and will depend on, among other things, short and long-term unemployment, economic growth trends, and potential structural changes in the overall economy and job markets. Some types of macroeconomic risk are inherent to student loan cost estimation, and the Department analyzes them regularly—though some of these risks have been exacerbated by the unprecedented worldwide pandemic. New risks have also developed due to the conditions surrounding the pandemic. Specific examples of macroeconomic risk include:

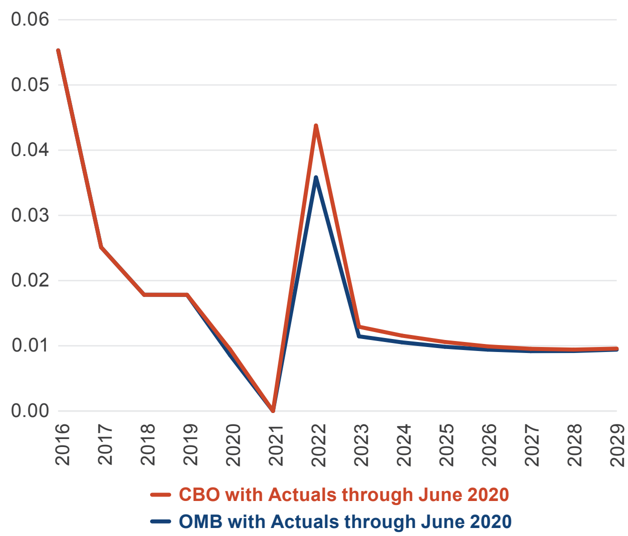
Economic Assumptions: As part of its technical re-estimate process for the financial statement re-estimates, the Department updates economic assumptions used to calculate forecasted borrower cash flows. The Department obtains the information used to update economic assumptions from the OMB. OMB typically provides an economic assumption package for Mid-Session Review (MSR) which updates the economic assumptions used for the President's budget in November of the previous year. The Department historically has used the MSR assumptions for calculation of financial statement re-estimates.

OMB did not release a MSR economic assumptions package in FY 2020, and no official guidance was issued to use alternative assumptions. Consequently, the Department explored the possibility of using economic factors from other sources, including, but not limited to, the Congressional Budget Office (CBO). Ultimately, the Department made the decision after extensive consultations with Education leadership and OMB to calculate the FY 2020 financial statement re-estimate using the President's Budget 2021 assumptions (OMB assumptions). Factors contributing to this decision include the fact that any available economic projections have a high degree of uncertainty due to the uniqueness of the potential economic conditions caused by the pandemic. In addition, there is little historical data comparable to the current crisis that can be used to extrapolate and adjust student loan assumptions. Finally, current legislation and the presidential memorandum (i.e., the *CARES Act*) provided temporary relief to student loan borrowers through December 31, 2020; as a result, there is no meaningful data on the impact of current economic conditions on student loan performance. Alternatively, the Department conducted targeted sensitivity analysis to address potential economic impacts of the pandemic.

The Department conducts sensitivity analyses as one way to assess the degree of uncertainty around the economic assumptions. In the analysis reported here, the Department replaced the most important inputs from the President's Budget 2021 economic assumptions used in the models with the numbers from CBO's July 2020 economic package. The following examples show the projections of cohorts 1994-2019, where one specific assumption is varied from the assumption used in the financial statement re-estimate.

The monthly unemployment rate is an assumption used in the default projection model. For the sensitivity analysis, the CBO projected quarterly unemployment rate assumptions were used after June of 2020. Actual data from the Bureau of Labor Statistics was available for unemployment prior to June 2020; therefore, the rates used in the financial statement re-estimate do not differ from those used in the sensitivity analysis for that timeframe. Changing this assumption resulted in a projected increase to the re-estimate of $3.7 billion. The chart below shows the changes to the default rate for a sub population of loans.

Figure 13. Default Rates Using Different Unemployment Rate Assumptions
(Subsidized Stafford Cohort 2012 Example)
4 Year Junior/Senior Standard Enter Repay=4



The IDR model is used to develop cash flows for Direct Loans being repaid under any of the IDR repayment plans, including the income contingent repayment (ICR) plan, the income based repayment (IBR) plan, the Pay as You Earn (PAYE) plan, and the Revised Pay as You Earn (REPAYE) plan. The IDR model also uses information from the OMB economic package on the Consumer Price Index (CPI-U) as a factor for borrower income inflation, balances, and poverty guidelines. A sensitivity analysis that replaces the CPI-U with the assumptions from the July CBO estimates resulted in a projected increase to the re-estimate of $1.7 billion.

Interest Rates: Direct Loan program cost 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 the Department's 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 Direct Loan program cost.

Unemployment: Unemployment rates have been shown to affect both student loan volume and student loan repayment decisions and behavior. During periods of economic downturn, displaced workers have tended to pursue higher education opportunities in high numbers as a way to strengthen their credentials, change career paths, or improve future employment opportunities. While the coronavirus pandemic has been accompanied by a spike in unemployment (at least in the short term), the impact on student loan volume has been more mixed, as higher education has struggled to provide students the level of instruction they were receiving pre-pandemic. The exact impact on the cost estimates from the current recession remains a significant area of uncertainty. For instance, higher short-term unemployment rates could have an impact on future collections of already defaulted loans by increasing the risk of fewer collections from wage garnishment and tax refund reductions. A sensitivity analysis examining the impact of a 5 percent reduction in default collections for three years, starting in the second quarter of FY 2021 when the pandemic relief provisions are set to expire, resulted in a projected increase in the re-estimate of $1 billion.

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 estimated costs. The Department will closely monitor impacts to wage growth as a result of the pandemic. Data is not available for the FY 2020 financial statements, and the ultimate cost may not be known for some time. The estimates are sensitive to slight changes in model assumptions. For instance, a 10 percentage point increase in borrowers reporting zero discretionary income from FY 2020 to FY 2022 and a 5 percentage point increase for FY 2023 to FY 2025 would result in a projected increase to the re-estimate of $2.9 billion. The Department continues to manage risks in this area by building its knowledge about its borrower base and remaining informed of labor market statistics.

Operational Risk

Unforeseen issues in administering and servicing student loans may impact the cost estimates. For example, in December 2019, the President signed the Fostering Undergraduate Talent by Unlocking Resources for Education Act (FUTURE Act), which amends Section 6103 of the Internal Revenue Code to allow the IRS to share taxpayer data directly with the Department. Once implemented, this will make it easier for borrowers to stay enrolled in an IDR plan by allowing automated data sharing between federal agencies and eliminating the need for borrowers to annually recertify their income. A timeline for implementation of the *FUTURE Act* is uncertain, which can make predicting the impact on student loan cost estimates a challenge. The Department invests significant resources to ensure continuous improvements in cybersecurity defenses based on current and emerging threats. Despite this investment, security threats to operations are ongoing and incidents may happen without warning, potentially disrupting student loan administration and ultimately borrower cash flows, which can be impacted by the timing of when collections or disbursements are processed. 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 $115 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 5,600 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 manages one of the largest consumer loan portfolios in the country, valued at $1.6 trillion.[2] It is critical that we provide an environment that provides customers with the services and experiences that they expect and the outcomes that they deserve. The Next Generation Federal Student Aid (Next Gen FSA) initiative is enabling 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, to improving the participation experiences and oversight of our partners at postsecondary institutions.

Legacy 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 how to apply for and maintain their aid eligibility, which repayment options they qualify for, and the financial implications of their student debt. Additionally, operational complexities and out-of-date contracts result in higher administrative costs and hinder effective oversight of our vendors.

Next Gen FSA Environment

Multiple websites, mobile applications, contact centers, and other customer interfaces have been combined into a simplified, consistent, and engaging customer experience, which will be enhanced by standardized training and tools. Since December 2019, FSA has launched a single front door on the web, Studentaid.gov, and has launched multiple modern self-service and consumer information tools that help our customers understand the aid they have received, their remaining eligibility, and how they can manage loan repayment in a way that meets their goals. While FSA's digital platform helps customers cut through the information clutter and access robust self-service, other components of Next Gen will bring onboard multiple contact centers that provide customers and partners with support across the entire student aid lifecycle, all under the FSA brand.

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 application and loan processing and management of customer accounts. The contracts that bring onboard these new systems will include objective performance standards and accountability measures to ensure customers receive accurate, timely responses to their inquiries. These new technologies will also integrate modern cybersecurity protections, and a new enterprise-wide data analytics platform will drive improved data and governance standards.

Solicitation and Procurement Process

In January 2019, FSA awarded a major contract for Digital and Customer Care, which provides FSA with new digital, marketing and communications, and customer care platforms that enable the implementation of a modern **StudentAid.gov** and myStudentAid mobile application, as well as improved tools for customer outreach. In June 2020, FSA awarded five Business Process Operations contracts, which bring on board vendors that will eventually provide enterprise-wide contact centers and back-office processing for all of FSA's customers and institutional partners. In October 2020, FSA released a solicitation for the Interim Servicing Solution (ISS) which will provide the core processing

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

system, fulfillment, and labor servicing for the federally managed loan portfolio.

The current Title IV Additional Servicing (TIVAS) and Not-for-Profit indefinite-delivery, indefinite-quantity contracts may be extended through December 2021 and March 2022, respectively. ISS will replace the current TIVAS and Not-for-Profit relationship upon award and migration of borrowers. In the event of a delay in the ISS implementation, the appropriate contractual actions will be taken to ensure continued servicing capabilities are maintained. 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 requirements in the *Foundations for Evidence-Based Policymaking Act* (*Evidence Act*; **P.L. 115-435**) and the Federal Data Strategy. This section highlights three initiatives intended to help the Department realize the power of data in daily operations and national policy: (1) the development of an ED Data Strategy; (2) priorities for Open Data; and (3) a new focus for the Evidence Leadership Group in advising the Evaluation Officer and developing the Department's learning agenda.

Data Strategy

The 22020 Action Plan under the Federal Data Strategy calls for agencies to "put in place a data strategy or road map." The Agency-wide Data Governance Board (DGB) has initiated a process to develop the Department's Data Strategy in order to realize the full potential of data to improve education outcomes and to lead the nation in a new era of evidence-based policy insights and data driven operations. This Department-wide effort will include agency-wide discussions about data priorities that will help improve data maturity and will focus on the Department's capabilities to leverage data, operationalize and optimize data governance, and drive cultural change for the benefit of all stakeholders. It will build on strengths, weaknesses, and opportunities within the Department to 1) strengthen agency-wide data governance, 2) build human capacity to leverage data, 3) advance the strategic use of data, and 4) improve data access, transparency, and privacy.

Open Data

The *Evidence Act* requires agencies to make data "open by default." The Department is planning to develop, release, and execute the Act's required open data plan consistent with OMB guidance. The Department will balance privacy and security with the open data mandate and the priority of the Department to enable broader public use of data paid for by its citizens. The Department is also developing an Open Data Platform (ODP), a central repository for its data assets. Recently released in beta, it is a fully featured, robust, and highly scalable data repository that maintains all data assets in a fully searchable catalog. As required by the *Evidence Act*, the Department will build towards a comprehensive data inventory by expanding on the ODP and increasing its catalogued data assets for both externally available open data and internal sources subject to open data priorities, reviewing all data assets for release consistent with *Evidence Act* mandates and exclusions, and incrementally expanding the number of Department open data assets listed in in the Federal Data Catalogue.

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.

As required by the *Evidence Act*, the Department submitted its Draft Learning Agenda to OMB at the end of fiscal year 2020. The Learning Agenda was developed in consultation with the Department's Evidence Leadership Group (ELG). The ELG is co-chaired by the EO and the Director of the Department's Grants Policy Office (GPO) and includes members from the Department's primary grant-making offices as well as mission-support units, such as the Department's Budget Service, and Office of General Counsel, and ex-officio representatives from the Office of the Chief Data Officer, the Statistical Official, and the Performance Improvement Officer. Feedback from OMB and consultation with stakeholders across government, education, and the general public will be used to inform the

Department's Final Learning Agenda to be submitted to OMB at the end of fiscal year 2021.

In addition to advising the EO on the development of the Draft Learning Agenda, the ELG advises Department leaders on how to support the capacity of ED staff to make better use of data and evidence. GPO, led by the ELG co-chair, has spearheaded a range of internal training opportunities for Department staff to bolster the use of the Secretary's policy priorities, including the use of evidence in program design, and to consider how the Department's grantmaking activities can build evidence for improvement in the future. This work, done in close collaboration with partners across the Department, will be informed in fiscal year 2021 by the recently-completed Interim Capacity Assessment, which included a systematic effort to collect information about staff members' capacity to use evidence in their day-to-day work.

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 spending. The TBMS project will allow OCIO to communicate the cost drivers and 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 Department of Education is refining the TBM effort to: 1) provide accurate cost analysis and accounting of operations and services to improve tracking cost variances; 2) provide ad hoc reports to stakeholders on IT spending; and 3) contextualize ED's internal resource costs with real world data to inform decisions. Ultimately, the goal is 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.
- Prepare accurate pricing through a show-back model to client offices for the services provided and consumed by each client office.

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FINANCIAL SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am honored to join Secretary DeVos in issuing our Fiscal Year (FY) 2020 Agency Financial Report (AFR) for the Department of Education. The Department is committed to promoting student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department's Office of Finance and Operations (OFO) strives to cultivate a financial management environment that drives innovation, ensures accountability, and effectively manages risk related to the resources entrusted to the Department.

For the 19th consecutive year, we received an unmodified (clean) audit opinion on our financial statements from our independent auditor. A clean opinion confirms that our financial statements are presented fairly, in all material respects, and conform with generally accepted accounting principles. The internal control report identified one material weakness, "Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement." The Department remains committed to evaluating its internal controls for improvement opportunities. The "Financial Section" of this report provides detailed information about the Department's financial statements and activities that contributed to the audit opinion.

OFO provides stewardship and accountability of agency funds by leveraging new technologies to modernize outdated business processes, developing financial management policies and procedures, establishing and overseeing internal controls, and producing high-quality financial and managerial reports. Despite the challenges associated with the COVID-19 pandemic, the agency was able to maintain effective financial management operations even in a remote work environment.

We also received external validation of our sustained efforts to produce user-friendly, transparent financial reporting by earning the Department's 16th award of the Association of Government Accountants' *Certificate of Excellence in Accountability Reporting*. Federal financial reports must pass a rigorous independent review against a comprehensive set of standards to earn this prestigious recognition, which is the highest award bestowed for federal financial reporting.

The Department's achievements illustrate the remarkable effort and dedication of our employees and partners. We will continue to serve as accountable and committed stewards supporting the Department's mission on behalf of the public while enhancing our financial management capabilities.

DL Carter

Denise Carter

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

November 16, 2020

ABOUT THE FINANCIAL SECTION

In FY 2020, 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. COVID-19 Activity

Note 12. Statements of Budgetary Resources

Note 13. Reconciliation of Net Cost to Net Outlays

Note 14. Commitments and Contingencies

Note 15. 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, 2020, and September 30, 2019.

REPORT OF THE INDEPENDENT AUDITORS

The results of the audit of the Department's financial statements for FY 2020 and FY 2019 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, 2020, and September 30, 2019, and for the years then ended.

United States Department of Education
Consolidated Balance Sheets
As of September 30, 2020 and September 30, 2019
(Dollars in Millions)

	FY 2020	FY 2019
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 136,015	$ 104,918
Other Intragovernmental Assets (Note 4)	124	66
Total Intragovernmental	136,139	104,984
Public:		
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	1,100,544	1,123,707
FFEL Program	67,380	76,767
Other Credit Programs for Higher Education	3,107	2,982
Other Assets (Note 4)	2,216	2,256
Total Public	1,173,247	1,205,712
Total Assets	**$ 1,309,386**	**$ 1,310,696**
LIABILITIES (Note 6)		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 1,160,099	$ 1,192,138
FFEL Program	88,986	94,671
Other Credit Programs for Higher Education	2,302	2,196
Subsidy Due to Treasury General Fund (Note 8)	3,298	10,302
Other Intragovernmental Liabilities (Note 9)	2,612	2,686
Total Intragovernmental	1,257,297	1,301,993
Public:		
Other Liabilities (Note 9)	7,158	12,213
Total Liabilities	**$ 1,264,455**	**$ 1,314,206**
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	$ 99,314	$ 72,757
Cumulative Results of Operations	(54,383)	(76,267)
Total Net Position	**$ 44,931**	**$ (3,510)**
Total Liabilities and Net Position	**$ 1,309,386**	**$ 1,310,696**

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, 2020 and September 30, 2019
(Dollars in Millions)

		FY 2020		FY 2019
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS				
Gross Costs	$	40,145	$	38,732
Earned Revenue		(129)		(42)
Net Program Costs	**$**	**40,016**	**$**	**38,690**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY				
Direct Loan Program				
Gross Costs	$	137,303	$	96,696
Earned Revenue		(34,970)		(33,817)
Net Cost of Direct Loan Program	**$**	**102,333**	**$**	**62,879**
FFEL Program				
Gross Costs	$	5,419	$	15,759
Earned Revenue		(3,108)		(2,870)
Net Cost of FFEL Program	**$**	**2,311**	**$**	**12,889**
Other Credit Programs for Higher Education				
Gross Costs	$	144	$	121
Earned Revenue		(1,368)		(171)
Net Cost of Other Credit Programs for Higher Education	**$**	**(1,224)**	**$**	**(50)**
Non-Credit Programs				
Gross Costs	$	45,987	$	40,331
Earned Revenue		(5)		(10)
Net Cost for Non-Credit Programs	**$**	**45,982**	**$**	**40,321**
Net Program Costs	**$**	**149,402**	**$**	**116,039**
Total Program Gross Costs	**$**	**228,998**	**$**	**191,639**
Total Program Earned Revenue	**$**	**(39,580)**	**$**	**(36,910)**
Net Cost of Operations (Notes 10 & 13)	**$**	**189,418**	**$**	**154,729**

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, 2020 and September 30, 2019
(Dollars in Millions)

	FY 2020		FY 2019	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning Balances	**$ 72,757**	**$ (76,267)**	**$ 72,166**	**$ (23,360)**
Budgetary Financing Sources				
Appropriations Received	$ 245,237	$ -	$ 122,058	$ -
Appropriations Transferred - In/Out	(154)	-	-	-
Other Adjustments (Rescissions, etc.)	(871)	-	(4,007)	-
Appropriations Used	(217,655)	217,655	(117,460)	117,460
Nonexchange Revenue	-	11	-	15
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others	-	30	-	37
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(6,394)	-	(15,690)
Total Financing Sources	**$ 26,557**	**$ 211,302**	**$ 591**	**$ 101,822**
Net Cost of Operations	**$ -**	**$ (189,418)**	**$ -**	**$ (154,729)**
Net Change	**$ 26,557**	**$ 21,884**	**$ 591**	**$ (52,907)**
Net Position	**$ 99,314**	**$ (54,383)**	**$ 72,757**	**$ (76,267)**

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, 2020 and September 30, 2019
(Dollars in Millions)

	FY 2020 Budgetary	FY 2020 Non-Budgetary Credit Reform Financing Accounts	FY 2019 Budgetary	FY 2019 Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	$ 17,756	$ 9,119	$ 18,231	$ 15,027
Appropriations (Discretionary and Mandatory)	244,680	350	118,519	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	135,589	-	148,493
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	191	65,762	424	57,521
Total Budgetary Resources	**$ 262,627**	**$ 210,820**	**$ 137,174**	**$ 221,041**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$ 242,724	$ 188,098	$ 120,400	$ 202,717
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	16,446	-	13,581	-
Unapportioned, Unexpired Accounts	1,822	22,722	1,883	18,324
Unexpired Unobligated Balance, End of Year	**$ 18,268**	**$ 22,722**	**$ 15,464**	**$ 18,324**
Expired Unobligated Balance, End of Year	1,635	-	1,310	-
Unobligated Balance, End of Year (Total)	**$ 19,903**	**$ 22,722**	**$ 16,774**	**$ 18,324**
Total Status of Budgetary Resources	**$ 262,627**	**$ 210,820**	**$ 137,174**	**$ 221,041**
OUTLAYS, NET, AND DISBURSEMENTS, NET				
Outlays, Net (Discretionary and Mandatory)	$ 218,025		$ 116,636	
Distributed Offsetting Receipts (-) (Note 12)	(13,610)		(12,273)	
Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13)	**$ 204,415**		**$ 104,363**	
Disbursements, Net (Total) (Mandatory)		**$ (42,946)**		**$ 40,102**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019

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 a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the Department may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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 *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010*, 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 (IHEs) 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*, 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)

COVID-19. Congress has passed three coronavirus disease 2019 (COVID-19) relief bills: the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020: the Families First Coronavirus Response Act: and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The *CARES Act* totaled roughly $2 trillion dollars and included $31 billion for educational purposes. The Department was tasked with promptly disbursing these funds through a variety of grant programs, while ensuring the transparency and accountability of every dollar spent.

The largest component of this funding established a $30.75 billion state stabilization fund for K-12 and higher education. This fund is comprised of categories including (1) the Elementary and Secondary School Emergency Relief Fund, (2) the Higher Education Emergency Relief Fund, (3) the Governor's Emergency Education Relief Fund, and (4) funds provided for Minority Serving Institutions (MSIs), Historically Black Colleges and Universities, and Schools serving low-income students. All of the Education Stabilization Fund is being distributed to recipients through various grant programs. The Department transferred $154 million of the fund to the Department of the Interior to be administered by the Bureau of Indian Education. (See Notes 3, 10, & 11)

The *CARES Act* also provides support for student loan borrowers primarily by suspending nearly all federal loan payments until September 30, interest free. The Department extended certain provisions of the student loan deferrals not covered by the *CARES Act* to defaulted guaranteed loans held by the Department. The Administration subsequently issued a Presidential Memorandum which extended the student loan deferrals for an additional three months through December 31, 2020. The Department also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student debt provisions of the *CARES Act* and the Presidential Memorandum are provided through indefinite appropriations. (See Notes 5, 10 and 11)

Other regulatory flexibilities and incentives provided in the *CARES Act* to help students through COVID-19 include:

- Federal Supplemental Educational Opportunity Grants (SEOG) to provide emergency aid to students.
- Work-study payments, which will continue even if students can no longer work on-site.
- Pell Grants, financial aid, and loans originated for this term, which students who have had to leave college campuses will not have to pay back. Moreover, none of this aid will count against students' financial aid lifetime limits.
- Waiving Satisfactory Academic Progress requirements will help to ensure that students do not lose academic standing and the ability to receive federal financial student aid.
- Tax credits that incentivize employers to help pay for student loans.

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 education agencies (SEAs) and local educational agencies (LEAs) 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 LEAs 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 LEAs and IHEs 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 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.

Subsidy cost 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 to the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates to previous cost estimates based on new legislation or other government actions that change the terms of existing loans (loan modifications) which alter the estimated subsidy cost and the present value of outstanding loans. Loan modifications can also include modification adjustment gains and losses to account for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

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 12 and 13)

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 8.2 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, Federal Family Education Loan Program, and D, Federal Direct Student Loan, 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 12)

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 14)

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 30th, 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)

IMPUTED 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, excluding 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 with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. 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 from which the underlying legislative authority, appropriations, and budget apportionments are derived.

The Department is a party to allocation transfers as a parent entity to the Department of the Interior and receives allocation transfers as a child entity from the Department of Health and Human Services.

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, 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 modeling methodology is essential to the financial reporting and budgeting processes so that the Department can forecast the costs of various program options when making policy decisions. (See Note 5)

RECLASSIFICATIONS

The following reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources.

- The FY 2019 Outlays, Net line of Combined Statements of Budgetary Resources was reclassified to present net disbursements associated with credit financing accounts on a separate Disbursements, Net line to conform to FY 2020 changes in OMB Circular A-136.
- Note 13, Reconciliation of Net Cost to Net Outlays, was reclassified to exclude the credit financing account net disbursement amount that was reclassified on the Combined Statements of Budgetary Resources to conform to FY 2020 changes in OMB Circular A-136.

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Fund Balance with Treasury	$ 233	$ -	$ 294	$ -
Credit Program Receivables, Net	-	633	-	607
Other Assets				
Guaranty Agencies' Federal Funds	-	1,943	-	1,956
Accounts Receivable, Net	-	42	-	84
Total Non-Entity Assets	**233**	**2,618**	**294**	**2,647**
Entity Assets	135,906	1,170,629	104,690	1,203,065
Total Assets	**$ 136,139**	**$ 1,173,247**	**$ 104,984**	**$ 1,205,712**

The Department's FY 2020 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 (74.2 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (24.2 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)

	2020			2019
	COVID-19 Funds	All Other Funds	Total	Total
Unobligated Balance				
Available	$ 672	$ 15,774	$ 16,446	$ 13,578
Unavailable	-	24,236	24,236	19,564
Obligated Balance, Not Disbursed	18,944	124,403	143,347	127,291
Authority Temporarily Precluded from Obligation	-	-	-	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	-	(48,230)	(48,230)	(55,845)
Other	-	216	216	329
Total Fund Balance with Treasury	**$ 19,616**	**$ 116,399**	**$ 136,015**	**$ 104,918**

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 ($24.2 billion) differs from unapportioned and expired amounts on the SBR ($26.1 billion) due to the Guaranty Agencies' Federal Funds ($1.9 billion).

In FY 2020 and FY 2019, $305 and $405 million, respectively, of unused funds from canceled appropriations were returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines (see Note 12).

NOTE 4. Other Assets

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,943	$ -	$ 1,956
Accounts Receivable, Net	3	234	2	251
Advances	120	32	64	35
Property and Equipment, Net	-	6	-	8
Other	1	1	-	6
Total Other Assets	**$ 124**	**$ 2,216**	**$ 66**	**$ 2,256**

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, 2020 related to criminal restitutions totaled $114 million and ($102) million, respectively.

Changes in property and equipment balances for the current year were as follows:

Property and Equipment
(Dollars in Millions)

	2020		
	Acquisition Value	Accumulated Depreciation	Net
Balance Beginning of the Year	$ 169	$ (161)	$ 8
Dispositions	(2)	1	(1)
Depreciation Expense	-	(1)	(1)
Balance At End of Year	**$ 167**	**(161)**	**6**

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
2020				
Direct Loan Program	$ 1,224,816	$ 92,132	$ (216,404)	$ 1,100,544
FFEL Program	84,765	24,110	(41,495)	67,380
Other Credit Programs for Higher Education	3,364	373	(630)	3,107
Total Credit Program Receivables	**$ 1,312,945**	**$ 116,615**	**$ (258,529)**	**$ 1,171,031**
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 Program Receivables	**$ 1,258,326**	**$ 105,925**	**$ (160,795)**	**$ 1,203,456**

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. The emergency relief measures provided by Congress and the Administration in response to the coronavirus pandemic were recorded as loan modifications and are described in each of the programs below. Per OMB guidance, loan modifications were calculated using the FY 2020 President's Budget formulation discount rates. The net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

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 IHEs 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 $1,317.0 billion in gross loan receivables, as of September 30, 2020, $100.3 billion (7.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $99.7 billion (8.0 percent) as of September 30, 2019.

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

	2020	2019
Stafford	19,126	$ 19,984
Unsubsidized Stafford	46,077	48,142
PLUS	21,735	22,709
Consolidation	30,427	39,829
Total Disbursements	**$ 117,365**	**$ 130,664**

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 $30.4 billion during FY 2020 and $39.8 billion during FY 2019. 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.

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

	2020	2019
Interest Expense on Treasury Borrowing	$ 34,705	$ 33,817
Total Interest Expense	**$ 34,705**	**$ 33,817**
Interest Revenue from the Public	28,161	59,815
Interest Revenue on Uninvested Funds	4,786	4,082
Administrative Fees	163	210
Amortization of Subsidy	1,595	(30,290)
Total Revenues	**$ 34,705**	**$ 33,817**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2020	2019
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 19,022	$ 11,440
Defaults, Net of Recoveries	1,925	1,862
Fees	(1,676)	(1,720)
Other	(14,131)	(14,563)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**5,140**	**(2,981)**
Modifications and Re-estimates		
Loan Modifications		
Modification Adjustment Transfer Gain	(265)	-
Modification Adjustment Transfer Loss	347	-
Loan Modifications	39,576	-
Total Loan Modifications	**39,658**	**-**
Net Upward Subsidy Re-estimates		
Interest Rate Re-estimates	(967)	(981)
Technical and Default Re-estimates	57,077	65,472
Total Net Upward Subsidy Re-estimates	**56,110**	**64,491**
Total Modifications and Re-estimates	95,768	64,491
Direct Loan Subsidy Expense	**$ 100,908**	**$ 61,510**

Subsidy Expense for Direct Loans Disbursed in the Current Year. The two major components of the total subsidy expense for direct loans disbursed in the current year (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.

Loan Modifications. Loan modifications for the Direct Loan program for FY 2020 included the following:

- *CARES Act*. The *CARES Act* automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans starting in March through September 30, 2020. The relief for borrowers resulted in an upward modification cost of $24.6 billion, with an additional $459 million for cancelled loans for students that did not complete the semester due to a qualifying emergency. There was a net positive $82 million modification adjustment transfer associated with this modification, bringing the total to $25.0 billion.

- Presidential Memorandum ("Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic"). On August 8, 2020, the Administration issued a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of $13.5 billion. There was a net negative $66 million modification adjustment transfer associated with this modification, bringing the total to $13.6 billion.

- Total and Permanent Disability. The Department recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of $1.0 billion. There was a net negative $98 million modification adjustment transfer associated with this modification, bringing the total to $1.1 billion.

Net Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2020 by $56.1 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2019). The re-estimate reflects the assumption updates and other changes described below.

In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, loan volume, and contract collection costs.

- IDR Model Changes (including PSLF). The Department completed a standard IDR data update to reflect the immediate prior cycle for defaults, prepayments and Death, Disability, and Bankruptcy (DDB). The DDB update includes adjustments for the Total Permanent Disability for Veterans regulation. In addition, an existing borrower income file was calibrated using an additional year of IDR application data through 2018. The additional year of borrower income data taken from IDR applications has been substantially lower than projected. As such, the Department reduced its projections of future borrower income by 35%, increasing costs associated with IDR. The Department also analyzed the actual PSLF approval rates and supplementary data. As a result of that analysis, the PSLF approval rate was adjusted downward for initial cohorts to better reflect the actual data. Trends indicate that there has been some improvement in PSLF approval rates over time as borrowers better understand the application process. PSLF estimates were revised to reflect the most recent borrower behavior and adjust the temporal element to ramp up PSLF forgiveness over time. The combined effect of these updates led to a net upward re-estimate of $35.5 billion.

- Repayment Plans. The Department updated the data and made an adjustment to exclude special consolidation of FFEL loans in FY 2012 and FY 2013 from the model. These loans are modeled separately and were less likely to enroll in income dependent repayment plans than typical consolidation loans. The combined effect of these changes led to a net upward re-estimate of $6.5 billion.

- Default. In addition to the adjustments for the *CARES Act*, the Department updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics through June 2020. The combined effect of these changes led to a net upward re-estimate of $1.8 billion.

- 2019 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 $4.8 billion for these current year assumption changes attributable to the FY 2019 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 $5.9 billion.

- Interactive Effects. The re-estimate includes a net upward re-estimate of $1.5 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.

Direct Loan Subsidy Rates—Cohort 2020

	Interest Differential	Defaults	Fees	Other	Total
Stafford	25.47%	2.61%	-1.06%	-12.99%	14.03%
Unsubsidized Stafford	19.27%	2.28%	-1.06%	-19.74%	0.75%
PLUS	8.16%	1.46%	-4.24%	-18.63%	-13.25%
Consolidation	14.70%	1.16%	0.00%	4.88%	20.74%
Weighted Average Total	**17.01%**	**1.88%**	**-1.33%**	**-11.66%**	**5.90%**

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

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior years cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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 Reconciliation of Allowance for Subsidy
(Dollars in Millions)

	2020	2019
Beginning Balance of Allowance for Subsidy	**$ 124,438**	**$ 40,663**
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	5,140	(2,981)
Adjustments		
Loan Modifications	39,658	-
Fees Received	1,609	1,693
Loans Written Off	(7,833)	(9,096)
Subsidy Allowance Amortization	(1,595)	30,290
Other Activities	(1,123)	(622)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**160,294**	**59,947**
Net Upward Subsidy Re-estimates	56,110	64,491
Ending Balance of Allowance for Subsidy	**$ 216,404**	**$ 124,438**

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 Income Driven 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.

Loans written off result from borrowers having died, becoming disabled, or declaring 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.

FEDERAL FAMILY EDUCATION LOAN PROGRAM.

FFEL was established in FY 1965 and is a guaranteed loan program. As a result of the *Student Aid and Fiscal Responsibility 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)

		2020
Outstanding Principal of Guaranteed Loans, Face Value	$	128.9
Amount of Outstanding Principal Guaranteed	$	128.9

As of September 30, 2020, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $128.9 billion.

Additionally, the FFEL program guarantees outstanding interest balances. As of September 30, 2020, the interest balances outstanding for guaranteed loans held by lenders was approximately $4.6 billion.

The Department's total FFEL program guarantees (principal and interest) are approximately $133.5 billion as of September 30, 2020. 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
2020				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,627	$ 5,809	$ (8,249)	$ 1,187
FFEL GSL Program (Post-1991)	33,057	9,121	(22,286)	19,892
Total Defaulted FFEL Guaranteed Loans	36,684	14,930	(30,535)	21,079
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	16,009	2,797	(4,102)	14,704
Loan Participation Purchase	30,683	6,005	(6,424)	30,264
ABCP Conduit	1,389	378	(434)	1,333
Total Acquired FFEL Loans	48,081	9,180	(10,960)	46,301
FFEL Program Loan Receivables	**$ 84,765**	**$ 24,110**	**$ (41,495)**	**$ 67,380**
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**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2020	2019
Loan Modification Costs		
FFEL Guaranteed Loan Program		
Net Modification Adjustment Transfer (Gain)/Loss	$ (9)	$ -
Loan Modifications	835	-
Total FFEL Guaranteed Loan Program Loan Modifications	**826**	**-**
Loan Purchase Commitment		
Net Modification Adjustment Transfer (Gain)/Loss	(7)	-
Loan Modifications	958	-
Total Loan Purchase Commitment Loan Modifications	**951**	**-**
Loan Participation Purchase		
Net Modification Adjustment Transfer (Gain)/Loss	(10)	-
Loan Modifications	1,658	-
Total Loan Participation Purchase Loan Modifications	**1,648**	**-**
Total Loan Modification Costs	**3,425**	**-**
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	(3,451)	6,866
Loan Purchase Commitment	802	2,144
Loan Participation Purchase	1,376	3,644
Total FFEL Program Subsidy Re-estimates	**(1,273)**	**12,654**
FFEL Program Subsidy Expense	**$ 2,152**	**$ 12,654**

Loan Modifications. Loan modifications for the FFEL Loan program for FY 2020 included the following:

- *CARES Act*. The *CARES Act* automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans, including loans purchased under ECASLA, starting in March through September 30, 2020. The relief for borrowers resulted in a net upward modification cost of $1,775 million that included a positive modification transfer of $15 million.

- Presidential Memorandum ("Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic"). On August 8, 2020, the Administration issued a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of $1,051 million that included a positive modification transfer of $9 million.

- Secretary's Discretion. The Department extended certain provisions of the student loan deferrals not covered by the *CARES Act* to defaulted guaranteed loans held by the Department, resulting in an upward modification cost of $492 million that included a positive modification adjustment transfer of $4 million.

- Total and Permanent Disability. The Department recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of $127 million across the FFEL and ECASLA programs.

Net Downward Subsidy Re-estimates. The FFEL subsidy re-estimate decreased subsidy expense in FY 2020 by $1.3 billion. The net downward re-estimates in these programs were due primarily to interest rates provided by OMB used in the calculation of special allowance payments, updated disability discharges, and prepayment rates.

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

	2020	2019
Beginning Balance of Post-1991 FFEL Loan Guarantee Liability	**$ 5,205**	**$ 2,591**
Adjustments		
Loan Modifications	826	-
Interest Supplements Paid	(757)	(1,332)
Claim Payments to Lenders	(4,285)	(5,583)
Fees Received	1,215	1,385
Interest on Accumulation on the Liability Balance	(1,064)	(1,096)
Other Activities	3,195	2,374
Net Upward/(Downward) Subsidy Re-estimates	(3,451)	6,866
Ending Balance of Post-1991 FFEL Loan Guarantee Liability	**884**	**5,205**
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	1	1
FFEL Liabilities for Loan Guarantees	**$ 885**	**$ 5,206**

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
2020				
Beginning Balance of Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**
Adjustments				
Loan Modifications	951	1,648	-	2,599
Subsidy Allowance Amortization	3	(89)	-	(86)
Loan Written Off	(140)	(271)	(16)	(427)
Other Activities	(45)	(83)	(5)	(133)
Ending Balance of Allowance for Subsidy Before Re-estimates	**$ 3,300**	**$ 5,048**	**$ 434**	**$ 8,782**
Net Upward Subsidy Re-estimates	802	1,376	-	2,178
Ending Balance of Allowance for Subsidy	**$ 4,102**	**$ 6,424**	**$ 434**	**$ 10,960**
2019				
Beginning Balance of Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
Adjustments				
Subsidy Allowance Amortization	571	1,027	52	1,650
Loan Written Off	(165)	(308)	(18)	(491)
Other Activities	(40)	(62)	(5)	(107)
Ending Balance of Allowance for Subsidy Before Re-estimates	**$ 387**	**$ 199**	**$ 455**	**$ 1,041**
Net Upward Subsidy Re-estimates	2,144	3,644	-	5,788
Ending Balance of Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**

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
2020				
Federal Perkins Loans	$ 615	$ 202	$ (184)	$ 633
TEACH Program Loans	764	88	(182)	670
HEAL Program Loans	396	29	(38)	387
Facilities Loan Programs	1,589	54	(226)	1,417
Total	**$ 3,364**	**$ 373**	**$ (630)**	**$ 3,107**
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**

Federal Perkins Loan Program. Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans cancelled.

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were utilized to make new loans to current students. The Department provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by the Department to reimburse schools for loan cancellations. The above schedule includes only Perkins loans which were assigned to the Department when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled $38 million and $80 million for FY 2020 and FY 2019, respectively.

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. Prior to the authority for new Perkins loans ending, collections made by the schools would go back into each school's Perkins fund to be utilized to make more loans. Schools are required to return to the Department the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to the Department on an annual basis. Schools returned $1,279 million and $10 million to the Department in FY 2020 and FY 2019, respectively, for the federal share of collected cash.

Schools will continue to service outstanding Perkins loans to recover the money they contributed to their Perkins funds for as long as it is feasible to do so or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to the Department and liquidate any final cash. Most recent data from the 2018-2019 reporting year shows a $5.2 billion outstanding principal balance on Perkins loans held by schools, and the Department's equity interest on this portfolio is $4.3 billion.

The amounts collected by the Department annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund (see Note 12).

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 relief for borrowers provided by the *CARES Act* and Executive Action loan deferrals resulted in upward modification costs of $11 million and $5 million, respectively. The regulatory action to provide Total and Permanent Disability discharges resulted in an upward modification of less than $0.1 millions.

TEACH Subsidy Rates—Cohort 2020

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	70.46%	0.35%	0.00%	-41.88%	28.93%

* The Other component reflects costs associated with loan cancellations and the interactive effects 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. The relief for borrowers provided by the Executive Action and the Department's extension of the *CARES Act* provisions for loan deferrals resulted in upward modification costs of $1 million and $2 million, respectively.

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 $453 million obligated to support near term lending as of September 30, 2020.

The *CARES Act* authorized the Secretary to grant a deferment to HBCU institutions that have loans under the HBCU Capital Financing for the duration of the national emergency period. The relief for HBCU institutions provided by the *CARES Act* resulted in an upward modification cost of $32 million.

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 IHEs for the construction, reconstruction, and renovation of housing, academic, and other educational facilities.

NOTE 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered by Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 47	$ -	$ 35
FECA Liabilities	2	13	3	11
Total Liabilities Not Covered by Budgetary Resources	**2**	**60**	**3**	**46**
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	1,451	-	1,239	-
Federal Perkins Loan Program	619	-	593	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	36	239	123	303
Total Liabilities Not Requiring Budgetary Resources	**2,106**	**239**	**1,955**	**303**
Total Liabilities Covered by Budgetary Resources	1,255,189	6,859	1,300,035	11,864
Total Liabilities	**$ 1,257,297**	**$ 7,158**	**$ 1,301,993**	**$ 12,213**

NOTE 7. Debt

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
2020					
Debt to Treasury					
Direct Loan Program	$ 1,192,138	$ 116,883	$ (148,922)	$ -	$ 1,160,099
FFEL Program	94,671	10,997	(16,682)	-	88,986
Other Credit Programs for Higher Education	702	154	(72)	-	784
Total Debt to Treasury	1,287,511	128,034	(165,676)	-	1,249,869
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	1,482	165	(142)	13	1,518
Total	**$ 1,288,993**	**$ 128,199**	**$ (165,818)**	**$ 13**	**$ 1,251,387**
2019					
Debt to Treasury					
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	609	123	(30)	-	702
Total Debt to Treasury	1,258,480	137,706	(108,675)	-	1,287,511
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	1,473	74	(65)	-	1,482
Total	**$ 1,259,953**	**$ 137,780**	**$ (108,740)**	**$ -**	**$ 1,288,993**

The Department borrows from Treasury's Bureau of the Public Debt and the Federal Financing Bank to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2020, debt decreased 2.9 percent from $1,289.0 billion in the prior year to $1,251.4 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 92.7 percent of the Department's debt, as of September 30, 2020, 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.

During FY 2020, TEACH net borrowing of $59 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2020, debt in HBCU increased by $85 million, or 5.7 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)

	2020	2019
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 1,773	$ 2,718
FFEL Program	74	6,345
Total Credit Program Downward Subsidy Re-estimates	**1,847**	**9,063**
Future Liquidating Account Collections		
FFEL Program	1,436	1,239
Other Credit Programs for Higher Education	15	-
Total Future Liquidating Account Collections	**1,451**	**1,239**
Total Subsidy Due to Treasury General Fund	**$ 3,298**	**$ 10,302**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ -	$ 3,773	$ -	$ 3,765
Accrued Grant Liability	-	1,939	-	2,637
Guaranty Agencies' Funds Due to Treasury	1,943	-	1,956	-
Loan Guarantee Liability	-	1,123	-	5,436
Federal Perkins Loan Program	619	-	593	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	36	239	123	303
Advances from Others and Deferred Credits	2	-	3	8
Accrued Unfunded Annual Leave	-	47	-	35
FECA Liabilities	2	13	3	11
Accrued Payroll and Benefits	-	23	-	17
Employer Contributions and Payroll Taxes	8	1	7	1
Custodial Liabilities	2	-	1	-
Total Other Liabilities	**$ 2,612**	**$ 7,158**	**$ 2,686**	**$ 12,213**

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. Programs associated with COVID-19 activities are administered by multiple program offices but are summarized separately. (See also Note 11)

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:** 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)

2020	FSA	OESE	OSERS	COVID-19	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS						
Gross Cost						
Grants	$ -	$ 22,544	$ 12,801	$ 1,839	$ 2,145	$ 39,329
Other	-	67	-	-	749	816
Earned Revenue	-	-	-	-	(129)	(129)
Net Program Costs	**-**	**22,611**	**12,801**	**1,839**	**2,765**	**40,016**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY						
Direct Loan Program						
Gross Cost						
Credit Program Interest Expense	34,705	-	-	-	-	34,705
Subsidy Expense	62,348	-	-	38,825	-	101,173
Administrative Expenses	1,425	-	-	-	-	1,425
Earned Revenue						
Subsidy Expense	(2)	-	-	(263)	-	(265)
Interest & Administrative Fees	(33,110)	-	-	-	-	(33,110)
Subsidy Amortization	(1,595)	-	-	-	-	(1,595)
Net Cost of Direct Loan Program	**63,771**	**-**	**-**	**38,562**	**-**	**102,333**
FFEL Program						
Gross Cost						
Credit Program Interest Expense	4,021	-	-	-	-	4,021
Subsidy Expense	(1,145)	-	-	3,325	-	2,180
Subsidy Amortization (Guaranteed Loans)	(1,064)	-	-	-	-	(1,064)
Guaranty Agencies	126	-	-	-	-	126
Administrative Expenses	156	-	-	-	-	156
Earned Revenue						
Subsidy Expense	(1)	-	-	(27)	-	(28)
Interest & Administrative Fees	(2,871)	-	-	-	-	(2,871)
Subsidy Amortization (Acquired FFEL Loans)	(86)	-	-	-	-	(86)
Guaranty Agencies	(123)	-	-	-	-	(123)
Net Cost of FFEL Program	**(987)**	**-**	**-**	**3,298**	**-**	**2,311**
Other Credit Programs for Higher Education						
Gross Cost						
Credit Program Interest Expense	23	-	-	-	59	82
Subsidy Expense	9	-	-	51	-	60
Administrative Expenses	2	-	-	-	-	2
Earned Revenue						
Subsidy Expense	-	-	-	(2)	-	(2)
Interest & Administrative Fees	(26)	-	-	-	(52)	(78)
Subsidy Amortization	1	-	-	-	(5)	(4)
Other	(1,281)	-	-	-	(3)	(1,284)
Net Cost of Other Credit Programs for Higher Education	**(1,272)**	**-**	**-**	**49**	**(1)**	**(1,224)**
Non-Credit Programs						
Gross Cost						
Grants	28,113	25	3,494	9,420	4,304	45,356
Other	348	-	3	10	270	631
Earned Revenue	-	-	-	-	(5)	(5)
Net Cost of Non-Credit Programs	**28,461**	**25**	**3,497**	**9,430**	**4,569**	**45,982**
Net Program Costs	**89,973**	**25**	**3,497**	**51,339**	**4,568**	**149,402**
Total Program Gross Costs	**129,067**	**22,636**	**16,298**	**53,470**	**7,527**	**228,998**
Total Program Earned Revenues	**(39,094)**	**-**	**-**	**(292)**	**(194)**	**(39,580)**
Net Cost of Operations	**$ 89,973**	**$ 22,636**	**$ 16,298**	**$ 53,178**	**$ 7,333**	**$ 189,418**

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					
Subsidy Expense	-	-	-	-	-
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					
Subsidy Expense	-	-	-	-	-
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					
Subsidy Expense					
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 Gross Costs	**144,865**	**22,971**	**16,194**	**7,609**	**191,639**
Total Earned Revenues	**(36,820)**	**(5)**	**(1)**	**(84)**	**(36,910)**
Net Cost of Operations	**$ 108,045**	**$ 22,966**	**$ 16,193**	**$ 7,525**	**$ 154,729**

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	
2020							
Direct Loan Program	$ 34,705	$ -	$ 34,705	$ 4,786	$ 28,324	$ 1,595	$ 34,705
FFEL Program	4,021	(1,064)	2,957	1,435	1,436	86	2,957
Other Credit Programs for Higher Education	82	-	82	14	64	4	82
Total	**$ 38,808**	**$ (1,064)**	**$ 37,744**	**$ 6,235**	**$ 29,824**	**$ 1,685**	**$ 37,744**
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**

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)

	2020	2019
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS		
CARES Act	$ 1,839	$ -
Education for the Disadvantaged	15,750	16,318
Special Education—IDEA Grants	12,801	12,630
School Improvement Programs	4,755	4,477
Impact Aid	1,466	1,420
Innovation and Improvement	907	945
English Language Acquisition	676	749
Career, Technical, and Adult Education	383	480
Hurricane Education Recovery	253	345
Institute of Education Sciences	179	195
Other	320	313
Subtotal	39,329	37,872
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
CARES Act	$ 9,420	$ -
Student Financial Assistance		
Pell Grants	25,882	30,530
Federal Work-Study Program	1,203	1,030
Federal Supplemental Educational Opportunity Grants	1,028	648
Rehabilitation Services	3,133	3,210
Higher Education	2,738	2,528
Career, Technical, and Adult Education	1,284	1,282
Special Education—IDEA Grants	118	124
Hurricane Education Recovery	25	24
Institute of Education Sciences	42	45
Other	483	462
Subtotal	45,356	39,883
Total Grant Costs	**$ 84,685**	**$ 77,755**

The Department has more than 100 grant programs. Descriptions of *CARES Act* funded grant programs are provided in Note 11. Descriptions of non-*CARES Act* 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 grants that provide financial assistance through SEAs to LEAs 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 IHEs 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 SEAs to make competitive subgrants to LEAs 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 IHEs, 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 childcare, 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 LEAs 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 LEAs 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 discretionary 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 National Center for Education Statistics; 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. COVID-19 Activity
(Dollars in Millions)

FY 2020	Appropriation	Appropriation Transfer	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
CARES Act							
Education Stabilization Fund							
Elementary and Secondary School Emergency Relief Fund	$ 13,229	$ -	$ 13,229	$ -	$ 1,552	$ -	$ 1,552
Higher Education Emergency Relief Fund							
Higher Education Funds to Students	6,279	-	6,188	91	5,382	-	5,396
Higher Education Funds to Institutions	6,279	-	6,127	152	3,320	-	3,387
MSIs							
Minority Serving Institutions	270	-	265	5	66	-	66
Historically Black Colleges & Universities	577	-	577	-	161	-	161
Tribally Controlled Colleges and Universities	50	-	50	-	17	-	17
Strengthening Institutions Program	149	-	141	8	43	-	43
Fund for the Improvement of Postsecondary Education	349	-	145	204	64	-	65
Governor’s Emergency Education Relief Fund	2,953	-	2,905	48	535	-	536
Outlying Areas	154	-	154	-	21	-	21
Bureau of Indian Education	154	(154)	-	-	-	-	-
Discretionary Grants	307	-	307	-	-	-	-
Total Education Stabilization Fund	**30,750**	**(154)**	**30,088**	**508**	**11,161**	**-**	**11,244**
Safe Schools & Citizenship Education	100	-	-	100	-	-	-
Gallaudet University	7	-	7	-	2	-	2
Howard University	13	-	13	-	13	-	13
HBCU Loan Deferment	62	-	32	30	32	-	32
Student Aid Administration	40	-	17	23	9	-	9
Program Administration	8	-	4	4	-	-	-
Inspector General	7	-	-	7	-	-	-
Total CARES Act Direct Appropriations	**30,987**	**(154)**	**30,161**	**672**	**11,217**	**-**	**11,300**
Student Loan Deferrals							
Direct Loan Program	25,246	-	25,246	-	25,246	236	25,010
FFEL Program	1,770	-	1,770	-	1,770	15	1,755
TEACH Program	11	-	11	-	11	-	11
Total CARES Act Student Loan Deferrals	**27,027**	**-**	**27,027**	**-**	**27,027**	**251**	**26,776**
Total CARES Act	**58,014**	**(154)**	**57,188**	**672**	**38,244**	**251**	**38,076**
Secretary's Discretion Student Loan Deferrals							
FFEL Program	496	-	496	-	496	4	492
HEAL Program	2	-	2	-	2	-	2
Total Secretary's Discretion Student Loan Deferrals	**498**	**-**	**498**	**-**	**498**	**4**	**494**
Presidential Memorandum Student Loan Deferrals							
Direct Loan Program	13,579	-	13,579	-	13,579	27	13,552
FFEL Program	1,059	-	1,059	-	1,059	9	1,050
HEAL Program	1	-	1	-	1	-	1
TEACH Program	5	-	5	-	5	-	5
Total Presidential Memorandum Student Loan Deferrals	**14,644**	**-**	**14,644**	**-**	**14,644**	**36**	**14,608**
Total COVID-19 Activity	**$ 73,156**	**$ (154)**	**$ 72,330**	**$ 672**	**$ 53,386**	**$ 291**	**$ 53,178**

The *CARES Act* provided direct appropriations to the Department to fund a variety of programs administered primarily through grant programs, as described below. Obligated and unobligated *CARES Act* funds remaining to be disbursed total $19.6 billion (see Note 3). Indirect appropriations were provided to fund loan modifications resulting from student loan deferrals authorized under the *CARES Act* and extended by the Administration's Presidential Memorandum. The Department also extended the provisions of the student loan deferrals to guaranteed loans not covered by the *CARES Act*. (See Note 5)

Elementary and Secondary School Emergency Relief (ESSER) Fund—$13,229 million provided for SEAs and LEAs to support continued learning for K-12 students whose education has been disrupted by COVID-19. Education leaders have the flexibility to use ESSER funds for immediate needs, such as tools and resources for distance education, ensuring student health and safety, and developing and implementing plans. Local leaders are empowered with the flexibility to determine how to use their ESSER funds, as long as they are used in ways that comply with applicable federal education laws. ESSER funds have important safeguards in place to ensure that this funding goes to help students continue learning. SEAs must allocate 90 percent of their ESSER funds to LEAs, including public charter schools, in proportion to the amount of FY 2019 funds the LEA received under Title I, Part A of the Elementary and Secondary Education Act. Up to 10 percent of the SEA's award may be retained for the state agency to use to address needs related to responding to COVID-19. After one year, SEAs must return any funds that have not been awarded, and the Secretary will reallocate those funds to the states.

Higher Education Emergency Relief (HEER) Fund—$13,953 million provided for IHEs to address needs directly related to COVID-19, including transitioning courses to distance education and granting aid to students for educational costs such as food, housing, course materials, health care, and child care. The fund is distributed through the following grant programs.

- **Higher Education Funds to Students**—$6,279 million provided institutions to provide emergency financial aid grants to students whose lives have been disrupted, many of whom are facing financial challenges and struggling to make ends meet. Institutions have the responsibility of determining how grants will be distributed to students, how the amount of each student grant is calculated, and the development of any instructions or directions that are provided to students about the grant.

- **Higher Education Funds to Institutions**—$6,279 million provided to higher education institutions. Institutions can use up to one-half of the total funds to cover any costs associated with significant changes to the delivery of instruction due to COVID-19. Institutions are encouraged to use the funds to expand remote learning programs, build IT capacity to support such programs, and train faculty and staff to operate effectively in a remote learning environment. They are also encouraged to use the funds to expand support for students with the most significant financial needs arising from the COVID-19 pandemic, including eligible expenses under a student's cost of attendance, such as course materials, technology, health care, childcare, food, and housing.

- **Minority Serving Institutions (MSIs)**—$270 million provided to MSIs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. MSIs include institutions that are eligible to participate in the following programs: Predominantly Black Institutions, Alaska Native and Native Hawaiian-Serving Institutions, Asian American and Native American Pacific Islander-Serving Institutions, Native American-Serving Nontribal Institutions, Developing Hispanic-Serving Institutions Program, and Promoting Postbaccalaureate Opportunities for Hispanic Americans. MCIs are encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Historically Black Colleges & Universities (HBCUs)**—$577 million provided to HBCUs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. HBCUs are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Tribally Controlled Colleges and Universities (TCCUs)**—$50 million provided to TCCUs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. TCCUs are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Strengthening Institutions Program**—$149 million provided to institutions that are not participating in the MSI programs but have at least 50 percent of their degree students receiving need-based assistance under Title IV of the *Higher Education Act* or have a substantial number of enrolled students receiving Pell Grants, and have low educational and general expenditures. These funds can be used to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. These institutions are encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Fund for the Improvement of Postsecondary Education (FIPSE)**—$349 million provided for this grant program which supports projects to encourage innovative reform and expand education opportunities to underrepresented groups. Institutions can use these additional FIPSE funds to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. Institutions are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

Governor's Emergency Education Relief (GEER) Fund—$2,953 million provided to state governors to ensure education continues for students of all ages impacted by the COVID-19 national emergency. The GEER Fund is a flexible emergency block grant designed to enable governors to decide how best to meet the needs of students, schools (including charter schools and non-public schools), postsecondary institutions, and other education-related organizations.

Outlying Areas, Bureau of Indian Education, and Discretionary Grants—$615 million provided for outlying areas and states with the highest COVID-19 burdens. These funds are distributed through the following grant programs.

- **Outlying Areas**—$154 million provided for the outlying areas of the United States, specifically: the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa. Money made available from these grants will be used in response to COVID-19 and will be calculated via formula. Each Outlying Area received two block grants from the Education Stabilization Fund—one to the Governor's offices and one to the SEA.

- **Bureau of Indian Education**—$154 million for programs operated by the Bureau of Indian Education (BIE), in consultation with the Secretary of Interior. The Department transferred these funds to BIE.

- **Discretionary Grants**—$307.5 million provided to states to use to create adaptable, innovative learning opportunities for K-12 and postsecondary learners in response to the COVID-19 national emergency.

    - **Rethink K-12 Education Models Grants**—$180 million aimed at opening new, innovative ways for students to access K-12 education with an emphasis on meeting students' needs during the COVID-19 national emergency.

    - **Reimagining Workforce Preparation Grants**—$127 million to expand short-term postsecondary programs and work-based learning programs in order to get Americans back to work and help small businesses return to being our country's engines for economic growth.

In addition to the Education Stabilization Fund, the *CARES Act* also included funding for the following.

Safe Schools & Citizenship Education—$100 million additional funding for this program to prevent, prepare for, and respond to COVID-19, including disinfecting affected schools, and assisting in counseling and distance learning.

Gallaudet University—$7 million to help address challenges associated with COVID-19.

Howard University—$13 million to help address challenges associated with COVID-19.

HBCU Loan Deferment—$62 million provided to fund the deferment of loan repayments for HBCUs that were provided low-cost capital financing for campus maintenance and construction projects. During the period of the deferment, the Department is required to pay the required principal and interest due. At the end of the deferment, the HBCU is required to repay the Department for payments made on its behalf.

Student Aid Administration—$40 million provided to fund the additional costs of administering the *CARES Act* provisions affecting student financial aid programs.

Program Administration—$8 million provided to the Department to fund costs of administrating the *CARES Act*.

Inspector General—The *CARES Act* appropriated $7 million for salaries and expenses necessary for Office of Inspector General oversight and audit of *CARES Act* programs, grants, and projects.

NOTE 12. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2020, budgetary resources were $473.2 billion and net agency outlays were $161.5 billion. As of September 30, 2019, budgetary resources were $358.2 billion and net agency outlays were $144.5 billion.

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

	2020		2019	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Prior Year Unobligated Balance, End of Year (Total)	**$ 16,774**	**$ 18,324**	**$ 17,850**	**$ 23,728**
Recoveries of Prior Year Unpaid Obligations	1,426	18,220	1,158	24,841
Borrowing Authority Withdrawn	-	(15,004)	-	(17,520)
Actual Repayments of Debt, Prior-Year Balances	-	(12,720)	-	(16,261)
Actual Capital Transfers to the Treasury General Fund	(265)	-	(328)	-
Canceled Authority	(305)	-	(405)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	128	301	6	342
Other Differences	(2)	(2)	(50)	(103)
Unobligated Balance from Prior Year Budget Authority (Net)	**$ 17,756**	**$ 9,119**	**$ 18,231**	**$ 15,027**

During the years ended September 30, 2020 and September 30, 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and October 1, 2018. These adjustments included, among other things, recoveries of prior year unpaid obligations that result from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

Unused Borrowing Authority
(Dollars in Millions)

	2020	2019
Beginning Balance, Unused Borrowing Authority	**$ 55,845**	**$ 62,752**
Current Year Borrowing Authority	135,589	148,493
Funds Drawn from Treasury	(128,200)	(137,880)
Borrowing Authority Withdrawn	(15,004)	(17,520)
Ending Balance, Unused Borrowing Authority	**$ 48,230**	**$ 55,845**

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)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 180	$ 138,621	$ 215	$ 121,561
Paid	121	503	64	563
Undelivered Orders	**$ 301**	**$ 139,124**	**$ 279**	**$ 122,124**

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)

	2020	2019
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 5,382	$ 9,906
FFEL Program	6,865	2,099
HEAL Program	-	34
TEACH Program	36	1
Facilities Loan Programs	48	5
Total Negative Subsidies and Downward Re-estimates	12,331	12,045
Repayment of Perkins Loans and Capital Contributions	1,317	90
Other	(38)	138
Distributed Offsetting Receipts	**$ 13,610**	**$ 12,273**

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	**$ 358,215**	**$ 323,117**	**$ 12,273**	**$ 104,363**
Expired Funds	(1,859)	(551)	-	-
FFEL Guaranty Agency Amounts Included in the President's Budget	7,342	7,341	-	-
Distributed Offsetting Receipts	-	-	-	12,273
Other	(2)	-	1	4
Budget of the United States Government[1]	**$ 363,696**	**$ 329,907**	**$ 12,274**	**$ 116,640**

[1] Amounts obtained from the Appendix, *Budget of the United States Government, FY 2021*.

The FY 2022 *Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2020, has not been published as of the issue date of these financial statements. The FY 2022 President's Budget is scheduled for release in February 2021 and will be made available on OMB's website. The table above reconciles the FY 2019 SBR to the FY 2021 President's Budget (FY 2019 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 13. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2020			2019		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 33,158**	**$ 156,260**	**$ 189,418**	**$ 33,374**	**$ 121,355**	**$ 154,729**
Components of Net Operating Cost Not Part of the Net Budgetary Outlays						
Excess of Accrual-Basis Expenses Over Budget Outlays						
Current-Year Subsidy Expense	-	(52,571)	(52,571)	-	(67,225)	(67,225)
Loan Modification Adjustment Transfer Gains/(Losses), Net	-	(54)	(54)	-	1	1
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(30)	-	(30)	(37)	-	(37)
Other Liabilities	64	600	664	(142)	(632)	(774)
Excess of Accrual-Basis Revenue Over Budget Receipts						
Accounts Receivable	1	(43)	(42)	1	16	17
Offset to Non-Entity Accrued Collections	-	(42)	(42)	-	17	17
Total Components of Net Operating Cost Not Part of the Net Budgetary Outlays	**35**	**(52,110)**	**(52,075)**	**(178)**	**(67,823)**	**(68,001)**
Components of the Net Budgetary Outlays Not Part of Net Operating Costs						
Current-Year Budget Subsidy Costs	-	67,225	67,225	-	17,954	17,954
Other Loan Activities, Net	-	(150)	(150)	-	31	31
Other Assets	57	(16)	41	(87)	(222)	(309)
Financing Sources Transferred In from Custodial Statement Collections	(12)	-	(12)	(15)	-	(15)
Total Components of the Net Budgetary Outlays Not Part of Net Operating Costs	**45**	**67,059**	**67,104**	**(102)**	**17,763**	**17,661**
Other Reconciling Differences						
Increase/(Decrease) in Deposit Funds	-	(32)	(32)	-	(26)	(26)
Total Other Reconciling Differences	**-**	**(32)**	**(32)**	**-**	**(26)**	**(26)**
Net Outlays (Calculated Total)	**$ 33,238**	**$ 171,177**	**$ 204,415**	**$ 33,094**	**$ 71,269**	**$ 104,363**
Related Amounts on the Statement of Budgetary Resources						
Outlays, Net (Discretionary and Mandatory)			218,025			116,636
Distributed Offsetting Receipts			(13,610)			(12,273)
Agency Outlays, Net (Discretionary and Mandatory)			**$ 204,415**			**$ 104,363**

This reconciliation explains 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.

Disbursements for new FCRA loans and collections of principal and interest on existing FCRA loans are recorded in non-budgetary credit reform financing accounts. These disbursements and collections are reported on the Statement of Budgetary Resources as disbursements, net, and not as agency outlays, net. Since these disbursements and collections affect neither net cost of operations nor agency outlays, net, they are excluded from this reconciliation as are any increases or decreases in the FCRA loan receivable balances.

The two major reconciling differences, both associated with the Department's FCRA loan programs, are for current-year subsidy accrual costs and current-year budget subsidy costs.

- Current-year subsidy accrual costs are the portion of the current-year loan subsidy re-estimates not impacting the current year outlays.
- Current-year budget subsidy costs are current year indirect appropriations provided to fund subsidy costs accrued in the prior year. This includes the portion of the current year's executed President's budget re-estimates not included in this year's net cost subsidy expense.

NOTE 14. 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)

2020			2019		
2021	$	72	2020	$	73
2022		75	2021		78
2023		77	2022		81
2024		74	2023		83
2025		75	2024		86
After 2025		77	After 2024		87
Total	**$**	**450**	**Total**	**$**	**488**

The Department leases from the General Services Administration all or a portion of 13 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 2020 or 2019 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

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. As appropriate, the Department would seek recovery from Treasury's Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government, if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2020. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2020, 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 15. 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 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 September 30, 2019 FR can be found on Treasury's website and a copy of the September 30, 2020 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, 2020
(Dollars in Millions)

FY 2020 Department Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
ASSETS			**ASSETS**
Intragovernmental:			Intragovernmental:
Fund Balance with Treasury	$ 136,015	$ 136,015	Fund Balance with Treasury
Other Intragovernmental Assets	124	3	Accounts Receivable
		121	Other Advances and Repayments
Total Intragovernmental	**136,139**	**136,139**	**Total Intragovernmental Assets**
Public:			Non-Federal:
Credit Program Receivables, Net			
Direct Loan Program	1,100,544	1,100,544	Direct Loan and Loan Guarantees, Net
FFEL Program	67,380	67,380	Direct Loan and Loan Guarantees, Net
Other Credit Programs for Higher Education	3,107	3,107	Direct Loan and Loan Guarantees, Net
Other Assets	2,216	1,943	Cash and Other Monetary Assets
		6	General Property, Plant, and Equipment, Net
		234	Accounts Receivable, Net
		33	Other Assets
Total Public	**1,173,247**	**1,173,247**	**Total Non-Federal Assets**
Total Assets	**$ 1,309,386**	**$ 1,309,386**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intragovernmental:			Intragovernmental:
Debt			
Direct Loan Program	$ 1,160,099	$ 1,160,099	Debt Associated with Loans
FFEL Program	88,986	88,986	Debt Associated with Loans
Other Credit Programs for Higher Education	2,302	2,302	Debt Associated with Loans
Subsidy Due to Treasury General Fund	3,298	3,298	Other Liabilities
Other Intragovernmental Liabilities	2,612	9	Accounts Payable
		2,603	Other Liabilities
Total Intragovernmental	**1,257,297**	**1,257,297**	**Total Intragovernmental Liabilities**
Public:			
Other Liabilities	7,158	1,123	Loan Guarantee Liabilities
		3,773	Accounts Payable
		61	Federal Employee and Veteran Benefits
		2,201	Other Liabilities
Total Public	**7,158**	**7,158**	**Total Non-Federal Liabilities**
Total Liabilities	**$ 1,264,455**	**$ 1,264,455**	**Total Liabilities**
NET POSITION			**NET POSITION**
Unexpended Appropriations	$ 99,314	$ 99,314	Unexpended Appropriations - Funds Other Than Those from Dedicated Collections
Cumulative Results of Operations	(54,383)	(54,383)	Cumulative Results of Operations - Funds Other Than Those from Dedicated Collections
Total Net Position	**$ 44,931**	**$ 44,931**	**Total Net Position**
Total Liabilities & Net Position	**$ 1,309,386**	**$ 1,309,386**	**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, 2020
(Dollars in Millions)

FY 2020 Department Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Total Gross Cost	$ 228,998	$ 189,605	Non-Federal Gross Cost
		124	Benefit Program Costs
		30	Imputed Costs
		410	Buy/Sell Cost
		38,808	Borrowing and Other Interest Expense
		7	Borrowing losses
		14	Other Expenses (Without Reciprocals)
Total Program Gross Cost	**$ 228,998**	**$ 228,998**	Department Total Gross Cost
Total Earned Revenue	$ (39,580)	$ (33,345)	Non-Federal Earned Revenue
		(6,235)	Borrowing and Other Interest Revenue (Exchange)
Total Earned Revenue	**(39,580)**	**(39,580)**	**Department Total Earned Revenue**
Net Cost of Operations	**$ 189,418**	**$ 189,418**	**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, 2020
(Dollars in Millions)

FY 2020 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	$ 72,757	$ 72,757	Net Position, Beginning of Period
Appropriations Received	245,237	244,366	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(871)		
Appropriations Transferred	(154)	(154)	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources
Appropriations Used	(217,655)	(217,655)	Appropriations Used
Unexpended Appropriations, Ending Balance	**$ 99,314**	**$ 99,314**	
Cumulative Results of Operations			
Beginning Balance	$ (76,267)	$ (76,267)	Net Position, Beginning of Period
Appropriations Used	217,655	217,655	Appropriations Expended
Nonexchange Revenue	11	11	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government
Imputed Financing from Costs Absorbed by Others	30	30	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(6,394)	(14,364)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		7,252	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		6	Other Taxes and Receipts
		711	Other Budgetary Financing Sources
		1	Other Non-Budgetary Financing Sources
Net Cost of Operations	(189,418)	(189,418)	Net Cost of Operations
Cumulative Results of Operations, Ending Balance	**$ (54,383)**	**$ (54,383)**	
Net Position	**$ 44,931**	**$ 44,931**	**Net Position, End of Period**

United States Department of Education Combining Statement of Budgetary Resources
For the Year Ended September 30, 2020
(Dollars in Millions)
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority (Net)	$ 14,938	$ 8,939	$ 2,103
Appropriations (Discretionary and Mandatory)	163,672	349	24,379
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	135,300	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	232	65,625	-
Total Budgetary Resources	**$ 178,842**	**$ 210,213**	**$ 26,482**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	$ 162,465	$ 187,667	$ 24,680
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	13,386	-	1,736
Unapportioned, Unexpired Accounts	1,819	22,546	-
Unexpired Unobligated Balance, End of Year	**$ 15,205**	**$ 22,546**	**$ 1,736**
Expired Unobligated Balance, End of Year	1,172	-	66
Unobligated Balance, End of Year (Total)	**$ 16,377**	**$ 22,546**	**$ 1,802**
Total Status of Budgetary Resources	**$ 178,842**	**$ 210,213**	**$ 26,482**
OUTLAYS, NET			
Outlays, Net (Discretionary and Mandatory)	$ 160,912		$ 22,656
Distributed Offsetting Receipts (-) (Note 12)	(13,606)		-
Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13)	**$ 147,306**		**$ 22,656**
Disbursements, Net (Total) (Mandatory)		**$ (42,956)**	

Office of Special Education and Rehabilitative Services	Education Stabilization Fund	Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 274	-	$ 441	$ 180	$ 17,756	$ 9,119	$ 26,875
17,676	30,750	8,203	1	244,680	350	245,030
-	-	-	289	-	135,589	135,589
-	(154)	113	137	191	65,762	65,953
$ 17,950	**$ 30,596**	**$ 8,757**	**$ 607**	**$ 262,627**	**$ 210,820**	**$ 473,447**
$ 17,571	$ 30,088	$ 7,920	$ 431	$ 242,724	$ 188,098	$ 430,822
138	508	678	-	16,446	-	16,446
-	-	3	176	1,822	22,722	24,544
$ 138	**508**	**$ 681**	**$ 176**	**$ 18,268**	**$ 22,722**	**$ 40,990**
241	-	156	-	1,635	-	1,635
$ 379	**508**	**$ 837**	**$ 176**	**$ 19,903**	**$ 22,722**	**$ 42,625**
$ 17,950	**$ 30,596**	**$ 8,757**	**$ 607**	**$ 262,627**	**$ 210,820**	**$ 473,447**
$ 16,268	$ 11,160	$ 7,029		$ 218,025		$ 218,025
-	-	(4)		(13,610)		(13,610)
$ 16,268	$ 11,160	**$ 7,025**		**$ 204,415**		**$ 204,415**
			$ 10		**$ (42,946)**	**$ (42,946)**

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)	$ 15,378	$ 14,858
Appropriations (Discretionary and Mandatory)	69,804	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	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	
Distributed Offsetting Receipts (-) (Note 12)	(12,145)	
Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13)	**$ 57,251**	
Disbursements, Net (Total) (Mandatory)		**$ 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		$ 116,636		$ 116,636
-	-	(128)		(12,273)		(12,273)
$ 23,123	**$ 16,581**	**$ 7,408**		**$ 104,363**		**$ 104,363**
			$ 17		**$ 40,102**	**$ 40,102**

REPORT OF THE INDEPENDENT AUDITORS

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 16, 2020

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 2020 and 2019 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, 2020 and 2019, 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 2020 and 2019 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 Underlying Data Used in Credit Reform Re-estimates Need Improvement.
- Three significant deficiencies in internal control over financial reporting:
    - Information Technology Controls Need Improvement,
    - Monitoring Controls over Service Organizations Need Improvement, and
    - Entity Level Controls Need Improvement.
- One instance of reportable noncompliance with Federal law in connection with referring delinquent student loan debts to Treasury.

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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 16, 2020, 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
Acting Inspector General

Enclosure

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

Independent Auditors' Report

Acting 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, 2020 and 2019, 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, 2020 and 2019, 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 FY 2020 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 and Required Supplementary 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, the information on page vii, 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, 2020, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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*.

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 Underlying Data Used in Credit Reform Re-estimates Need Improvement*, to be a material weakness.

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*, *Monitoring Controls over Service Organizations Need Improvement*, and *Entity Level Controls Need 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, 2020 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 financial statements. 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 an instance of noncompliance or other matters that is 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 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 16, 2020

Exhibit A

Material Weakness

Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates 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 re-estimates of the subsidy costs of its direct loan and guaranty programs. These re-estimates are calculated using an internally developed cash flow model. The cash flow model utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The 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 re-estimates in accordance with the FCRA, as required by U.S. generally accepted accounting principles.

Condition:

The Department and FSA did not design and implement effective controls to ensure that the data used to develop the re-estimate is reliable, considering the elevated risk because of the control deficiencies related to IT systems discussed in Exhibit B of this report. Specifically, the Department and FSA rely on the IT systems to provide the data elements used in the cash flow model and do not perform sufficient procedures to ensure that such data is complete and accurate.

Cause/Effect:

The Department's and FSA's risk assessment process did not identify completeness and accuracy of the underlying data resulting from the IT system control deficiencies as a risk that required additional compensating controls.

Inadequate controls over the completeness and accuracy of the underlying data used to develop the re-estimate increases the risk that the financial statements could be materially misstated.

Criteria:

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

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 10, *Design Control Activities*; Principle No. 11, *Design Activities for the Information* System; Principle No. 13, *Use Quality Information*.
- 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.

Recommendations:

We recommend that the Department and FSA:

1. Strengthen the risk assessment process by considering the impact of IT control deficiencies on internal controls over the reliability of information in the Department's IT systems. Such considerations should be documented.

2. Design and implement additional controls, over the completeness and accuracy of the underlying data used to develop the re-estimate.

Exhibit B

Significant Deficiencies

A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of IT logical access, security management, segregation of IT duties, and application change management are related to both the Department and FSA systems.

Conditions:

In FY 2019, we reported a significant deficiency related to Federal Student Aid's (FSA's) IT controls due to persistent unmitigated IT control deficiencies. During FY 2020, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies such as system data validation. 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 configuration management. We noted IT control deficiencies related to security management, segregation of IT duties, and application change control for three of FSA's financial and mixed systems. In addition, we noted deficiencies related to Department-level logical access for its core financial management system. Specifically, we noted the following:

Department:

1. Weakness in IT logical access controls. New and separated contractors were not consistently and accurately tracked resulting in the inconsistent reporting of start and termination dates and system access that was not always removed upon separation from the Department.

FSA:

1. Weakness in IT security management controls:
    a. The System Security Plan for one system was incomplete and did not fully define and document all relevant control enhancements in accordance with National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, security control requirements.
    b. Plan of Action and Milestone (POA&M) closure documentation did not always address the root cause of the deficiencies, thereby not preventing future reoccurrences.
2. Weaknesses in IT controls related to the segregation of IT duties. For one FSA system, users with developer access had access to the system's production staging environment and update access to the production environment.
3. Weakness in IT application change management controls. The application change management process was not consistently followed for one FSA system. We noted the documentation for a selection of changes indicated a) approvals of testing and/or post implementation validation (PIV) approvals could not be evidenced; and b) one instance of a change that was approved to migrate to the production environment prior to approval of the change testing.

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 NIST security control requirements for the financially and mixed systems hosted and managed by FSA and the Department.

Additionally, there was a lack of effective enforcement and monitoring of IT 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 effectively addressing the weakness with adequate documented supporting evidence.
2. Segregation of duties and least privilege principles are followed and enforced.
3. The established change process is followed, and application change tickets accurately document the key control points of the change process, such as approvals to commence with the change, approval of testing results, approval to migrate the change to the production environment, and PIV approvals.

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 OCIO 3-112, Cybersecurity Policy.
- Department Baseline Cybersecurity Standard, OCIO-STND-01, dated April 1, 2020, Section 3.13. Personnel Access.
- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV3.08 *Effect of Deficiencies on the Internal Control System*, Principle 3 *Establish Structure, Responsibility, and Authority, Documentation of the Internal Control System*, Principle No. 3.08 *Assignment of Responsibility and Delegation of Authority*, Principle No. 8.07 *Response to Fraud Risks*, Principle No. 10.3 *Design of Appropriate Types of Control Activities*, Principle No.10.12 *Segregation of Duties*, Principle No. 11, *Design Activities for the Information System*, and Principle No. 13, *Use Quality Information*, Principle No.17, *Evaluate Issues and Remediate Deficiencies*.
- 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 PL-2 System Security Plan, PM-4 Plan of Action and Milestone, 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.

Recommendations:

We recommend that the Department:

1. Evaluate, develop, and implement a formal process to track and report all new and separated contractors.
2. Ensure separated contractors are off-boarded and system personnel are notified in a timely manner to disable or remove access to IT resources.
3. Provide training and oversight to Education personnel with on/off-boarding responsibilities to help ensure new/separated contractors are properly tracked.

We recommend that FSA:

4. Validate that financial and mixed system security plans have identified and documented the required security controls and control enhancements and the control implementation statuses in the plans as required by NIST SP 800-53. Additionally, implement a quality review process of the system security plans prior to signing the plans to ensure compliance with NIST 800-53 requirements.
5. Implement a process to evaluate the significance of a deficiency by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency and tailor the corrective actions to remediate the risk and address the root cause. Further, update guidance to ensure that quality reviews over the POA&M

closure documentation are conducted to confirm the noted deficiencies are fully addressed to help prevent future reoccurrences.

6. Formally develop and implement a quality control review process to ensure that the application change control process is followed completely and accurately to validate that changes were tested and approved prior to migration and post implementation validation was performed, the relevant documentation and approvals are verified prior to closing the change ticket, as required by policy, and supporting documentation is retained.
7. Ensure segregation of duties and least privilege principles are adhered to when granting user access to prevent users with the ability to develop and/or change application code from having update access to the environment where the final tested and approved changes are staged prior to migration to the financial and mixed systems' production environment; and prevent users with access to develop code from having update access to the production environment.

B. <u>Monitoring Controls over Service Organizations Need Improvement</u>

The Department and FSA relies on a certain IT system to store data for student loan programs. The Cost Estimation and Analysis Division (CEAD) within the Department also uses the data in the system for the development and update of the assumptions used in the re-estimation of subsidy allowance, a critical component of management's financial reporting process. The IT system is owned and controlled by FSA, who is responsible for the application-level internal controls, and is hosted by a service organization, who is responsible for internal controls at the data center.

Condition:

The Department and FSA did not have effective monitoring controls in place to ensure that the scope of the System and Organization Controls (SOC) 1, Type 2 report for the service organization and/or management's internal control processes sufficiently cover the relevant key controls to support the reliability and integrity of the data stored in the IT system. For example, we noted that there were not sufficient relevant controls identified and tested in the areas of mainframe operating system and security software, financial system production data bases, and financial system mainframe interface controls.

Cause/Effect:

FSA did not perform a comprehensive assessment of key relevant controls to appropriately assess the risks in the financial reporting process.

Ineffective monitoring controls over the service organization increases the risk of disruption, modification, or destruction of information that could impact the integrity and reliability of information processed in the associated application 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 Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV4.01 *Additional Consideration, Service Organizations*, Principle 16.08 - *Perform Monitoring Activities.*
- 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 SA-9 External Information System Services.

Recommendations:

We recommend that FSA:

1 Enhance their risk assessment to identify risks impacting financial reporting processes.
2 Identify the controls at the service organization for the systems that are responsive to risks and that are relevant to FSA's financial statements.
3 Regularly monitor and meet with the service organization to communicate and ensure that controls that are relevant to FSA for financial reporting are adequately tested for design, implementation, and operating effectiveness.
4 Assess the need to implement compensating controls for financial reporting in the event relevant controls at the service organization are not within the scope of the SOC 1 report.

C. <u>Entity Level Controls Need Improvement</u>

The Department and FSA are continually seeking ways to improve accountability in achieving the entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department and FSA need to address weaknesses in its entity-wide control environment as we have observed two entity-wide control environment conditions through our procedures that have a pervasive influence on the effectiveness of controls. These common themes, which contributed to the deficiencies noted above, are related to the entity's risk assessment and monitoring activities.

Conditions:

1. Risk Assessment- The Department and FSA's entity level controls were not designed and implemented appropriately in order to define objectives to enable the identification of risks, define risk tolerances and identified processes and controls responsive to those risks.

2. Monitoring Activities- The Department and FSA's entity level controls were not designed and implemented appropriately in order to remediate identified internal control deficiencies in a timely manner.

Cause/Effect

1. Risk Assessment considerations address the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Specifically, inadequate risk assessment throughout the Department and FSA, prevented the proper identification and analysis of risks facing the Department and FSA, and from designing appropriate risk responses. For example, the Department did not identify the risk objectives that should have been either addressed by the SOC1, Type 2 report or through compensating controls at the Department and FSA, to support the reliability and integrity of the data used in the financial reporting process.

2. Monitoring Activities considerations address management's processes to establish and implement operations that assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Specifically, insufficient monitoring has prevented the Department and FSA from ensuring that corrective action plans are implemented, and control deficiencies are remediated timely.

Criteria

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

- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 6, *Management should define objectives clearly to enable the identification of risks and define risk tolerances.*

- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 17, *Management should remediate identified internal control deficiencies on a timely basis*

Recommendations

We recommend that management implement the following to improve the effectiveness of entity-level controls:

1. In the area of risk assessment, improve risk assessment process at the financial statement assertion level and at the process level to ensure the department is appropriately defining objectives to enable the identification of risks and define risk tolerances.

2. In the area of monitoring activities, implement key monitoring controls to ensure that corrective action plans are implemented to timely remediate control deficiencies identified. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department and FSA.

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). FSA's current business process, which requires loans to be transferred to the default loan servicer after 360 days of delinquency, is not in alignment with the reporting requirements. Further, 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, 2020, 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 in 2015 as to how certain specific requirements of the amended law apply to the Direct Loan Program and other Department programs. The Department is 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 has developed a long-term project plan to incorporate the referral requirements into various servicer contracts and guaranty agency agreements, so it can initiate the required system programming changes.

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.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF FINANCE AND OPERATIONS

November 13, 2020

MEMORANDUM

TO: Bryon S. Gordon
Assistant Inspector General for Audit

FROM: Denise L. Carter Denise Carter Digitally signed by Denise Carter Date: 2020.11.13 14:30:13 -05'00'
Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

Jason Gray
Chief Information Officer Jason Gray Digitally signed by Jason Gray Date: 2020.11.13 16:20:01 -05'00'

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT
Fiscal Years 2020 and 2019 Financial Statements
U.S. Department of Education
ED-OIG/A17U0001

This memorandum is provided in response to the Fiscal Year 2020 Financial Statement Audit, including the findings and recommendations identified in the Report on Internal Control over Financial Reporting exhibits to the Auditors' Report. The Department will address the recommendations through appropriate corrective action plans. We are committed to maintaining an unmodified opinion and will work to resolve the relevant findings and recommendations.

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

Thanks to you and the entire audit team for the support and collaboration throughout the audit process.

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202
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.

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OTHER INFORMATION

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ABOUT THE OTHER INFORMATION SECTION

The Other Information section includes:

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

Management and Performance Challenges Report provides a summary of what the OIG believes are the Department's biggest challenges for FY 2021. The OIG identified the following five challenges: (1) Implementing the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), (2) Oversight and Monitoring, (3) Data Quality and Reporting, (4) Improper Payments, and (5) Information Technology Security. 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 INFORMATION ACT REPORTING

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.

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*.

THE GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016 AND EDUCATION'S GRANT CLOSEOUT PROCESS

This section provides a high-level summary of the Department's expired, but not closed, Federal grants and cooperative agreements.

REAL PROPERTY[3]

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. Updated square footage information is posted on performance.gov at **https://www.performance.gov/real-property-metrics/**.

[3] This subsection does not have its own page due to the limited requirements provided in the Office of Management and Budget (OMB) Circular A-136.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 10, 2020

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Sandra D. Bruce
Acting Inspector General

SUBJECT: Management Challenges for Fiscal Year 2021

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, 2020.

Our FY 2021 report identifies five 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 2020 report and added a new challenge relating to implementing the Coronavirus Aid, Relief, and Economic Security Act. Although the Department made progress in addressing challenges from our FY 2020 report, 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 2021 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 2021

MANAGEMENT CHALLENGE 1—CARES ACT

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020, and includes more than $30 billion in emergency education funding for students, elementary and secondary schools, postsecondary institutions, and States in response to the Coronavirus Disease 2019 (COVID-19) pandemic. The *CARES Act* also allowed the U.S. Department of Education (Department) to provide State educational agencies (SEA) and local educational agencies (LEA) with waivers of certain statutory or regulatory requirements and included provisions intended to provide borrowers with emergency relief.

Why This Is a Challenge

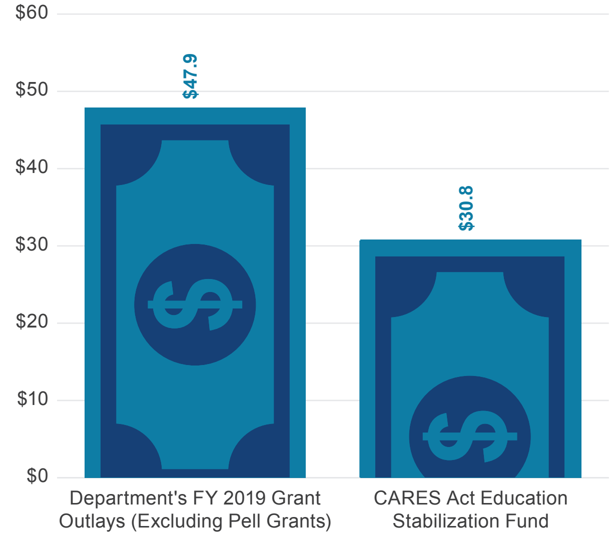
The *CARES Act* poses new challenges for the Department as it must effectively oversee and monitor new grant programs and additional Federal education funds, implement additional student financial assistance program requirements, and ensure that quality data are reported. While the *CARES Act* provides $40 million to the Department for student aid administration and $8 million for program administration, the Department must design and implement these processes timely and effectively to help ensure the overall success of its *CARES Act* activities.

New Grant Programs and Additional Federal Education Funds

The *CARES Act* provided about $30.8 billion for an Education Stabilization Fund to prevent, prepare for, and respond to COVID-19. This new funding authorized under the *CARES Act* is about 64 percent of the amount that the Department reported as grant outlays for fiscal year (FY) 2019, excluding the Pell Grant program.

Figure 14. FY 2019 Non-Pell Grant Outlays and CARES Act Education Stabilization Fund Appropriation

(Dollars in Billions)



Source: *U.S. Department of Education Agency Financial Report FY 2019 and the CARES Act*

The Education Stabilization Fund includes more than $16 billion for State and local agencies and about $14 billion for higher education. As shown in Table 4 below, this includes three large new relief funds and additional discretionary grant programs.

Table 4. Education Stabilization Fund Summary

Program	Funding	Overview
Higher Education Emergency Relief Fund	$13.9 billion	Provided $13.5 billion in formula grants for postsecondary institutions for costs that include COVID-19 prevention, preparation, and response to COVID-19. An additional $349 million is provided to postsecondary institutions that the Department determines have the greatest unmet needs related to COVID-19. Postsecondary institutions must use no less than 50 percent of funds received under Section 18004(a)(1) of the CARES Act to provide emergency financial aid grants to students.
Elementary and Secondary School Emergency Relief Fund	$13.2 billion	Provided formula grants to SEAs, who in turn provide subgrants to LEAs to address the impact of COVID-19 on elementary and secondary schools. Funds may be used for activities authorized by several Federal education laws and a broad range of activities necessary to maintain operations and continuity of services, respond to COVID-19, and continue to employ existing staff.
Governor's Emergency Education Relief Fund	$3 billion	Provided formula grants to Governor's offices, who in turn provide subgrants to postsecondary institutions and LEAs that have been most significantly impacted by COVID-19 and other essential education-related entities. Funds are intended to support the impacted entities' ability to continue to provide educational services. The Department encouraged investment of these funds in technology infrastructure and professional development to improve capacity in providing high-quality, accessible, distance education or remote learning.
Discretionary Grants to States	$307.5 million	Provided discretionary grants to States with the highest COVID-19 burden. The Department awarded funds through two separate grant competitions. Education Stabilization Fund-Rethink K-12 Education Models grants ($180 million) provided support to SEAs to address educational needs of students, their parents, and teachers. Education Stabilization Fund-Reimagining Workforce Preparation grants ($127.5 million) provided support to help States create new educational opportunities and pathways to help citizens return to work, small businesses recover, and new entrepreneurs thrive.
Other Funding	$307.5 million	Provided funding for programs operated or funded by the Bureau of Indian Education and for outlying areas.

Each of the new programs must be effectively implemented and monitored by the Department to ensure that the legislation is followed, and that States, elementary and secondary schools, and postsecondary institutions and students receive support in response to COVID-19. Overall, the effective oversight and monitoring of *CARES Act* funds are critical to ensure that they are used for the purposes intended and that goals and objectives are achieved. Because the *CARES Act* programs have different purposes, allowable uses of funds, and grant recipients, it is vital that the Department provides effective guidance, training, technical assistance, and outreach. These additional responsibilities pose a significant challenge to the Department given the large amount of funding involved, the number of entities receiving funds, and the need to administer its existing programs. Additionally, the Department must ensure that the primary recipients, such as Governors' offices and SEAs, effectively fulfill their critical role in overseeing and monitoring subrecipients, such as LEAs.

Student Financial Assistance Program Requirements

The *CARES Act* includes student financial assistance provisions intended to provide emergency relief to borrowers and to allow institutions to meet student needs more easily. These provisions include borrower and teacher assistance provisions, waivers of student financial assistance refunds and loan cancellations, and adjustments to lifetime Pell Grant and subsidized Direct Loan usage. The Department will need to provide guidance to and rely on postsecondary institutions, contracted servicers, collection agencies, guaranty agencies, and accrediting agencies to effectively implement these and other provisions. The Department will be challenged to provide adequate oversight of existing student aid program participants while it implements and oversees the student aid provisions in the *CARES Act*. Additionally, the Department faces the challenge of ensuring that postsecondary institutions continue to meet financial responsibility requirements, as the pandemic may negatively impact the enrollment and financial health of many institutions.

Data Quality

The *CARES Act* includes several reporting provisions that are intended to provide transparency and public accountability regarding the use of funds and their estimated impact on the economy. For example, all institutions that receive Higher Education Emergency Relief funds and all grantees that receive more than $150,000 in *CARES Act* funding are required to publicly report on their use of funds. Administering the programs and operations funded by the *CARES Act* will require the Department to collect, analyze, and report on data for many purposes, such as evaluating programmatic performance, assessing fiscal compliance, and informing management decisions. For this reason, the Department, its grant recipients and subrecipients, and other program participants must have effective systems, processes, and procedures in place to ensure that *CARES Act* reported data are accurate and complete.

Ongoing and Planned Work

Our ongoing audit and inspection work related to the *CARES Act* in this area includes reviews of multiple schools' use of professional judgment to adjust Free Application for Federal Student Aid (FAFSA) data elements, Federal Student Aid's (FSA) implementation of temporary borrower relief to suspend involuntary collections on defaulted student loans, States' monitoring related to Governor's Emergency Education Relief Fund awards, and the Department's plan for returning employees to Federal offices in the wake of the coronavirus pandemic.

Additional planned projects for FY 2021 are identified in Table 5 below.

Table 5. Anticipated FY 2021 CARES Act Related Work

State and Local Program-Related
Elementary and Secondary School Emergency Relief Fund
• Department oversight of the Elementary and Secondary School Emergency Relief Fund
• LEAs' use of funding under the Elementary and Secondary School Emergency Relief Fund for technology purchases
Discretionary Grants
• Department monitoring of Rethink K-12 Education Models Grants
• Department awarding and monitoring of Reimagining Workforce Preparation Grants
Higher Education-Related
Higher Education Emergency Relief Fund
• Department oversight of the Higher Education Emergency Relief Fund
• Schools' use of funding under the Higher Education Emergency Relief Fund
Student Financial Assistance Program Requirements
• Cancellation of Borrower Loans and Implementation of Return of Title IV Waiver Requirements
• Exclusion of Subsidized Loan Usage and Federal Pell Grant Lifetime Usage
• Department's processes to implement flexibilities to Teacher Education Assistance for College and Higher Education grant service obligations

Progress in Meeting the Challenge

The Department stated that *CARES Act* grant oversight and monitoring has been a continued focus of senior leadership and managers. The Department added that it took immediate steps to ensure appropriate interpretation of *CARES Act* requirements, this included the establishment of formal Steering and Operations Committees to administer new grant programs and additional Federal education funds. The Department stated it implemented processes that (1) established preventative controls; (2) ensured statutory requirements were met; (3) communicated and shared information on program implementation, execution, data collection, and reporting; (4) and collaboratively resolved issues. According to the Department, these activities enabled it to make nearly all *CARES Act* formula grant funds available within 1 month of enactment, about twice as fast as the first awards under the *American Recovery and Reinvestment Act of 2009*.

The Department stated that its staff has provided support that included written guidance, blog posts, webinars, technical assistance, and post-award calls. The Department added that that it approved the addition of 25 temporary staff to assist with *CARES Act* related administrative, monitoring, and oversight workload. The Department further indicated that it plans to develop a centralized portal that will disseminate information regarding Education Stabilization Funds and serve as a tool for grantees to submit data to address annual reporting requirements.

The Department noted that the *CARES Act* contained provisions to provide substantial relief for student loan borrowers. The Department stated that it took actions to (1) reduce the interest rate for all federally held student loan borrowers to zero, (2) place all borrowers in administrative forbearance status, which allowed them to temporarily stop making monthly loan payments, (3) refund involuntary payments made by borrowers with defaulted loans who were subject to having certain Treasury payments offset or wage garnishment, and (4) ensure all eligible borrowers were notified of the benefits afforded to them under the *CARES Act*. The Department added that the $40 million in *CARES Act* funds provided for student aid administration supports communication to borrowers explaining changes in loan terms and flexibility provisions as well as FSA system changes to implement the *CARES Act* provisions.

What the Department Needs to Do

To effectively oversee the *CARES Act* programs, the Department should provide appropriate technical assistance to grantees, especially for those who may not be familiar with Federal grant requirements; closely monitor grant implementation; and ensure that published data are of sufficient quality for use in assessing program compliance and effectiveness.

To implement the student financial assistance related *CARES Act* provisions, waivers, and flexibilities, the Department needs to continue to provide guidance to and work with postsecondary institutions, contracted servicers, collection agencies, guaranty agencies, and accrediting agencies. The Department also needs to monitor and oversee these entities to ensure that the provisions are implemented effectively. Lastly, when these provisions expire, the Department will need to carefully reinstate the student loan provisions for which the relief was temporarily provided.

MANAGEMENT CHALLENGE 2— 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, 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 directly manages or oversees a loan portfolio of over $1.5 trillion, representing almost 210 million student loans to more than 45 million borrowers. FSA also oversees about 6,000 postsecondary institutions that participate in the Federal student aid programs.

In FY 2019, FSA performed these functions with an administrative budget of $1.7 billion and 1,251 employees, along with contractors that provide outsourced business operations. From FY 2015 to FY 2019, FSA delivered an average of $124.2 billion in Federal student aid to an average of 12.2 million students.

Figure 15. Student Aid Delivered and Postsecondary Students Receiving Aid FYs 2015–2019

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total Fedaral Student Aid Delivered (in billions of $)	$128.7	$125.7	$122.5	$122.4	$121.8
Total Postsecondary Students Receiving Aid (in millions)	11.9	13.2	12.9	12.7	10.4

Source: *Federal Student Aid Annual Reports FY 2015–FY 2019*

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.

Audits Relating to Student Financial Assistance Programs

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 Office of Inspector General's (OIG) recent audit-related work within this area has covered a wide range of activities, as shown in Table 6 on the following page.

Table 6. OIG's Recent Reports Relating to the Oversight and Monitoring of Student Financial Assistance Programs

Activities Reviewed	Review Results
Accreditation	We found that the Department's process for reviewing agency petitions for recognition did not provide reasonable assurance that the Department recognized only agencies meeting Federal criteria. We also reported that the Office of Postsecondary Education'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 the information 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 to ensure that all contractor employees had appropriate security screening.
Heightened Cash Management	We found that FSA consistently administered its heightened cash monitoring payment methods when utilizing this process for one of the top five reasons. We also concluded that FSA's use of heightened cash monitoring was an effective oversight tool. However, we noted opportunities for FSA to improve its controls to better ensure that it (1) consistently places schools on a heightened cash monitoring payment status when they submitted late annual financial statements or had composite scores that fell below the minimum financial responsibility score, (2) tracks a school's method of payment status from the time of recommendation for heightened cash monitoring placement until the placement was made, and (3) retains all required documentation.
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.
Total and Permanent Disability (TPD) Discharges	We found that FSA appropriately approved and rejected TPD applications and its contractor generally serviced TPD accounts in accordance with Federal program requirements. However, we identified design weaknesses in FSA's control activities for the TPD discharge application review process that may negatively affect the operating efficiency and effectiveness of the process and increase the risk that FSA approves applications that are inaccurate or incomplete. We also found weaknesses in FSA's documented procedures and its quality control review for its TPD discharge application review process, as well as weaknesses in FSA's monitoring of the TPD discharge process.
Verification of 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 six schools covered by these audits, three did not always complete verification of applicant data in accordance with Federal requirements, and two did not always accurately report verification results to FSA.

Investigations of Student Financial Assistance Program Participants

The OIG's investigative recent work continues to identify fraud, waste, and abuse of student financial assistance program funds. This includes each of the areas in Table 7 below.

Table 7. OIG's Recent Investigative Activity Relating to the Student Financial Assistance Programs

Area	Example of Related Investigative Activity
Institutions	OIG investigations have identified instances where schools 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.

Ongoing and Planned Work

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, the Department's involvement in and oversight of activities related to the sale and operations of a chain of career colleges, FSA's controls over the FAFSA verification process, FSA's accountability as a performance based organization, and selected schools' controls over *Clery Act* reporting. Additional planned projects for FY 2021 include audits of schools' compliance with career pathway programs and ability to benefit provisions, the Department's plans and processes to proactively monitor the financial health of postsecondary schools, 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 it has taken steps and has additional plans to improve its oversight and monitoring of the student financial assistance programs. This included activities related to schools, accreditors, and its FAFSA verification process. FSA stated that it worked to address weaknesses in the single audit process that will improve its usefulness as a school oversight tool and that it deployed an analytical model that will improve its ability to identify at-risk schools and better prioritize support. The Department stated that it plans to implement additional procedures to identify accrediting agencies having a higher risk of noncompliance with statutory and regulatory requirements and would subsequently prioritize oversight of those agencies. FSA also stated that it implemented an improved model for verification selection and evaluation of data elements from the FAFSA. According to FSA, this will allow the Department to better identify applicants for whom errors would result in a change in their Federal aid award, potentially reducing improper payments.

FSA further noted that the F*ostering Undergraduate Talent by Unlocking Resources for Education Act* could help it ensure the accuracy of income information used to determining Pell Grant eligibility and allow borrowers to more easily recertify their income to stay enrolled in income-driven repayment plans.

What the Department Needs to Do

The Department needs to continue its efforts to enhance its oversight of student financial assistance programs, participants, and partners. This includes taking steps to ensure that its management of related internal control systems is effective to ensure that they are appropriately designed and implemented, operating as intended, and correcting identified weaknesses in a timely manner. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. While FSA's Next Gen 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 being implemented. 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 assess 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. 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 18,400 school districts and more than 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, which provided about $17 billion in FY 2020 for local programs that provide extra academic support to help an estimated 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 provided more than $12.7 billion in FY 2020 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.

Audits Relating to Federal Education Grant Programs

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 programs and activities identified in Table 8 below.

Table 8. OIG's Recent Reports Relating to SEA and/or LEA Implementation of Federal Education Grant Programs

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.
Charter Schools, Replication and Expansion Grants	In the first of a series of audit work in this area, we found that a nonprofit charter management organization did not fully comply with Federal grant reporting requirements and did not always spend grant funds in accordance with Federal cost principles and its grant application.
Disaster Recovery	We have issued five audit reports relating to disaster recovery funding authorized under the Bipartisan Budget Act of 2018. • Our work at two SEAs relating to internal controls over the Immediate Aid to Restart School Operations (Restart) program identified weaknesses in programmatic monitoring processes, internal audit division staffing, processes to assess fraud risks, internal controls over procurement, and segregation of duties. • Our work relating to Restart allocations and uses of funds found that one audited SEA established and implemented effective controls over Restart allocations and uses of funds. However, we identified instances of noncompliance that included one district inappropriately charging unallowable personnel expenditures to the program and failure by another entity to obtain control and ownership of materials at nonpublic schools funded by the Restart program. We found that another SEA also established and implemented effective controls over Restart allocations and uses of funds but could better maintain and manage its records for the Restart program. • Our work relating to the Temporary Emergency Impact Aid for Displaced Students (EIA) program found that an SEA did not ensure that LEAs accounted for program funds received for students reported as children with disabilities in accordance with Federal requirements and that LEAs did not use program funds to pay salaries only for employees who supported schools with displaced students.
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.

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. As noted in Table 9 below, our work included audits within several areas.

Table 9. OIG's Recent Reports Relating to the Department's Oversight and Monitoring of Federal Education Grant Programs

Area Reviewed	Review Results
Disaster Recovery	We found that the Department designed policies and procedures that should have provided reasonable assurance that it awarded and monitored Defraying Costs of Enrolling Displaced Students in Higher Education Program and Emergency Assistance to Institutions of Higher Education Program funds in accordance with applicable guidance. However, we found that the Department did not implement all processes and risk mitigation strategies as designed. As a result, the Department inappropriately awarded funds to some of the grantees whose applications we reviewed.
Every Student Succeeds Act	We found that the Department designed processes that would provide reasonable assurance of (1) identifying and resolving potential instances of State plans' noncompliance with applicable requirements and (2) complying with Department policy. However, the Department did not always implement these processes as designed. As a result, we could not determine why the Department selected certain peer reviewers, ensure that the Department determined whether some peer reviewers had conflicts of interest or the appearance of conflicts of interest, and could not always determine whether the Department considered the results of the peer review process when providing States feedback to strengthen the technical and overall quality of their plans.
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.

Investigations of Federal Education Grant Program Participants

The OIG's recent investigative work continues to identify fraud relating to Federal education grant programs. This includes the areas identified in Table 10 below.

Table 10. OIG's Recent Investigative Activity Relating to Federal Education Grant Programs

Subject Area	Example of Related Investigative Activity
Contractors	OIG investigations identified instances where 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 investigations identified instances involving charter school founders and senior officials who participated in conspiracy, fraud, theft, money laundering, false bankruptcy declarations, and other scams, abusing their positions of trust for personal gain.

Ongoing and Planned Work

Ongoing work in this area includes reviews of the Charter School Program Grants for Replication and Expansion of High-Quality Charter Schools, Restart, and EIA programs, and oversight of virtual charter schools' implementation of selected requirements under IDEA. Planned projects for FY 2021 include work on Statewide accountability systems under the *Every Student Succeeds Act*, controls over Student Support and Academic Enrichment Program grants, and the effectiveness of Charter School Program Grants in increasing the number of high-quality charter schools.

Progress in Meeting the Challenge

The Department indicated that it has taken steps to improve its oversight and monitoring of grantees. This included activities to define skills needed by grants administration staff and improve their expertise, enhancing policy and related training opportunities, advancing and standardizing award and virtual monitoring processes, and improving grants management systems.

The Department stated that it has prioritized building the capacity of grants administration staff to provide appropriate oversight and monitoring. This included creating a competency model, career map, and training plan for the grant management job series. The Department stated that this initiative was intended to identify core competencies and training opportunities needed to close competency gaps.

The Department added that it revised the discretionary grant policy to provide a more comprehensive guide for administering grants in a standardized manner across program offices. The Department also stated that it developed and provided comprehensive training resources and continuing education workshops for program office staff and technical assistance resources related to internal controls requirements for grant recipients.

The Department noted that it reviewed the continuation award process to encourage cross-office alignment and provided training to promote a stronger continuation funding process. The Department added that it continued to leverage virtual monitoring approaches to provide necessary oversight and support to grant recipients, updated a resource related to virtual monitoring, and acquired contractor assistance to develop a standard virtual monitoring program for its discretionary and formula grant programs.

The Department stated that it has implemented initiatives intended to ensure that grants management systems can be used to effectively collect grantee data, analyze performance, and detect risk. This includes plans to create a more modern, modular, secure, and user-friendly grants management system that meets the needs of all internal and external users. The Department added that it has continued to enhance its Entity Risk Review capabilities to conduct risk assessments for grant applicants recommended for initial or continuation funding. This application provides administrative, financial, and internal controls information by linking disparate data sets.

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 continue its efforts to offer common training, encourage 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. The Department should also ensure that pass-through entities are providing effective oversight of their subrecipients and identifying and correcting any instances of noncompliance. Further, to the extent that it is using contractors to assist in improving and modernizing its grants management capabilities, the Department should ensure that deliverables are received timely and meet specifications. Lastly, 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 Code of Federal Regulations 200, Subpart F, given its generally limited staffing in relation to the amount of Federal funding that it oversees.

MANAGEMENT CHALLENGE 3—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 18,400 public school districts and 98,000 public schools; about 6,000 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.

Audits and Inspections Involving Data Quality and Reporting

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, as shown in Table 11, below.

Table 11. OIG's Recent Data Quality Related Reports

Area Reviewed	Review Results
Adult Education	We found that an SEA used incomplete data obtained from two educational regions, two adult education centers, and one 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.
Clery Act	In the first of a series of audits, we found a postsecondary institution did not have effective controls to ensure that it reported complete and accurate Clery Act crime statistics. We concluded that the school's Clery Act crime statistics were not complete and accurate and did not provide reliable information to current and prospective students, their families, and other members of the campus community for making decisions about personal safety and security.
Disaster Recovery	We found that an SEA did not ensure that the data it provided to the Department were accurate and complete.
Graduation Rates	In a series of reports on SEAs' processes to calculate and report graduation rates, we concluded that internal controls at each of the SEAs that we reviewed did not provide reasonable assurance that reported graduation rates were accurate and complete. 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 and Planned Work

Ongoing work in this area includes additional reviews of the accuracy and completeness of displaced student count data provided by SEAs under the EIA program, and an additional review of the accuracy and completeness of a school's campus crime statistics under the *Clery Act*. Planned projects for FY 2021 include additional work related to the EIA program and reviews of Charter School Program grants.

Progress in Meeting the Challenge

The Department stated that it is developing a 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. The Department added that it has taken comprehensive steps to promote cohesive data governance initiatives, build staff capacity around data, and improve data management practices and systems.

The Department stated that it established an agency-wide Data Governance Board to take agency-wide action in developing an open data culture, improving the Department's capacity to leverage data as a strategic asset for evidence building and operational decisions, and developing the data skills of staff. The Department noted that the Data Governance Board initiated the Department's first data maturity assessments that will allow the Department to evaluate itself against documented best practices, determine gaps, and identify priority areas for improvement. The Department expects the assessments to provide a baseline to measure progress and growth and to be used to guide the creation of its inaugural data strategy and inform program office investment decisions.

The Department stated that it also identified an approach to address root causes and improve data quality that included ensuring grantee awareness of their data responsibilities and consequences for noncompliance. The Department noted that the approach also includes provisions to improve the varying capacity of grantees in reporting data and among Department staff in reviewing grantee-reported data. The Department expects this effort will include technical assistance to grantees, additional resources for data quality review, and expanded use of technological solutions to automate and reduce the need for manual reporting and review.

The Department stated that it initiated a process to develop a data strategy to realize the full potential of data to improve education outcomes. The Department stated that this effort includes agency-wide discussions about data priorities that will help improve data maturity and will focus on the Department's capabilities to leverage data, operationalize and optimize data governance, and drive cultural change for the benefit of all stakeholders.

The Department also identified system- and program-specific activities that included improving the quality and use of *Government and Performance Results Act* measures, launching a new annual performance reporting tool for the Office of Special Education Programs formula grantees, and implementing a central unified data platform for FSA aid lifecycle data.

What the Department Needs to Do

The Department's efforts to improve the quality of data are critically important to program management. While the Department has made progress in strengthening grantees' data quality processes, findings from our recent audit reports show that this area remains an ongoing challenge.

The Department should continue its efforts to promote strong data management practices across its program offices, from the development of sound data collection protocols to the implementation of comprehensive data verification processes. As discussed in its response, the Department should ensure that it uses the results of its data maturity assessments to measure progress and growth and to guide the creation of its inaugural data strategy and related action plans, inform program office investment decisions, and track its returns on those investments. The Department should also continue performing outreach to States and other entities that report data to the Department to reinforce requirements and expectations around good data quality practices—of particular importance given the substantial amount of funding for new programs and emphasis on transparency and accountability under the *CARES Act*. Lastly, 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 its grantees and subgrantees.

MANAGEMENT CHALLENGE 4— 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.

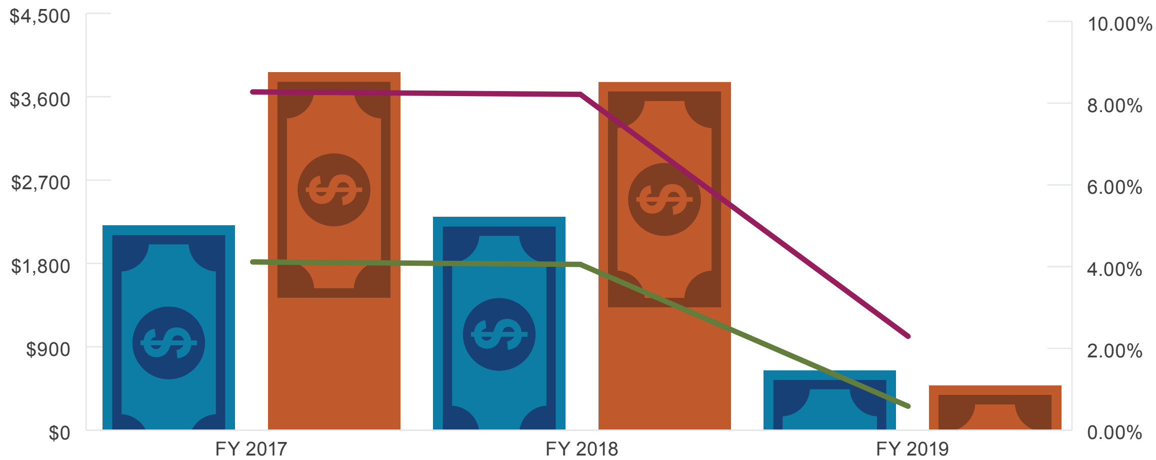
The *Payment Integrity Information Act of 2019* (PIIA) reorganized and revised several existing improper payments statutes, including the *Improper Payments Elimination and Recovery Act of 2010* (IPERA). PIIA requires Federal agencies to reduce improper payments and to report annually on their efforts. 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.

PIIA 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 PIIA, 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. The Department changed its improper payment estimation methodologies for both the Pell and Direct Loan programs for FY 2019 and reported a significant decrease in improper payments in those programs from FY 2018. However, we found that its FY 2019 estimates for the Pell and Direct Loan programs were unreliable because they were not statistically valid. It is important for the Department to develop valid and reliable estimates so that it can identify the root causes and take actions to prevent and reduce improper payments. Figure 3 shows the reported improper payment estimates for these two programs from FY 2017 through FY 2019.

Figure 16. Pell and Direct Loan Improper Payment Estimates FY 2017–2019



	FY 2017	FY 2018	FY 2019
Pell Program Estimate (in millions of $)	$2,210	$2,302	$646
Direct Loan Estimate (in millions of $)	$3,863	$3,753	$483
Pell Program Percentage Estimate	8.21%	8.15%	2.23%
Direct Loan Program Percentage Estimate	4.05%	3.99%	0.52%

Source: *U.S. Department of Education Agency Financial Reports (FY 2017–FY 2019)*

The authorizing legislation for the Restart (total FY 2019 outlays of $34 million) and EIA (total FY 2019 outlays of $160 million) programs designated them as susceptible to significant improper payments, thereby requiring the Department to report improper payment estimates for these programs beginning with its FY 2019 Agency Financial Report.

Audits and Inspections Involving Improper Payments

The OIG's most recent statutorily required work found that the Department complied with improper payment reporting requirements. However, as shown in Table 12 below, our audits identified opportunities for improvement in multiple areas.

Table 12. Results of Recent OIG Statutorily Required Improper Payment Audits

FY	Complied with IPERA	Identified Concerns
2019	Yes	The Department published improper payment estimates for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs as required by IPERA. However, we found that the published estimates for three of these programs were unreliable because the methodologies used to develop them were not statistically valid.
2018	Yes	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.
2017	No	The Department did not meet all requirements for compliance with IPERA because it did not meet its reduction target for the Pell program.

Other audit work has identified potential improper payments in the student financial assistance programs and by SEAs and LEAs. Our semiannual reports to Congress from April 1, 2017, through March 31, 2020, included more than $725 million in questioned costs from audit activity and more than $94 million in restitution payments from investigative activity. These examples demonstrate that there may be other potential opportunities for the Department to identify and prevent improper payments.

Ongoing and Planned Work

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 the required risk assessment of the Department's purchase card program and, if deemed necessary, conduct an audit of Department purchase card transactions. Our planned activities for FY 2021 include multiple projects involving grant recipients where improper payments could be identified.

Progress in Meeting the Challenge

The Department stated that it is addressing this management challenge on several fronts. The Department stated that it performed compliance activities in FY 2020 that included improper payment estimation of programs deemed susceptible to significant improper payments and qualitative and quantitative improper payment risk assessments for programs and activities. The Department added that it reviewed and revised its methodology for the Emergency Impact Aid program in FY 2020 and that it strengthened its risk assessment process to include an improper payment threshold analysis of all its programs and activities.

According to the Department, FSA implemented a daily pre-payment interface with the Department of the Treasury's Do Not Pay web service that matches intended recipients with multiple data sources to identify potential improper payments. The Department noted that it is participating in a pilot with the Do Not Pay analytics team to research possible payment integrity checks that could be applied to the Department's payment data.

According to the Department, FSA continued to refine its methodology to estimate improper payments. The Department also noted that FSA worked with OMB to gain increased support for using compliance audit data as improper payment estimation and added requirements for compliance auditors to provide FSA with population and sample information necessary to estimate improper payments. Additionally, the Department stated that FSA also implemented enhanced quality control procedures over its improper payment estimation process to increase validation of compliance audit data and calculations and ensure only sustained questioned costs, rather than questioned costs, identified in compliance audits are used in improper payment estimates.

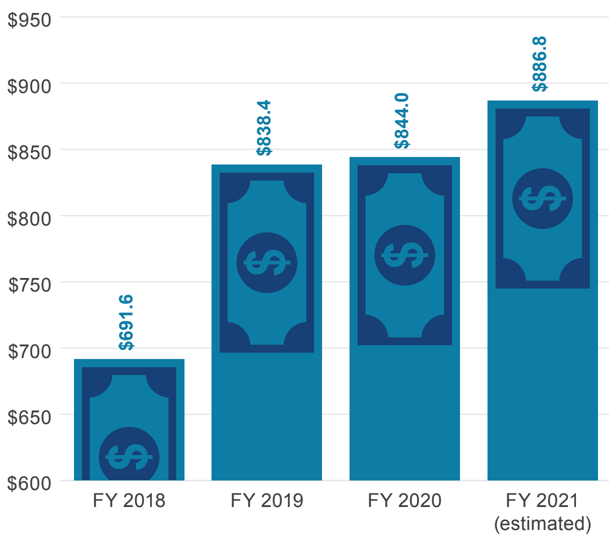
What the Department Needs to Do

The Department needs to ensure that revised estimation methodology for the Emergency Impact Aid program is properly implemented and documented. The Department needs to ensure that the refined estimation methodologies for the Pell and Direct Loan programs produce statistically valid and rigorous improper payment estimates that are consistent with the requirements in OMB Circular A-123 Appendix C. In addition, the Department needs to properly implement its enhanced quality control procedures over its improper payment estimation process. The OIG has not assessed the Department's FY 2020 estimation methodologies or the accuracy and validity of the Department's estimates. The OIG will review the accuracy and validity of these measurements as part of the FY 2020 PIIA audit. Depending on whether the OIG finds issues with these estimation methodologies and estimates, this Management Challenge Area is subject to review and reconsideration.

MANAGEMENT CHALLENGE 5—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 4, as of September 30, 2020, the Department reported $844 million in total information technology (IT) spending for FY 2020 and estimated that it would spend more than $886 million on IT in FY 2021. The estimated FY 2021 spending is a 28.2 percent increase from the reported FY 2018 level.

Figure 17. Department Total IT Spending FY 2017–2020 (Dollars in Millions)
(Dollars in Billions)



Source: *Department of Education IT Agency Summary, ITDashboard.gov, as of September 30, 2020.*

Through the Office of the Chief Information Officer (OCIO), the Department monitors and evaluates the contractor-provided IT 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 IT investments, and leading change to improve the efficiency and effectiveness of the Department's operations. In addition to OCIO, 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 IT 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, IT security audits and financial statement audits have identified security controls that need improvement to adequately protect the Department's systems and data.

Audits Involving IT Security

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 13, our recent FISMA audits included audit 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 security function's related metric domains. Our FY 2017 through FY 2019 FISMA audits concluded that the Department and FSA were not effective in any of the five security functions—Identify, Protect, Detect, Respond, and Recover.

Table 13. Results of OIG FISMA Audits—Cybersecurity Framework Security Functions and Metric Domains with Audit Findings

FY	Identify: Risk Management	Protect: Configuration Management	Protect: Identity and Access Management	Protect: Data Protection and Privacy	Protect: Security Training	Detect: Information Security Continuous Monitoring	Respond: Incident Response	Recover: Contingency Planning
2019	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding
2018	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding
2017	Audit Finding	Audit Finding	Audit Finding	N/A[3]	Audit Finding	Audit Finding	Audit Finding	Audit Finding

[3] Data protection and privacy was not a metric domain for the FY 2017 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 2019 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) fully implementing two-factor authentication (identity and access management); (4) performance of timely reviews of system Privacy Impact Assessments (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 repeatedly identified IT controls as a significant deficiency. In its most recent report, the independent public accountant noted that the Department and FSA management demonstrated progress implementing corrective actions to remediate some prior year deficiencies in addressing some of the deficiencies. However, they reported that management had not fully remediated prior-year deficiencies in several areas and identified IT control deficiencies in areas such as access controls, segregation of duties, and application change controls. The independent public accountant concluded that ineffective IT 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 a student's login credentials and then using this information to access the 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 IT 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 has made significant progress in addressing this ongoing challenge. This included improvements in a wide range of areas such as metric scoring, management of Plans of Actions and Milestones, communication and capacity building, data loss prevention, and access management.

The Department noted that it established an improved methodology for quarterly cybersecurity performance improvement metric scoring and dashboarding capabilities to gauge specific progress in this area. The Department added that the new methodology encompasses the composite scoring from several sources to determine the overall percentage of achievement towards the Department's cybersecurity objectives.

The Department also stated that significant progress had been in its management of Plans of Actions and Milestones. The Department reported that the average time to close a Plan of Actions and Milestones was reduced from 167 days in FY 2019 to 47 days in FY 2020 and that it achieved a 68 percent net reduction in past due Plans of Actions and Milestones since starting the reporting period on October 1, 2019. The Department believed that those positive metrics are direct indicators of the progress achieved in maturing risk management capabilities and reduction capabilities.

The Department stated that it provided targeted briefings on subjects including Cybersecurity Framework Risk Scorecard results, phishing exercises, and current cyber threats to increase communication and build capacity for its stakeholders. The Department also noted that it significantly improved its phishing readiness through the deployment of the 'Report Phishing' button to all its Outlook email clients that resulted in the highest reporting rates since the launch of the phishing program in FY 2014.

The Department stated that it deployed Data Loss Prevention desktop agents to enhance the identification of personally identifiable information such as Social Security and credit card numbers. Following the passive monitoring phase of the deployment, the Department expects that additional Data Loss Prevention policies will become operational and enhance overall Data Loss Prevention capabilities.

According to the Department, notable progress has been demonstrated in the development of an enterprise Identity Credential and Access Management solution. The Department expects this solution to provide the ability to manage enterprise identity, user accounts, and user roles centrally and securely within and across Department systems and applications. The Department stated that it began working to identify system candidates to begin building out identities in FY 2020 and plans to deploy the Single Sign-On integration in FY 2021.

What the Department Needs to Do

The Department relies on IT 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 IT security program through our annual FISMA audits, financial statement audits, and management challenges reports. While the Department reported significant progress towards addressing longstanding concerns, managing IT 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 its efforts to address these weaknesses and continuing to place a priority on improving its IT security program. Our FISMA report for FY 2019 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 IT security controls, particularly in the areas of configuration management, identity and access management, and information security continuous monitoring.

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 IT security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

DEPARTMENT COMMENTS

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

October 30, 2020

TO: Sandra D. Bruce
Acting Inspector General
U.S. Department of Education

FROM: Denise Carter
Acting Assistant Secretary
Office of Finance and Operations

SUBJECT: Response to Office of Inspector General Draft Report, "U.S. Department of Education FY 2021 Management Challenges"

Thank you for the opportunity to provide input on the Office of Inspector General (OIG) draft report, *U.S. Department of Education (Department) Fiscal Year (FY) 2021 Management Challenges*.

The Department values the OIG's perspective on emerging and continued risks and vulnerabilities related to programs and operations. As in recent years, the inclusion of four challenges in areas of Oversight and Monitoring; Data Quality and Reporting; Improper Payments; and Information Technology Security are well-aligned with the Department's own assessment of enterprise risks and respective management efforts. The additional identification of a fifth challenge—related to the implementation of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)—is similarly of marked importance for us, as we recognize that successful implementation and effective oversight require a comprehensive and intentional approach, given the magnitude of funding provided and the critically interconnected operational processes and respective risks involved with the implementation and continued administration of the CARES Act programs.

The Department is pleased to report that we have taken a number of significant steps to address the persistent and evolving challenges documented by the OIG and have identified opportunities to incorporate Enterprise Risk Management practices into strategic initiatives aimed at managing programmatic and operational risk in a coordinated, cohesive manner.

This memo contains a summary of the Department's progress in meeting each of the five challenges, organized by challenge title. Attached, you will find a supplemental document that provides technical corrections to other sections of the draft report.

We look forward to continued communication and collaboration on these issues.

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

CHALLENGE 1: IMPLEMENTING THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES ACT)

New Grant Programs and Additional Federal Education Funds; Data Quality

When the *CARES Act* was passed in March 2020, the Department took comprehensive steps to ensure appropriate interpretation of the legislation's requirements and subsequent policy and operational implications. To successfully administer the new grant programs and additional federal education funds provided by the Act, the Department immediately established two formal committees comprised of Senior Leaders with the expertise needed to make decisions and execute against the plans with accuracy and urgency, as required by the crisis.

The Steering Committee was responsible for the overarching policy decisions and oversight for implementation at the highest level. The Operations Committee was charged with programmatic implementation of the decisions made by the Steering Committee, which included confirming appropriate systems, processes, and procedures were in place to make awards and ensure necessary funds control and reporting transparency. With representation from Senior Leaders across the Department—the Office of the Secretary (OS), the Office of the Under Secretary (OUS), the Office of Finance and Operations (OFO), the Office of the General Counsel (OGC), the Office of Planning, Evaluation, and Policy Development (OPEPD), the Office of Elementary and Secondary Education (OESE), and the Office of Postsecondary Education (OPE)—the Committees considered recommendations for policy options, as well as business process modifications from additional experts in supporting working groups.

Specifically, OFO took comprehensive steps to ensure preventative funds control at the onset by establishing the necessary account structures and funds control measures to maintain segregation from other grant funding to ensure ease of tracking and reporting of status of *CARES Act* funds in real time from the General Ledger. Experts from grantmaking offices worked with program attorneys and Budget Service to ensure statutory requirements were appropriately met. The Office of Legislation and Congressional Affairs, Budget Service, and OPEPD met weekly with Congressional Appropriations Committee staff to provide status updates on program implementation and execution and to collaboratively troubleshoot any issues relating to timelines or other policy questions.

The OFO/Office of Financial Management (OFM) provided regular reports to the Office of Management and Budget (OMB) on status of grant awards, and OPEPD worked with OMB on decisions related to program implementation and the Department's approach to data collection and reporting requirements.

This collaborative process facilitated appropriate allocation methodologies, preventative funds control measures, and development of criteria for non-formula awards; as a result, the Department allocated and awarded *CARES Act* formula grant funds with unprecedented speed, making nearly all funds available within one month of enactment, roughly twice as fast as the first awards under the *American Recovery and Reinvestment Act of 2009*. The Committees met regularly until funds were dispersed and continue to meet on an ad hoc basis, as needed.

The Department recognized from the beginning that oversight and monitoring of grants would be a management challenge, and this has been a continued focus of senior leadership, as well as line managers; the overall progress the Department has made in this area can be found detailed in the Challenge 2 section below. However, since the *CARES Act* awards represent a significant portion of the grants portfolio, several efforts will be called out specifically in this Challenge area.

Despite the extraordinary number and size of *CARES Act* awards and expedited grantmaking timeline, which was undertaken on top of the ongoing administration of the Department's $70 billion annual portfolio of existing programs, Department staff collaborated effectively to provide effective and timely support to eligible applicants, grantees, and stakeholders. This support included written guidance, blog posts, webinars with stakeholders, direct technical assistance to new grantees, post-award calls, "office hours" on reporting requirements, and a dedicated shared mailbox: COVID-19@ed.gov to handle inquiries. The Department also approved the addition of 25 temporary Full Time Equivalent staff for OPE and OESE to support the additional administrative, monitoring, and oversight workload required by the *CARES Act*.

The Steering Committee charged OPEPD's Office of the Chief Data Officer (OCDO) with the development of a centralized public-facing portal that will disseminate relevant data and information to the public regarding the Education Stabilization Funds and their use, as well as a tool for grantees to submit data to address annual reporting requirements. The portal and data collection capability solution will provide comprehensive reporting features and will be bundled with end user help desk support and data quality services. The portal and platform are intended to leverage data from existing Department systems and will be developed using an Agile approach to software development—ensuring, where possible, that tools are integrated with existing systems.

Student Financial Assistance Program Requirements; Data Quality

In addition to the almost $31 billion provided by the *CARES Act*, the Act contained provisions that provided substantial relief for student loan borrowers. Following the passage of the *CARES Act* in March, the Department began reducing the interest rate for all federally held student loan borrowers to 0.0 percent. The Office of Federal Student Aid (FSA) worked with its loan servicers to ensure that more than 99.98 percent of federally held student loans were placed on a 0.0 percent interest rate within a matter of weeks. The remaining loans are newly disbursed loans that enter the systems at the statutorily required rates and are immediately adjusted down to 0.0 percent for the duration of the *CARES Act* suspension period. Servicers are updating new loans to 0.0 percent interest status on a daily or weekly basis, retroactively back to the date the borrower entered repayment status. On August 8, 2020, President Trump signed an executive action that extended Student Loan Relief, continuing the temporary cessation of payments and setting interest rates to 0.0 percent through December 31, 2020. The current student loan relief programs were set to expire on September 30, 2020.

The Department automatically placed all borrowers in administrative forbearance status, which allowed them to temporarily stop making monthly loan payments. Once the payment suspension period ends on December 31, 2020, all non-defaulted borrowers in the federal student loan portfolio will be in a current repayment status. FSA closely tracks data related to repayments to identify the impact of borrowers' decisions regarding repayment to understand current revenue and cost to the federal government. FSA has refunded more than 99 percent of involuntary payments made by borrowers with defaulted loans who were subject to having certain Treasury payments offset or wages garnished. FSA notified those employers that continued to garnish wages against FSA directions. Additionally, FSA worked with its loan servicers to ensure all eligible borrowers received personalized communications informing them of the benefits afforded to them under the *CARES Act*, e.g., suspension of interest and payments, and payment credits. As new borrowers have received student loans and entered repayment, servicers notify them of these same benefits.

The $40 million provided for Student Aid Administration supports extensive communications and notifications to borrowers explaining changes in loan terms and flexibility provisions as well as FSA system changes to implement the *CARES Act* provisions. Student loan model assumptions, cost estimates, and related execution transactions for these provisions were performed by OFO/Budget Service and officially approved by Department Senior Leaders and OMB.

CHALLENGE 2: OVERSIGHT AND MONITORING

Student Financial Assistance Programs

To improve oversight and monitoring of institutions of higher education (IHEs) 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 IHEs' disbursements of Pell Grants and Direct Loans. In FY 2020, FSA deployed an analytical model to continually monitor partner data and performance. This will improve the ability to identify IHEs most at-risk and allow more effective use of oversight resources by informing and prioritizing support for IHEs.

Over the next several years, the Department will implement additional risk-based procedures to evaluate an accrediting agency's ability to effectively determine and measure IHE compliance with accreditation standards and to identify accrediting agencies at higher risk of failing to meet statutory and regulatory requirements and additional procedures to prioritize oversight of those higher-risk agencies.

FSA implemented an improved model for verification selection and evaluation of data elements from the Free Application for Federal Student Aid (FAFSA) that allows the Department to better identify applicants for whom errors will result in a change in their federal aid award, potentially reducing improper payments.

The President signed the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act in December 2019, which will help ensure the accuracy of income information used for determining Pell Grant eligibility. One of the primary causes of improper payments in the Pell Grant program is failure to accurately verify financial data. The *FUTURE Act* provides an exception to the Department of Education from restrictions of Section 6103 of the Internal Revenue Code to allow the Department to more easily receive income tax data from the Internal Revenue Service (IRS), thereby simplifying and improving the accuracy of FAFSA filing by prepopulating certain fields. This exception will also allow borrowers to more easily recertify their income to stay enrolled in Income Driven Repayment plans. At this time, Congress has not provided funding to support implementation of the *FUTURE Act*.

Grantees

The Department has prioritized building capacity of grants administration staff to provide appropriate oversight and monitoring practices to be effective stewards of taxpayer funded investments. To that end, the Department has considered monitoring approaches across the agency with particular attention to the balance between compliance and performance. In FY 2020, OFO/Office of Human Resources (OHR) partnered with OFO/Office of Acquisition and Grants Administration (OAGA) to create a competency model, career map, and training plans for the grants management job series/category. This initiative aims to identify core and technical competencies and the respective training opportunities needed to achieve competency gap closure. OFO/OHR is in the process of identifying a tool to assess and track proficiency levels.

The Department recently revised the Handbook for the Discretionary Grants Process, an Administrative Communications System Directive, to provide a more robust, comprehensive guide for administering grants in a standardized manner across program offices. To support consistent interpretation and implementation of the revised policies and procedures, OFO/OAGA has developed and provided comprehensive training resources and continuing education workshops (e.g., monitoring for outcomes and success, risk assessment and mitigation, financial management, and use of a consistent grant slate memorandum) for program office staff and technical assistance resources related to internal controls requirements for grant recipients.

In addition, the Department reviewed the continuation award process to promote cross-office alignment and provided early training on competition planning to support making earlier awards, which will promote a stronger continuation funding process (i.e., if grantees receive awards well in advance of the start of a school year, their annual progress reports will better align with continuations decisions).

Given the transition to telework for most Department staff and many grantees due to the COVID-19 pandemic, the Department continues to leverage virtual monitoring approaches to provide necessary oversight and support to grant recipients. OFO/OAGA updated a resource related to virtual monitoring and is developing additional resources to support increased use of virtual monitoring resources. The Department examined monitoring practices and needs with all program offices and identified best practices for sharing monitoring tools and strategies (e.g., conducting "Table Talks" discussions for grant staff to communicate schedules, and consider establishing optional generic monitoring protocols).

The most recent efforts to build grant staff capacity allowed the Department to respond swiftly to the COVID-19 pandemic and provisions and requirements of the *CARES Act*. The Department has already shifted focus to support grant staff to conduct all monitoring activities in a virtual environment. In this light, the Department has procured a contract solution to develop a standard virtual grantee monitoring program for ED's discretionary and formula grant programs. The contractor will perform a comprehensive assessment of the Department's "Current State" that includes documentation, interviews, and a comparative/gap analysis; provide draft recommendations; and work with a stakeholder group to define final recommendations to achieve the "Target State", i.e., a Department-wide, standard, virtual grantee monitoring program to include practices, processes, and virtual collaboration tools; and develop and deliver a training course that is based on the actual practices, processes, and tools to be used by staff when implementing the entire virtual grantee monitoring program.

The Department also established a grants management acquisition program to resolve non-inherently governmental grant award and administrative service gaps experienced by program offices. The program is anchored by the Education Grants Management Support Services-Blanket Purchase Agreement (EDGMSS-BPA), which sourced a cadre of grant services contractors with capacity and know-how to support a range of functions related to program offices' monitoring and oversight responsibilities.

In addition to the steps taken to enhance monitoring and oversight capabilities of staff responsible for managing grants, the Department has implemented a number of initiatives aimed at ensuring grants management data systems can similarly provide the support necessary to collect grantee data, analyze performance, and detect risk.

To effectively address the needs of all users—and to maximize the return on the Department's existing investment in G5, the Department's grants management system—OFO conducted a business process re-engineering (BPR) analysis to inform next steps in the G5 Modernization Initiative. The Department envisions a modern, modular, secure, and user-friendly G5 that meets the grants management needs of all internal and external users. The BPR analysis ensured appropriate stakeholder involvement in the identification of comprehensive system requirements. Ultimately, a final deliverable detailed a comprehensive list of core requirements for a modernized G5 system.

The Department prioritized the reduction of grantee reporting burden by standardizing data collection across various information requests. The data elements across a collection of 24 unique discretionary annual performance reports (APR) were streamlined and standardized into a single APR. The implementation of the single APR furthers the Department's priority, while providing 1) staff with common and accessible data sets to monitor grantees' progress in meeting program objectives and 2) standard data requirements for an enterprise APR tool, as part of the G5 Modernization Initiative.

Additionally, the Department has continued to enhance its Entity Risk Review (ERR) capabilities to conduct risk assessments for grant applicants recommended for initial or continuation funding, in accordance with 2 CFR 200.205. The ERR application supports Department staff in assessing applicant and/or grantee risks by providing administrative, financial, and internal controls information by linking disparate data sets and applying business logic to the data. The data are used to inform the Department's grant administration, oversight, and monitoring through the use of a standardized set of risk indicators; facilitate program offices' efforts to analyze grantee risk prior to making awards and during the life of a grant project; make Single Audit findings and other information about organizations' fiscal health available and accessible to program staff; and facilitate data sharing across grant programs and among Department offices.

The data logic and capabilities of the ERR have been well documented and have been referenced during functional requirements gathering processes for the data collection and reporting portal being developed to address the *CARES Act* data collection requirements (as mentioned in Challenge 1) and to inform the Department's comprehensive and cohesive efforts to modernize the G5 Grants Management system to address the significant data needs related to collecting, analyzing, and reporting on grantee performance data—much needed oversight capabilities that are similarly referenced in Challenge 3.

The Department continues to assess technology solutions and other best practices for improving monitoring capabilities across the grants lifecycle. The OMB Memorandum M-19-16, *Centralized Mission Support Capabilities for the Federal Government*, created the Quality Service Management Offices (QSMOs) for select mission-support function, tasking QSMOs with offering and managing a marketplace of effective and efficient solutions to be implemented across the government. The Department of Health and Human Services (HHS) was pre-designated as the Grants Management QSMO to transform government-wide grants management end-to-end, and the Department has been actively involved in these collaborative efforts to share its unique perspectives and help identify best practices and process improvements. To that end, the Department is partnering with HHS on several initiatives designed to identify enhanced tools and services to support grants management across the government. Because of the ERR's successful implementation across program offices, the Department is well- positioned to pilot the HHS Grant-recipient Digital Dossier risk management tool during FY 2021 to assess capabilities and benefits to pre- and post-award monitoring processes.

CHALLENGE 3: DATA QUALITY AND REPORTING

In response to additional authorities granted by the President and Congress to manage education data as a strategic asset, the Department 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. To specifically improve the quality and accuracy of data collected from grantees, the Department has taken comprehensive steps to promote cohesive data governance initiatives, build staff capacity around data, and improve data management practices and systems.

An agency-wide Data Governance Board (DGB) was established and met for the first time in November 2019. The DGB is charged with taking agency-wide action to develop an open data culture, improve the Department's capacity to leverage data as a strategic asset for evidence building and operational decisions, and develop the data skills of staff throughout the agency. In the spring of 2020, the DGB initiated the Department's first data maturity assessment (DMA), conducted both at the agency and individual Principal Office (PO) level. These assessments allow the Department to evaluate itself against documented best practices, determine gaps, and identify priority areas for improvement. The DMA assessed maturity levels for data quality across three process areas: Data Quality Strategy, Data Quality Assessments, and Data Cleansing. These process areas describe best practices for detecting, assessing, and cleansing data defects to ensure fitness for intended uses in business operations, decision making, and planning. The results of the DMA will provide the baseline for the Department and program offices to measure progress and growth in FY 2021 and will be used to guide the creation of agency's inaugural data strategy, inform program office investment decisions, and provide agency leadership with the ability to track year-over-year return on those investments.

The Department also identified a multi-pronged approach to address root causes and improve data quality during FY 2020. The approach includes ensuring grantees are aware of their data responsibilities under the conditions of their grants and of the credible consequences for noncompliance—ranging from additional informal monitoring through termination of the grant. It also includes provisions to improve the varying capacity of grantees in reporting data and varying capacity among Department staff in reviewing grantee-reported data. When fully deployed, this effort is largely expected to take the form of technical assistance to grantees, additional resources for the Department for data quality review, and expanded use of technological solutions to automate and reduce the need for manual reporting and review.

Exigent circumstances, volume of new grant funds, and other challenging environmental factors led the Department to immediately deploy a variation of that strategy for key data collections associated with the Education Stabilization Fund—specifically, the Higher Education Emergency Relief, Governor's Emergency Education Relief, Elementary and Secondary School Education Relief, and equivalent Outlying Area funds. The Department executed a contract to develop a data collection portal, implement a data management solution to support internal and external reporting, and launch a public transparency website. In addition to early communications to grantees about expectations for data quality, several components of the data collection process include explicit data quality components, including auto- population of known data values in the collection instrument, help desk services for grantees submitting performance data, a data management platform that imposes business rules to improve data quality, and established phases for opening, closing, and reopening the tool for grantees to submit data quality corrections.

In the summer of FY 2020, the DGB also initiated a process to develop an ED Data Strategy to realize the full potential of data to improve education outcomes. Finalization and adoption of that formal Data Strategy is expected in November 2020. This Department-wide effort includes agency-wide discussions about data priorities that will help improve data maturity and will focus on the Department's capabilities to leverage data, operationalize and optimize data governance, and drive cultural change for the benefit of all stakeholders. The DGB identified the following four goal areas to guide data modernization, improvement efforts, and future investments: strengthening agency-wide data governance; building human capacity to leverage data; advancing the strategic use of data; and improving data access, transparency, and privacy. At least one objective within this strategy is expected to focus on data quality and development of an action plan to deploy the multi-pronged approach outlined in paragraph three, above.

These coordinated, cross-agency efforts are in addition to a variety of system-specific or office-specified efforts accomplished in FY 2020. The OCDO launched a partnership with Budget Service, the Grants Policy Office, and OAGA to improve the quality and use of *Government and Performance Results Act* measures. As part of this initiative, OCDO supported OESE and the Office of Special Education and Rehabilitative Services in the development of new and updated measures for grant programs. Additionally, the Department launched a new annual performance reporting tool in FY 2020 for the Office of Special Education Programs formula grantees, providing an online system to submit responses and review data in a user-friendly format. The tool reduces reporting burden and improves data quality by using EDFacts to pre-populate data and match the format needed for the performance indicators. It meets current security standards and addresses issues identified with prior tools.

Through its Next Gen initiative, FSA began the development and implementation of the Enterprise Data Management and Analytics Platform Services (EDMAPS) which will provide a central unified data platform for FSA aid lifecycle data. In FY 2020, FSA implemented a master data management platform (pMDM) and a data lake (Data Lake) for the swift ingestion, presentation, and management of structured and unstructured data from various internal and external sources. In FY 2021, FSA will co-locate pMDM, Data Lake, and the Enterprise Data Warehouse and Analytics into the single EDMAPS system hosted in the FSA Cloud General Support Services in Amazon Web Services. This effort will provide FSA a central hub for system data and enable the re-engineering of FSA siloed legacy systems such as National Student Loan Data System, the Central Processing System, and the Debt Management and Collection System, as well as the consolidation of the multiple loan servicers into one ED-owned servicing system. In collaboration with the IRS, FSA also initiated changes to its programs to help ensure the accuracy of income information used for determining Pell Grant eligibility, which are now possible as a result of the *FUTURE Act* which was signed into law in December 2019. As indicated previously, implementation of the *FUTURE Act* will allow FSA to receive income tax data directly from the IRS which would simplify FAFSA filing and improve accuracy.

CHALLENGE 4: IMPROPER PAYMENTS

Most of the assistance that the federal government provides to students comes through its student loan programs and the Federal Pell Grant Program. A primary cause of improper payments is the Pell Grant and Direct Loan Programs. The Department is addressing this management challenge on several fronts.

OFO/OFM continued to perform *Improper Payments Elimination and Recovery Act* compliance activities in FY 2020, including improper payment estimation of programs deemed susceptible to significant improper payments, as well as qualitative and quantitative improper payment risk assessments for programs and activities in scope. The Department reviewed and revised its methodology for the Emergency Impact Aid program and implemented the revised methodology in FY 2020. Written procedures are in development and due at the end of December 2020. The Department also strengthened its risk assessment process to include an improper payment threshold analysis of all its programs and activities.

In September 2020, FSA implemented a daily pre-payment interface with the Department of the Treasury's **Do Not Pay web service** that matches intended recipients with multiple data sources to identify potential improper payments. OFO/OFM is also participating in a pilot with the Do Not Pay analytics team to research possible payment integrity checks that could be applied to the Department's payment data.

Lastly, FSA continued to refine the statistically valid methodology it implemented in FY 2019 to estimate improper payments, including random sampling from a population of more than 5,700 schools. It used improper payment data from *Single Audit Act* compliance audits of the sampled schools. FSA worked with OMB to gain increased support of using compliance audit data for improper payment estimation and added requirements for compliance auditors to provide FSA with population and sample information necessary to estimate improper payments. FSA also collaborated with OMB to revise and clarify the requirements in OMB Circular A-123 Appendix C for statistically valid and rigorous improper payment estimation methodologies. OMB's draft revisions of sections of the Circular removed references to randomized sampling from the requirements for statistically valid estimation methodologies. The draft sections also require IGs, in performing their annual audits, to evaluate the adequacy of Sampling and Estimation Methodology Plans when determining program compliance and whether the improper payment estimate is representative of the program's annual improper payments. If the IG determines that a program is non-compliant for this criterion, the final IG report must provide concrete recommendations regarding the specific actions and steps the program must take to achieve compliance with this criterion. FSA also implemented enhanced quality control procedures over its improper payment estimation process to increase validation of compliance audit data and calculations and ensure only sustained questioned costs, rather than questioned costs, identified in compliance audits are used in improper payment estimates.

CHALLENGE 5: INFORMATION TECHNOLOGY SECURITY

The Department has made significant progress in addressing the ongoing challenge of information technology security. To gauge specific progress in this area, the Department established an improved methodology for quarterly cybersecurity performance improvement metric scoring and dashboarding capabilities, leveraging the *Federal IT Acquisition Reform Act* (FITARA) cyber scoring methodology (*Department Federal Information Security Management Act* (FISMA) Risk Management Assessment/ IG FISMA maturity score). The new methodology encompasses composite scoring from the Quarterly

Risk Management Assessment score, the Cybersecurity Framework Risk Scorecard results, the previous year's IG FISMA maturity score, and the Department of Homeland Security Cyber Hygiene Scorecard, to determine the overall percentage of achievement towards the Department's cybersecurity objectives.

Significant progress has been made to maintain an accurate system inventory, communicate the impact of identified cybersecurity risks, and actively manage the Plans of Actions and Milestones (POA&Ms)—i.e., the management tools for tracking the mitigation of cybersecurity program and system level findings and weaknesses. The Department's Office of the Chief Information Officer (OCIO) publishes Cybersecurity Framework Risk Scorecards that serve as a tool to prioritize and mitigate risks to the Department's information systems. The Scorecard was recently enhanced to include privacy scoring and daily reporting, enabling stakeholders to manage cybersecurity risks more effectively in near-real time and in concert with privacy risks to further reinforce the relationship between the Department's Information Security and Privacy Programs. To that end, OCIO leaders also engaged with the National Institute of Standards and Technology's Security and Privacy Implementation Collaboration Tiger Team to promote more effective integration of cybersecurity and privacy across government.

To increase communication and build capacity for Department stakeholders, OCIO has provided targeted briefings on a variety of subjects, including Cybersecurity Framework Risk Scorecard results, phishing exercises, and current cyber threats. Through continued outreach and communication with principal office leadership and operational stakeholders, the Department saw the average time to close a POA&M reduced from 167 days in 2019 to 47 days in FY 2020. The number of accepted risk POA&Ms also dropped from 53 to 29 during the same time period. At the closing of FY 2020, the Department achieved a 68 percent net reduction in past due POA&Ms since starting the reporting period on October 1, 2019. These positive metrics are direct indicators of the progress achieved in maturing risk management capabilities and reduction capabilities. The Department significantly improved its phishing readiness through the deployment of the 'Report Phishing' button to all Department Outlook email clients, allowing users to directly report suspicious emails with a single click of a button—a simple solution that resulted in the highest reporting rates since the launch of the phishing program in FY 2014 and continues to yield a substantial increase in reports.

The Department deployed Data Loss Prevention (DLP) desktop agents on Department endpoint devices to further enhance the identification of personally identifiable information, such as Social Security and credit card numbers. Following the passive monitoring phase of the deployment, additional DLP policies will become operational and further enhance overall DLP capabilities.

Notable progress has been demonstrated in the development of an enterprise Identity Credential and Access Management solution. This solution is expected to provide the ability to manage enterprise identity, user accounts, and user roles centrally and securely within and across Department systems and applications. In FY 2020, the Department began working to identify system candidates to begin building out identities, and the deployment of Single Sign-On integration is planned for FY 2021.

Lastly, to mitigate impacts of the COVID-19 pandemic on remote stakeholders, OCIO acted promptly to ensure the appropriate infrastructure was in place to support the shift to a fully virtual work environment. To that end, OCIO identified, analyzed, and recommended a cloud-based solution to provide rapid expansion of the Department's virtual private network capacity to support extensive teleworking capabilities. Additionally, the Department delivered an alternative multi-factor authentication solution to provide continuity of critical business functions during the pandemic. OCIO provided targeted outreach to proactively address threats to teleworking employees (e.g., warning them of increased phishing attempts and other cybercriminal scams that target largely at-home workers).

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 92 and the Department's management assurances on page 20.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**1**	**1**	**1**	**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 INFORMATION ACT 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. Due to these "third-party" controls being 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.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2020, 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 2020, the Department continued 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 three programs that met this criterion: the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid), Immediate Aid to Restart School Operations (RESTART) and Emergency Assistance to Institutions of Higher Education (EAI) 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. Readers can obtain a detailed breakdown of information on improper payment estimates, root causes, and corrective actions for the programs at **https://paymentaccuracy.gov**.

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.

EMERGENCY ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION

The Emergency Assistance to Institutions of Higher Education (EAI) program awards grants for emergency assistance to eligible Institutions of Higher Education (IHEs) for which a major disaster or emergency has been declared. Funds awarded assist activities directly related to mitigating the effects of a covered disaster or emergency on students and institutions. To the extent possible, EAI prioritizes projects that support students who are homeless or who are at risk of becoming homeless as a result of displacement related to a covered disaster or emergency; and IHEs that have sustained extensive damage by a covered disaster or emergency.

In FY 2020, the Department used statistically valid and rigorous sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, and EAI programs. Statistically valid and rigorous sampling and estimation methodologies were designed and implemented for the Emergency Impact Aid and RESTART programs in FY 2020. However, these methodologies did not yield the intended precision rates required for a rigorous estimate of the Emergency Impact Aid and RESTART programs. The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

For detailed information on Pell Grant, Direct Loan, Emergency Impact Aid, RESTART and EAI improper payment estimates in FY 2020 and prior years, please visit **https://paymentaccuracy.gov**.

I. ACTIONS TAKEN TO ADDRESS AUDITOR RECOVERY RECOMMENDATIONS

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 and 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.

The Department continues to work to improve its methods to identify, collect, and report on improper payment collections. For detailed information on identified and recovered improper payments in FY 2020, readers can visit **https://paymentaccuracy.gov**.

II. FRAUD REDUCTION REPORT

The Department continues to work with OMB to implement the F*raud Reduction and Data Analytics Act (FRDAA) of 2015* as incorporated by the Payment Integrity Information Act (PIIA) of 2019 and actively participates with OMB and other agencies in a government-wide workgroup that is collaborating on an implementation plan.

The Department has also taken steps to proactively identify the risk of fraud occurring across the agency. Through establishing an overarching Fraud Risk Governance Structure in FY 2020, the Department now has a means of promoting consistent organizational behavior by providing guidelines and assigning responsibility for fraud risk management, including the implementation of strong antifraud procedures and controls. Sources of guidance in implementing effective fraud risk management programs can be found in previous regulatory resources such as the PIIA and OMB A-123. In creating and adopting this Fraud Risk Governance Structure, the Department has identified several potential common fraud schemes and indicators. In doing so, internal and external fraud is differentiated to capture important distinctions in identifying and preventing both. Common fraud schemes include prospective vendors offering gifts or seemingly routine benefits during a competitive process, unbalanced bidding caused by employees providing their preferred bidder with information not disclosed to other vendors, and a vendor attempting to charge more than agreed to in the contract. OIG Investigative Services has identified several fraud indicators and further broken them down into the following categories:

1. *K-12 Fraud*—No separation of duties, missing school funds or property, inventory and financial records not reconciled, unreasonable costs, delayed or no reporting, unauthorized or related-party transactions, suspicious or unverifiable existence of vendors, grant award money runs out too quickly.
2. *Postsecondary Education Fraud*—Unexplained increase in wealth or lifestyle, unresolved or repeat audit findings and reluctance to provide information to auditors, nonexistent "students," high employee turnover rate with low morale, lack of written policies and procedures, commonalities on Free Application for Federal Student Aid (FAFSA®) such as students sharing bank account numbers, home addresses, phone numbers or email addresses.
3. *Public Corruption*—Irregularities in contract awards or undue influence by people in decision making positions, suspicious bidding trends and patterns, conflicts of interest, transactions lacking business purpose, use of shell companies, bill and payment requests for services that may not have been provided.
4. *Computer Crime*—People requesting access to systems for which they do not need access, people accessing systems outside of normal working hours, excessive number of complaints about identity theft from customers, proprietary data belonging to an organization available unsecured on the internet.

This Fraud Risk Governance Structure also outlines the current efforts already underway at the Department to mitigate the risk of fraud, such as:

- Required internal trainings covering fraud, waste, and abuse.
- Multiple risk assessments by the OEDARM and FSA.
- Antifraud controls/tools that foster a culture of responsibility and awareness to mitigate fraud risk from penetrating the Department.
- FSA's draft Fraud Risk Framework intended to outline FSA's fraud risk management activities designed to combat fraud and preserve integrity in operations and programs, safeguard taxpayer monies, and minimize improper payments.

- OIG Audits.
- Data analytics further consisting of preliminary analytics (trend analysis, pattern recognition, outlier detection), FSA Analytics using machine learning techniques to detect and mitigate potential fraud in the student loan portfolio, and OIG Information Technology Audits and Computer Crime Investigations who proactively monitor ED data through sophisticated modeling for criminal activity and network intrusions.
- Fraud Awareness Initiatives including (but not limited to) fraud communication (such as through the EDSOC Cyber Threat and Intelligence Security Bulletin), OIG fraud awareness and communication, and FSA's fraud awareness communications during International Fraud Awareness Week.

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 act upon fraud.

To build capacity and expertise for and to dedicate resources to fraud risk identification and mitigation, especially in the Title IV programs, FSA has created a compliance and fraud risk group and designated a fraud risk advisor within its Enterprise Risk Management Directorate (ERMD). During FY 2020, ERMD's compliance and fraud risk group's primary work on fraud included:

1. Working to revise the charter and reconstitute the Enterprise Fraud Risk Advisory (EFRA) Group. The EFRA Group was established in FY 2019 to promote the integration of fraud risk management practices and processes into the daily operations of FSA to assist in achieving organizational strategic goals and objectives. Its primary responsibility is to provide oversight, planning, and coordination of enterprise fraud risk management activities.
2. Continuing to receive and process distance education fraud ring referrals from the Department's OIG.
3. Establishing a third-party debt relief (TPDR) fraud unit in FY 2020. The TPDR unit is working to centralize TPDR complaints within FSA, collaborate with the OIG and other consumer and law enforcement agencies to investigate complaints against potential TPDR companies, and identify mitigation strategies to address fraud risk related to TPDR companies.

The Department, in its efforts to combat fraud, takes into account the Government Accountability Office (GAO) Framework for Managing Fraud Risks in Federal Programs (GAO Fraud Risk Management Framework). The Department commits to oversee fraud risk management activities as highlighted in the above-mentioned Fraud Risk Governance Structure. Additionally, the Department continues to assess the risks associated with fraud across the Department as incorporated by the multitude of risk assessments performed by program offices. Internal controls related to fraud are implemented according to the Internal Control Framework and are evaluated accordingly to ensure that specific control activities exist to mitigate assessed risks. The Department has catalogued internal controls related to fraud prevention and detection, which includes detective and preventive controls related to its grant and administrative payments.

The Department continues to evaluate the current fraud landscape and will adopt activities to improve fraud risk management. For example, 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.

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/2020/01/14/2020-00413/adjustment-of-civil-monetary-penalties-for-inflation

Table 14

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)	2-01-19	1-14-20	$39,229
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	2-01-19	1-14-20	$32,676
Violation of Title IV of the HEA	20 USC 1082(g)	2-01-19	1-14-20	$58,328
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	2-01-19	1-14-20	$58,328
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	2-01-19	1-14-20	$1,722
Improper lobbying for government grants and contracts	31 USC 1352(c)(1)	2-01-19	1-14-20	$20,489 to $204,892
False claims and statements	31 USC 3802(a)(1)	2-01-19	1-14-20	$11,665

THE GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016 AND EDUCATION'S GRANT CLOSEOUT PROCESS

The goal of the *Grants Oversight and New Efficiency (GONE) Act of 2016* (Pub. L. No. 114-117) was to close out grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances and whose period of performance has exceeded two years.

Starting with an October 3, 2016, baseline of 8,948 grants and cooperative agreements totaling approximately $2 billion in various statuses of the closeout process, the Department succeeded in closing out 100 percent of the required grants and cooperative agreements during FY 2018. As of September 30, 2020, the Department had 384 grants and cooperative agreements totaling approximately $62.8 million in various statuses of the closeout process. See Table 15 below.

In FY 2020, the Department's Office of Inspector General (OIG) performed a risk assessment of the Department's grant closeout process and issued their results via memorandum. They identified risks with the reliability of grant data and related GONE Act reporting, as well as the Department's grant closeout policies and procedures, including a policy allowing older grants to be closed in compliance without required reports being provided by the grantee. In addition, the OIG found that both the volume of expired grants and amount of undisbursed grant funds significantly increased between the date of initial *GONE Act* reporting (September 30, 2017) and January 30, 2020, indicating that grant closeout is less of a focus now that *GONE Act* reporting is over. The memorandum is available at **https://www2.ed.gov/about/offices/list/oig/auditreports/fy2020/s19u0002.pdf**.

Overall, the Office of Finance and Operations (OFO) agreed with the OIG assessment and noted its intention to move forward with grant policy deliberation consistent with the results of the assessment. Approved in July 2020, the Handbook for the Discretionary Grants Process (Handbook) includes policy requiring program officials to provide to the Deputy Assistant Secretary of the Office of Acquisition and Grants Administration (OAGA) a report on the status of Federal grants or cooperative agreements in the Department's grant management system, G5, that have been in manual closeout status for two years or more. The report will include a narrative of the challenges leading to delays in grant and cooperative agreement award closeout and the planned corrective action to address these challenges. OAGA is now receiving reports from the program officials and will monitor progress on the proposed corrective actions.

During the summer of 2020, OAGA offered a financial monitoring curriculum for formula and discretionary grants aligned with the *Standards for Financial Management* in 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, addressing cash management and drawdown activity of grantees' utilization of funds consistent with an approved scope of work aimed at reducing issues associated with grant closeouts. The content of the sessions include the Handbook policy referencing grants and cooperative agreements in manual closeout status for two years or more and the submission of reporting with corrective actions to the Deputy Assistant Secretary of OAGA.

Table 15

Category	2–3 Years	3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	48	-	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	336	-	-
Total Amount of Undisbursed Balances	$62,838,768	-	-

Source: G5, grants management system linked to the Department's general ledger system. Data is based on the performance end date of September 30, 2018.

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, and 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 post college 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 comparable scale scores and achievement levels—*NAEP Basic, NAEP Proficient*, and *NAEP 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**

WHAT WORKS CLEARINGHOUSE PRACTICE GUIDES FOR EDUCATORS

The Department offers practice guides and other resources 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://whatworks.ed.gov**

EDUCATION RESOURCES INFORMATION CENTER (ERIC)

The Department offers ERIC—the world's largest free, digital library of education research. It is composed of 1.8 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 addresses these "high-leverage" problems. **https://ies.ed.gov/rels**

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 2028

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 2028. The report includes a methodology section that describes the models and assumptions used to develop national and state-level projections. **https://nces.ed.gov/pubs2020/2020024.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's) 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*
APG	Agency Priority Goals
APR	Annual Performance Reports
BOD	Binding Operational Directive
BPR	Business Processing Re-engineering
CARES	*Coronavirus Aid, Relief, and Economic Security Act of 2020*
CBO	Congressional Budget Office
CEAR	Certificate of Excellence in Accountability Reporting
CPI-U	Consumer Price Index
CPSS	Contracts and Purchasing Support System
CSF	Cyber Security Framework
CSRS	Civil Service Retirement System
CTE	Career and Technical Education
CyberSIG	Cybersecurity Standards Innovation Group
DATA Act	*Digital Accountability and Transparency Act of 2014*
DCIA	*Debt Collection Improvement Act of 1996*
DGB	ED Data Governance Board
Direct Loan	William D. Ford Federal Direct Loan
DHS	U.S. Department of Homeland Security
DL	Direct Loan
DMA	Data Maturity Assessment
DOL	U.S. Department of Labor
EAI	Emergency Assistance to Institutions of Higher Education
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDCAPS	Education Central Automated Processing System
EDGMSS-BPA	Education Grants Management Support Services-Blanket Purchase Agreement
EDMAPS	Enterprise Data Management and Analytics Platform Services
EDSOC	The Department of Education Security Operations Center
ERR	Entity Risk Review
EFRA Group	Enterprise Fraud Risk Advisory Group
EIA	Emergency Impact Aid
ELG	Evidence Leadership Group
EO	Evaluation Officer
ERIC	Education Resources Information Center
ERR	Entity Risk Review
ERMD	Enterprise Risk Management Directorate
ERMWG	Enterprise Risk Management Working Group
ESSA	*Every Student Succeeds Act*
ESSER	Elementary and Secondary School Emergency Relief
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
FFB	Federal Financing Bank

FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FISMA	*Federal Information Security Modernization Act of 2014*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FMSS	Financial Management Support System
FR	Financial Report of the U.S. Government
FSA	Federal Student Aid
FUTURE ACT	*Fostering Undergraduate Talent by Unlocking Resources for Education Act*
FY	Fiscal Year
G5	Grants Management System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEER	Governor's Emergency Education Relief
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
HEA	*Higher Education Act of 1965*
HEAL	Health Education Assistance Loans
HEER	Higher Education Emergency Relief
HHS	U.S. Department of Health and Human Services
IDEA	*Individuals with Disabilities Education Act*
IDR	Income-Driven Repayment
IES	Institute of Education Sciences
IET	Integrated Education and Training
IHEs	Institutions of Higher Education
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IRS	Internal Revenue Service
ISS	Interim Servicing Solution
IT	Information Technology
LEAs	Local Educational Agency
LINCS	Literacy Information and Communication System
MSR	Mid-Session Review
NAEP	National Assessment of Educational Progress
Next Gen FSA	Next Generation Financial Student Aid
NIST	National Institute of Standards and Technology
NSLDS®	National Student Loan Data System
OAGA	Office of Acquisition and Grants Administration
OCDO	Office of the Chief Data Officer
OCIO	Office of the Chief Information Officer
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OEDARM	Office of Enterprise Data Analytics and Risk Management
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OFM	Office of Financial Management
OFO	Office of Finance and Operations
OGC	Office of the General Council
OHR	Office of Human Resources
OIG	Office of Inspector General

OMB	Office of Management and Budget
OPD	Open Data Platform
OPE	Office of Postsecondary Education
OPEPD	Office of Planning, Evaluation, and Policy Development
OPM	Office of Personnel Management
OS	Office of the Secretary
OSERS	Office of Special Education and Rehabilitative Services
P–12	Prekindergarten through 12th grade
PAYE	Pay as You Earn
Pell	Federal Pell Grant
Pell Program	Pell Grant Program
PII	Personally Identifiable Information
PIIA	*Payment Integrity Information Act of 2019*
PIV	Personal Identity Verification
PLUS	Parent Loan for Undergraduate Students
PO	Principal Office
POA&Ms	Plan of Actions & Milestones
PSLF	Public Service Loan Forgiveness
QSMOs	Quality Service Management Offices
REL	Regional Educational Laboratory
Report and Plan	Annual Performance Report and Annual Performance Plan
RESTART	Immediate Aid to Restart School Operations
SBR	Statement of Budgetary Resources
SEA	State Education Agency
SFS	Scholarship for Services
STEM	Science, technology, engineering, and mathematics
TBMS	Technology Business Management Solutions
TCCUs	Tribally Controlled Colleges and Universities
TEACH	Teacher Education Assistance for College and Higher Education Grant
TEPSLF	Temporary Expanded Public Service Loan Forgiveness
TPDR	Third-party Debt Relief
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 Acquisition and Grants Administration (OAGA) leads the Department toward effective, efficient, and accountable acquisition management, as well as develops, manages, and provides policy guidance and oversight of the Department's grant management activities and operations.

The Contracts and Acquisitions Management Division, within OAGA, 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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The FY 2020 Agency Financial Report

U.S. Department of Education
Office of Finance and Operations

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

U.S. Department of Education, November 2020

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Our Mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

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