



FY 2022

AGENCY  
FINANCIAL  
REPORT

## U.S. Department of Education

Miguel A. Cardona, Ed.D.

Secretary

## Office of Finance and Operations

Denise Carter

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

January 23, 2023

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

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For fiscal year 2022, 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 2024 budget.

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

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

# About This Report

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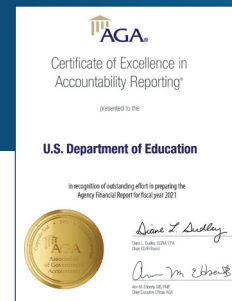
The purpose of the U.S. Department of Education’s (Department’s) fiscal year (FY) 2022 *Agency Financial Report* (AFR) is to inform Congress, the President, other external stakeholders, and the American people on how the Department used the federal resources entrusted to it to advance the mission of 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 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*.

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](http://www.StudentAid.gov).

## Certificate of Excellence

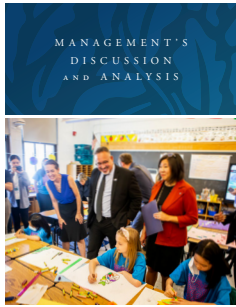
The Department won its 18th prestigious Certificate of Excellence in Accountability Reporting award from the AGA for its FY 2021 AFR.



## How This Report Is Organized

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



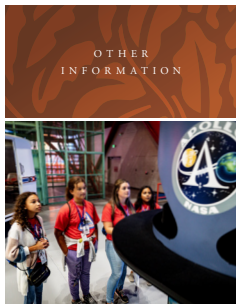
### MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2023, a summary of financial statement audit and management assurances, *Payment Integrity Information Act* reporting details, civil monetary penalty adjustment for inflation, *Grants Oversight and New Efficiency Act of 2016* and grant closeout process reporting, and the FY 2021 Climate Adaptation Plan.



### APPENDICES

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

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## Message From the Secretary

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### January 23, 2023

The statesman and Nobel laureate Kofi Annan has said, “Education is the premise of progress, in every society, in every family.” Our nation’s historic federal investments in education during fiscal year (FY) 2022 are a powerful statement of America’s values.

The U.S. Department of Education is committed to ensuring that all students receive an education that prepares them to fulfill their promise and follow their dreams. The academic achievement, mental health, and social and emotional well-being of our nation’s students remain our top priorities. And these priorities informed all of our actions to meet the challenges and opportunities of FY 2022.

Because the pandemic has affected all students, parents, educators, and school leaders — but especially those in schools and communities furthest from opportunity — safely and successfully reopening all schools for in-person learning is a major accomplishment that the Department and the nation share with education leaders throughout the country this fiscal year. When the Biden-Harris administration took office, fewer than half of K-12 schools were open for in-person instruction. We knew that was unacceptable, so we did something about it. And within nine months of the inauguration, more than 98% of schools were fully open.

Our priority is to keep our schools open and to accelerate an *equitable* recovery.

We’re doing that by focusing on and helping schools to meet students’ academic, social, emotional, and mental health needs, through new initiatives and unprecedented resources to states and districts — including through the American Rescue Plan and the Bipartisan Safer Communities Act.

Our Engage Every Student initiative, announced in July 2022, is an important part of advancing this work. The initiative is a public-private partnership that unites schools, districts, state and local governments, and community-based organizations to support access to quality out-of-school time learning. Through this program, more students — especially those who are most underserved — are gaining access to after-school and summer enrichment opportunities that can help them recover from lost instructional time caused by the pandemic.

The National Partnership for Student Success is another vital effort we launched this fiscal year with leading education, youth, and service organizations. This brand-new coalition supports the expansion, launch, and improvement of high-impact tutoring, mentoring, and other programs that can accelerate learning and support students’ mental health and overall well-being. In FY 2022, the Department also held a virtual summit, where we highlighted steps that schools, colleges, and communities can take to support students with disabilities and students with mental health needs.

Here at the Department, we believe all students deserve a high-quality education that provides opportunity and addresses achievement gaps. That is why I’m proud that President Biden’s fiscal year 2023 budget request includes a significant increase in funding for Title I of the Elementary and Secondary Education Act, to help schools provide students in low-income communities with the learning opportunities and support they need to succeed.

The Department also is working to promote supportive, safe learning environments for our students — and to protect students’ civil rights in education.

We’re doing that through the Promise Neighborhoods program, which is designed to significantly improve academic and developmental outcomes for children living in communities of concentrated poverty. I’m especially

encouraged that this year's grant competition included targeted funds for underserved communities, including both rural and Tribal areas.

We're also advancing this work through our Full-Service Community Schools grant. This program funds initiatives that provide academic supports, integrated health and social services, and engagement opportunities for students, while creating stronger connections among families, communities, and their local public schools.

In addition, in November 2021, we joined the U.S. Departments of Interior and Health and Human Services to launch an interagency initiative to preserve, protect, and promote the rights of Native Americans to use, practice, and develop Native languages.

And in June 2022, we released proposed amendments to Title IX to ensure crucial protections against sex discrimination, including regarding sex-based harassment and sexual assault. We also released guidance to avoid the discriminatory use of school discipline policies and practices for students with disabilities.

In all of our work in education, it's also vital that we strive to make postsecondary education more inclusive and affordable so that our students have pathways to good jobs, fulfilling careers, and bright futures.

That's why we are determined to build a more accessible, affordable, and accountable student loan system.

So far, we've discharged \$48 billion in debt for more than 1.9 million borrowers, and we have turned the Public Service Loan Forgiveness program from a promise broken, into a promise kept.

The Biden-Harris administration announced in August 2022 that the Department is providing targeted student debt cancellation to borrowers with loans held by our agency. This is part of our overall effort to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at highest risk of delinquencies or default once payments resume.

Through this plan, up to \$20,000 in federal student loan debt cancellation will be provided to Pell Grant recipients and up to \$10,000 in debt cancellation will be provided to non-Pell Grant recipients. Borrowers earning less than \$125,000 per year or households earning less than \$250,000 are eligible. The Department also is proposing a rule to create a new income-driven repayment plan that will substantially reduce future monthly payments for lower- and middle-income borrowers.

This past summer, the Department also released proposed regulations that would expand and improve the major student loan discharge programs authorized by the Higher Education Act. The regulations would alleviate student loan debt burdens for borrowers whose schools closed or who are totally and permanently disabled and for public service workers who have met their commitments under the Public Service Loan Forgiveness program.

Also this summer, we announced the availability of \$5 million in funds to support a new College Completion Fund for Postsecondary Student Success. The fund will support grants to Historically Black Colleges and Universities (HBCUs), Tribal Colleges and Universities (TCUs), and Minority-Serving Institutions (MSIs), such as Hispanic-Serving Institutions — many of which are community colleges. This program will invest in data-driven and evidence-based practices that encourage postsecondary retention, transfer, and completion — as well as reengaging students who withdrew from school temporarily during the pandemic.

Additionally, I'm encouraged that the President's fiscal year 2023 budget request increases the maximum Pell Grant and provides significant increases in funding for HBCUs, TCUs, and MSIs.

Another priority for the Department is encouraging programs that lead students to successful careers. I'm particularly excited about systems of career and college pathways that provide support to students during their secondary and postsecondary education, helping them chart a successful course to their professions of choice. This past summer, we held an event with the U.S. Departments of Labor and Commerce to highlight the importance of career pathways programs for students. In addition, the President's fiscal year 2023 budget request includes the Career-Connected High Schools program. This grant program would fund partnerships among school districts, postsecondary institutions, and employers to support early enrollment in postsecondary and career-connected coursework, work-based learning opportunities, and academic and career-connected instruction across the last two years of high school and the first two years of postsecondary education.

The Department continues to make stewardship of taxpayer funds and financial integrity top priorities. The financial and performance data included and assessed 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 opportunities 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 accompany the Department's annual budget submission and links performance goals with resources for achieving targeted levels of performance.

This year, the Department received a disclaimer of opinion on its FY 2022 financial statements. The Department is confident in the sound financial management of our programs, and we will implement the appropriate actions to return to an unmodified opinion as soon as possible. For more information, please see Management's Response in the Independent Auditors' Report. A detailed assessment of internal controls and compliance with the Department's financial management systems can be found in the Management's Discussion and Analysis section of this report.

For too long in this country, students have faced gaps in equity and opportunity and low expectations based on background and circumstance. We must remove these barriers, raise the bar for what learners can achieve, and reimagine our education system to include and support young people of all backgrounds.

Federal resources, including unprecedented funds through the American Rescue Plan, are being used by states, districts, and schools to advance these priorities, address the impacts of the pandemic on our nation's students and educators, and make our education system more equitable, inclusive, and excellent than ever before.

For example, through the American Rescue Plan, states, districts, and schools are addressing students' unfinished instruction, accelerating their academic outcomes, and supporting their mental and emotional health. And, through the Bipartisan Safer Communities Act, communities across the country will benefit from more than \$2 billion to create safe and inclusive learning environments, including by hiring vital mental health professionals in schools and by growing the pipeline of talented individuals into the profession. All of these are game-changing investments, made possible through the Biden-Harris administration and the hard work of the entire team at the Department of Education.

As we did in FY 2022, we will keep working to promote the nation's progress by ensuring that our best days in education — and our children's brightest futures — are ahead.



**Miguel A. Cardona, Ed.D.**



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MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS  
(UNAUDITED)



## About the Management's Discussion and Analysis

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The U.S. Department of Education (Department) continued to enhance the content quality, report layout, and public accessibility of the fiscal year (FY) 2022 *Agency Financial Report (AFR)* by refining graphics and providing more useful, balanced, and easily understood information about the Broad-Based Debt Relief, COVID-19 funding relief bills and the Department's loan programs, including additional cost and risk information. The Department also chose relevant web content to provide users with more 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 continue to improve the quality and usefulness of information provided in the AFR, the Department encourages the public and other stakeholders to provide feedback and suggestions at [AFRComments@ed.gov](mailto: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 summary of the Department's performance goals and results for FY 2022. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2022 will be provided in the Department's *FY 2022 Annual Performance Report and FY 2024 Annual Performance Plan* to be released online at the same time as the President's *FY 2024 Budget of the*

*United States Government* (President's Budget) in February 2023. For more information, prior year performance reports can be found on the Department's website. The Department also urges 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 emailed to [PIO@ed.gov](mailto:PIO@ed.gov). For more details on performance, please refer to the Department's budget and performance web page at [www.Performance.gov](http://www.Performance.gov).

### FINANCIAL HIGHLIGHTS

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 provides a high-level perspective of the detailed information contained in the financial statements and related notes and provides an analysis of key financial statement changes.

### 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 Direct Loans, Next Generation Federal Student Aid (Next Gen FSA), Leveraging Data as a Strategic Asset, and the new G6 modernization.

## About the Department

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### *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 educational 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.

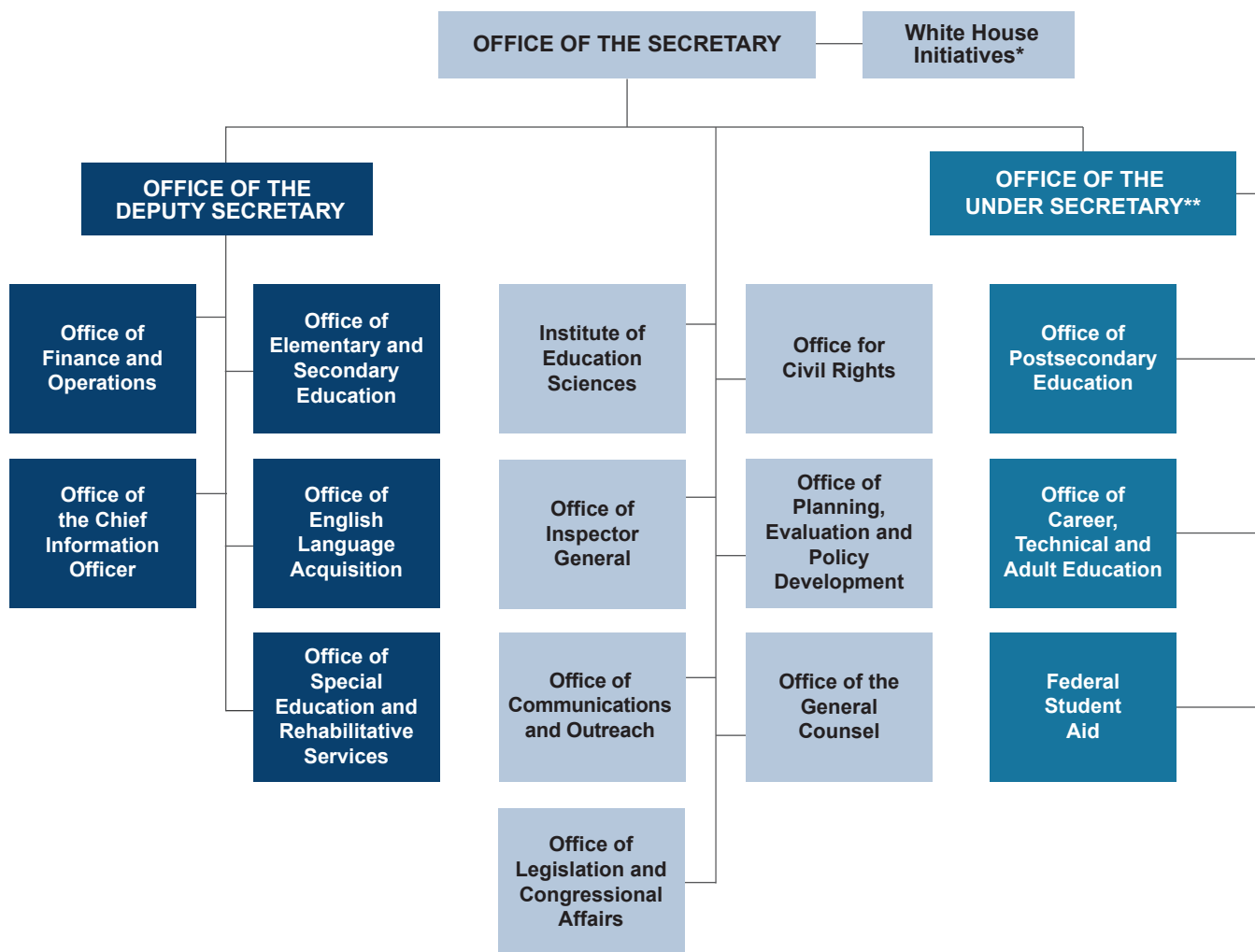
**Our Public Benefit.** The Department executes the laws passed by Congress to promote student academic achievement and preparation for global competitiveness. The Department works with students, parents, educational institutions, school districts, and states to foster educational excellence and to ensure 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 laws. The Department manages and spends 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.

## The Department in Fiscal Year 2022

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This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2022 coordinating structure of the Department is available.



Note: The colors on this chart are for aesthetics only.

\* 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 Advancing Educational Equity, Excellence, and Economic Opportunity for Hispanics; and White House Initiative on Educational Excellence for African Americans.

\*\* The Office of the Under Secretary is responsible for the administration of the White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity through Historically Black Colleges and Universities.

## The Department's Approach to Performance

### PERFORMANCE MANAGEMENT FRAMEWORK

In accordance with the *GPRA Modernization Act of 2010*,<sup>1</sup> the Department's framework for performance management begins with the *Strategic Plan*, which serves as the foundation for establishing and implementing priorities, highlighting performance goals and objectives, and developing performance indicators to gauge progress and outcomes. Progress toward the Department's strategic goals and its two-year Agency Priority Goals (APGs) are measured using data-driven review and analysis. Additional information on performance management is available in the *Annual Performance Plans and Annual Performance Reports*.<sup>2</sup>

The *FY 2022–26 Strategic Plan* is comprised of five Strategic Goals and three FY 2022 and FY 2023 APGs. The *Strategic Plan* aims to address administration priorities, such as recovering from the coronavirus disease 2019 (COVID-19) pandemic; ensuring high-quality, equitable secondary and postsecondary education; and providing diverse learning environments for all students, especially those who have been underserved. Each supporting strategic objective has corresponding performance indicators to assess the Department's progress on achieving the Strategic Goals and objectives. For additional information about Performance Management at the Department, visit **ED Strategic Plans and Annual Reports** or email **PIO@ed.gov**.

### FY 2022–26 Strategic Goals and Strategic Objectives

Strategic Goal 1: Promote equity in student access to educational resources, opportunities, and inclusive environments.	
Strategic Objective 1.1	Prioritize the equitable and adequate distribution of resources to communities of concentrated poverty, in an effort to provide underserved students with high-quality educational opportunities.
Strategic Objective 1.2	Ensure all students have access to well-rounded, rigorous, engaging, and diverse learning opportunities and environments to support their success in school.
Strategic Objective 1.3	Support states, school districts, and institutions of higher education to promote and protect students' nondiscriminatory and equal access to education, as provided by Federal civil rights laws.
Strategic Objective 1.4	Promote greater access and supports for youth and adults to engage in learning, succeed in postsecondary education, and increase their employability in high-demand occupations.

Strategic Goal 1 focuses on outcomes related to improving and promoting educational equities for all students through adequate resources, opportunities, and supports. In FY 2022, \$46.2 billion was appropriated to the Department in support of Strategic Goal 1.

Multiple reports, such as those from the **National Assessment of Educational Progress** and the **Program for International Student Assessment**, suggest that inequalities in resources, policies, programs, services, and practices serve as barriers to access to equal educational opportunities for underserved students that need to be redressed. In support of Strategic Goal 1, the Department provided accessible digital instructional materials to blind, visually impaired, and print-disabled students, supporting 499,260 accessible digital instructional material downloads. Additionally in FY 2022, the Department issued guidance on the rights of public-school students with disabilities, including behavioral disabilities, at the elementary and secondary education level, to nondiscrimination on the basis of disability, under Section 504 of the *Rehabilitation Act of 1973*, in the context of discipline.

In FY 2022, the Department also released for public comment proposed changes to its regulations implementing Title IX of the Education Amendments of 1972 that would advance Title IX's goal of ensuring that no person

<sup>1</sup> GPRA Modernization Act of 2010 amends the Government Performance and Results Act of 1993 (GPRA).

<sup>2</sup> The FY 2022 Statement of Net Cost and related notes align with the FY 2022–26 Strategic Plan.

experiences sex discrimination, sex-based harassment, or sexual violence in education and help elementary and secondary schools implement this vital legislation.

The devastating and adverse impacts of the COVID-19 pandemic exacerbated previously documented gaps in educational opportunity. *The American Rescue Plan Act of 2021* (ARP) provides states and districts with critical resources to address these challenges. The \$122 billion American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) Fund provides state educational agencies and local educational agencies (LEAs) flexible resources that can support hiring, preparing, and retaining high-quality teachers and school personnel to address teacher shortages and build a stronger pipeline for the future; promote learning acceleration, for example, through summer learning and enrichment and high-quality tutoring; and improve indoor air quality through upgrades to heating, ventilation, and air conditioning systems.

The ARP also requires that LEAs use 20 percent of their ARP ESSER allocation to address the academic impact of lost instructional time through the implementation of evidence-based interventions and that interventions respond to students' social, emotional, and mental health and academic needs and address the disproportionate impact of COVID-19 on students. In FY 2022, the Department continued monitoring work around the COVID-19 pandemic relief funds. Systems were implemented to ensure the Department was providing the required oversight and the technical systems to support states in addition to timely responses to guidance requests. The ARP further facilitates Strategic Goal 1 by providing much needed relief to help districts and schools recover and increase capacity to improve student outcomes and address historical inequities.

**Strategic Goal 2: Support a diverse and talented educator workforce and professional growth to strengthen student learning.**

Strategic Objective 2.1	Strengthen and diversify the educator pipeline and workforce.
Strategic Objective 2.2	Identify and promote evidence-based practices or strategies that support diverse districts (including rural districts) with high rates of poverty in recruiting, selecting, preparing, and retaining well-qualified (including in-field fully certified) and effective teachers, principals, paraprofessionals, and specialized instructional support personnel.
Strategic Objective 2.3	Support the professional growth, retention, and advancement of talented, experienced educators and other school personnel and their capacity to meet the social, emotional, mental health, and academic needs of underserved students.

Strategic Goal 2 focuses on outcomes related to supporting and increasing diversity and talent in the educator workforce and professional growth. Teachers are essential to the learning and development of the students they serve. However, the educator workforce faces several challenges that limit students' educational opportunities and place at risk the success of students, particularly those who have been underserved by education systems. In FY 2022, \$16.3 billion was appropriated to the Department in support of Strategic Goal 2.

It is essential to attract, prepare, support, develop, and retain a diverse, well-qualified, experienced, and effective pool of educators by ensuring candidates have access to high-quality comprehensive preparation programs, and that steps are taken to support and retain qualified, experienced, and effective educators. In FY 2022, the Department aligned 18 grant competitions focusing more than \$414 million in federal funding toward projects that are designed to advance diversity in the educator workforce and professional development.

The Department is committed to and focused on making substantial progress in decreasing teacher shortages nationwide that have increased in the wake of the COVID-19 pandemic. Therefore, the Department encourages the use of ARP ESSER funds to prepare and retain a diverse educator workforce. In FY 2022, the Department continued to provide several resources to state educational agencies and local educational agencies that focused on the use of American Rescue Plan (ARP) funds and provided concrete examples of how states, districts, and schools are using federal COVID-19 dollars to strengthen the teacher pipeline, get more educators in the classroom, and accelerate student recovery. Districts and higher education institutions are partnering to create and expand residency programs, offer paraprofessional internships, and get college graduates credentialed and in the classroom more quickly. These partnerships provide students across the country



more classroom time working with qualified educators and addressing the academic impact of COVID-19.

Strategic Goal 3: Meet students' social, emotional, and academic needs.	
Strategic Objective 3.1	Support the development and implementation of multitiered systems of supports to increase students' engagement; social, emotional, and mental health; well-being; and academic success.
Strategic Objective 3.2	Foster supportive, inclusive, and identity-safe learning environments and ensure the individual needs of underserved students are met through appropriately designed instruction, evidence-based practices, and related supports and services.
Strategic Objective 3.3	Strengthen learning environments, support professional development, and improve educator credentialing for emergent bilingual students and multilingual learners.

Strategic Goal 3 focuses on meeting students' social, emotional, and academic needs. Learning and development across a student's life span are influenced by several interrelated factors, including the individual's social, emotional, academic, and career development. In FY 2022, \$20.1 billion was appropriated to the Department in support of Strategic Goal 3.

Research has shown that a safe, healthy, and equitable school climate that addresses students' social and emotional development is associated with higher student attendance and engagement, improved student connectedness, and better social and emotional health. The Title IV, Part A Centers provide state educational agencies (SEAs) with dedicated support for implementing the Title IV, Part A (Title IV-A) Student Support and Academic Enrichment (SSAE) program.

In support of Strategic Goal 3, the Office of Special Education and Rehabilitative Services issued Individuals with Disabilities Education Act discipline guidance that included a Dear Colleague Letter, a question and answer document, and a companion technical assistance document that provides examples of proven practices to address inequities and disparities in the use of discipline, including exclusionary discipline practices. The Department supports the education community in creating and maintaining healthy school environments that can contribute to lifelong benefits.

**Strategic Goal 4: Increase postsecondary value by focusing on equity-conscious strategies to address access to high-quality institutions, affordability, completion, post-enrollment success, and support for inclusive institutions.**

Strategic Objective 4.1	Support educational institutions and state systems in efforts to raise academic quality and college completion for all students, especially for underserved students, such as first-generation students, students from low-income backgrounds, students of color, and students with disabilities.
Strategic Objective 4.2	Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.
Strategic Objective 4.3	Increase equitable access to secondary and postsecondary programs that have clear on-ramps to both high-quality jobs and additional high-quality postsecondary educational opportunities.
Strategic Objective 4.4	Improve the alignment across secondary, postsecondary, and career and technical education programs, including through transparent and effective transition processes, inclusive pathways, and clear credentialing requirements.

Strategic Goal 4 focuses on increasing the value of postsecondary education by addressing access, affordability, and degree and credential completion. The goal puts a particular emphasis on supporting educational institutions and state systems in their efforts to improve academic outcomes for all students and especially underserved student populations (i.e. first-generation, low-income background, students of color, and students with disabilities). In FY 2022, \$91.9 billion was appropriated to support Goal 4.

In support of Goal 4, the Department announced the availability of \$5 million in funds to support a new College Completion Fund for Postsecondary Student Success. The funding will support grants to Historically Black Colleges and Universities, Tribal Colleges and Universities, and Minority-Serving Institutions such as Hispanic-Serving Institutions—many of which are community colleges—to invest in data-driven and evidence-based reforms that encourage postsecondary retention, transfer, and completion.

Strategic Goal 5: Enhance the Department's internal capacity to optimize the delivery of its mission.	
Strategic Objective 5.1	Manage information technology as a strategic resource and driver to promote the advancement of the missions executed by the Department's 21st-century workforce.
Strategic Objective 5.2	Strengthen agency-wide data governance and build capacity to improve data access, data management, and enterprise data analytics in support of agency goals.
Strategic Objective 5.3	Recruit, retain, and develop the workforce needed to meet the Department's mission now and into the future.
Strategic Objective 5.4	Deliver mission outcomes and value for taxpayers through efficient acquisition management and proactive industry partnerships while promoting small businesses.

Strategic Goal 5 is focused on continuously improving agency operations as the Department manages, engages, and empowers the workforce; purchases products and services; enhances and secures information technology resources; and leverages data to support evidence-based decision-making. In FY 2022, \$59 million was appropriated to support Goal 5.

In FY 2022, the Department was recognized for its leading-edge work in data governance and in the effective execution of the agency's Data Maturity Assessment by the Partnership for Public Service. The Department was also recognized as a pioneer by **the Data Foundation** for its progress in the advancement of data literacy and data skill development across the agency. The Department has

shared its effective practices in this space with numerous federal agencies including the Department of State, Office of National Defense Intelligence, and the Department of Health and Human Services. The Department also chairs a federal working group building a Federal Data Skills Catalog.

The Department took immediate action in FY 2022 regarding the Office of Management and Budget Memo M-22-09 *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles* by onboarding a GS-15 zero-trust architecture program manager and releasing a Department Strategy and project schedule for full implementation by the end of FY 2024.

Strategic Goal 5 prioritizes reducing potential procurement barriers and increasing procurement opportunities for small, underserved, and disadvantaged businesses. In support of Goal 5, 15.43% of contracts have been awarded to small business, which exceeds the goal of 14%. The Department also received an A on the FY 2021 Small Business Scorecard.

## THE DEPARTMENT'S AGENCY PRIORITY GOALS

The Department has identified three Agency Priority Goals (APGs) for FY 2022 and FY 2023 which seek to address the impact of the COVID-19 pandemic, effectively manage federal student loans, and reduce disparities in attainment of high-quality degrees and credentials.

### APG 1

**Address the impact of the COVID-19 pandemic on students, educators, and faculty.** The Department will be a leader and partner in addressing the impact of the COVID-19 pandemic in educational areas. By September 30, 2023, the Department will respond to the impact of the COVID-19 pandemic and the need to continuously provide for high-quality educational environments and capabilities by supporting state educational agencies, local educational agencies, and institutions of higher education to:

- Continue to support schools in maintaining safe, fully in-person instructions for students.
- Utilize COVID-19 relief funds on appropriate, effective, and evidence-based activities to reengage students, address lost instructional time, and improve educational opportunities by offering 300+ Department-led technical assistance engagements.

### Related Strategic Objectives

**Strategic Objective 1.1:** Prioritize the equitable and adequate distribution of resources to communities of concentrated poverty in an effort to provide underserved students with high-quality educational opportunities.

**Strategic Objective 1.2:** Ensure all students have access to well-rounded, rigorous, engaging, and diverse learning opportunities and environments to support their success in school.

**Strategic Objective 3.1:** Support the development and implementation of multitiered systems of supports to increase students' engagement; social, emotional, and mental health; well-being; and academic success.

**Strategic Objective 3.2:** Foster supportive, inclusive, and identity-safe learning environments and ensure the individual needs of underserved students are met through appropriately designed instruction, evidence-based practices, and related supports and services.

### APG 2

**Effectively manage federal student loans.** The Department will provide effective customer service for borrowers to simplify the student loan repayment process. By September 30, 2023, Federal Student Aid will improve loan servicer quality and accuracy to levels at or above 95 percent, as defined in student loan servicer agreements.

### Related Strategic Objective

**Strategic Objective 4.2:** Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.

### APG 3

**Reduce disparities in attainment of high-quality degrees and credentials.** The Department will support institutions and states to assist low-income students and students of color to enroll in and complete high-quality postsecondary education programs, including at community colleges and through career and technical training. By September 30, 2023, the Department will increase the number and diversity of higher education grant applicants from community colleges, Historically Black Colleges and Universities, Tribally Controlled Colleges or Universities, Minority-Serving Institutions, and public four-year colleges by 5 percent to support and assist low-income students and students of color in attaining improved educational outcomes.

### Related Strategic Objective

**Strategic Objective 4.1:** Support educational institutions and state systems in efforts to raise academic quality and college completion for all students, especially for underserved students, such as first-generation students, students from low-income backgrounds, students of color, and students with disabilities.

**Strategic Objective 4.2:** Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.

# 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 Office of Management and Budget (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). This year, the Department received a disclaimer of opinion on its FY 2022 financial statements. The financial statements and notes for FY 2022 are on pages 52–99, and the Independent Auditors' Report begins on page 104.

The financial statements are prepared to report the financial position and results of operations of the reporting entity, consistent with 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

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

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2022	FY 2021	Amount	Percentage	Amount	Percentage
<b>Balance Sheets</b>						
Fund Balance with Treasury	\$ 317.0	\$ 351.9	\$ (34.9)	-9.9%	\$ (80.7)	-22.9%
Loan Receivables, Net - Direct Loan Program	816.5	1,104.9	(288.4)	-26.1%	(409.2)	-37.0%
Loan Receivables, Net - Federal Family Education Loan (FFEL) Program	39.8	58.2	(18.4)	-31.6%	(23.0)	-39.5%
Cash and Other Monetary Assets	0.7	1.9	(1.2)	-63.2%	-	0.0%
Debt Associated with Loans - Direct Loan Program	837.4	1,142.2	(304.8)	-26.7%	(437.4)	-38.3%
Debt Associated with Loans - FFEL Program	67.0	78.3	(11.3)	-14.4%	(26.1)	-33.3%
Subsidy Due to Treasury	27.0	1.5	25.5	1,700.0%	-	0.0%
Guaranty Agency Funds Due to Treasury	0.7	1.9	(1.2)	-63.2%	-	0.0%
Loan Guarantee Liabilities	10.7	7.5	3.2	42.7%	-	0.0%
Accrued Grant Liabilities	5.1	7.6	(2.5)	-32.9%	(1.5)	-19.7%
<b>Statements of Net Cost</b>						
Total Program Gross Costs	628.6	279.7	348.9	124.7%	431.8	123.8%
Total Program Earned Revenue	(65.2)	(40.0)	(25.2)	63.0%	(27.3)	108.3%
<b>Statements of Budgetary Resources</b>						
Unobligated Balance from Prior Year Budget Authority (Net)	65.3	41.4	23.9	57.7%	17.9	43.2%
Appropriations (Discretionary and Mandatory)	597.2	476.8	120.4	25.3%	154.9	32.5%
New Obligations and Upward Adjustments (Total)	813.7	627.5	186.2	29.7%	190.8	30.4%
Unobligated Balance, End of Year (Total)	88.3	62.1	26.2	42.2%	(17.9)	-28.8%
Outlays, Net	668.5	267.1	401.4	150.3%	437.9	163.9%
Distributed Offsetting Receipts	(29.1)	(6.6)	(22.5)	340.9%	-	0.0%

budgetary resources are prepared from the same books and records. The financial statements should be read with the understanding that they are for a component of the U.S. government.

## FINANCIAL STATEMENT IMPACTS OF DEBT RELIEF ACTIONS

During FY 2022, the Department announced significant actions to provide relief to federal student loan borrowers, including extensions to the student loan repayment pause, and several additional debt relief actions. Debt relief actions that occurred or were announced during FY 2022 include:

- Providing one-time broad-based student loan debt relief of up to \$20,000 in debt cancellation for Pell Grant recipients with loans held by the Department and up to \$10,000 in debt cancellation to non-Pell Grant recipients. Applications for this debt relief launched on October 17, 2022.
- Revamping the Public Service Loan Forgiveness (PSLF) program, including temporary changes that allow student borrowers to get credit for past periods of repayment on loans that would not otherwise qualify for PSLF, including payments made on loans from FFEL Program, Perkins Loan Program, and other federal student loans. Additionally, the temporary changes allow past periods of repayment to count for certain types of deferment or forbearance periods, or if the borrowers were not on a qualified repayment plan. The changes also eliminate barriers for military service members to receive PSLF. The temporary changes expired on October 31, 2022.
- Approving borrower defense and closed school discharges for borrowers whose institutions took advantage of them, including borrowers who attended Corinthian Colleges Inc., the ITT Technical Institute, Marinello Schools of Beauty, Westwood College, DeVry University, Minnesota School of Business and/or Globe University.
- Providing relief for borrowers who have a total and permanent disability.

Although forgiveness of loan principal and interest associated with some of these actions will not occur until future fiscal years, these actions have already resulted in significant increases in cancellations of loan principal and interest for loans held by the Department.

The broad-based debt relief announced on August 24, 2022, is expected to impact up to **43 million borrowers**. Nearly 8 million borrowers may be eligible to receive one-time broad-based debt relief automatically because relevant income data is already available to the Department. If all borrowers claim relief they are entitled to, this action will provide relief to up to 43 million borrowers.

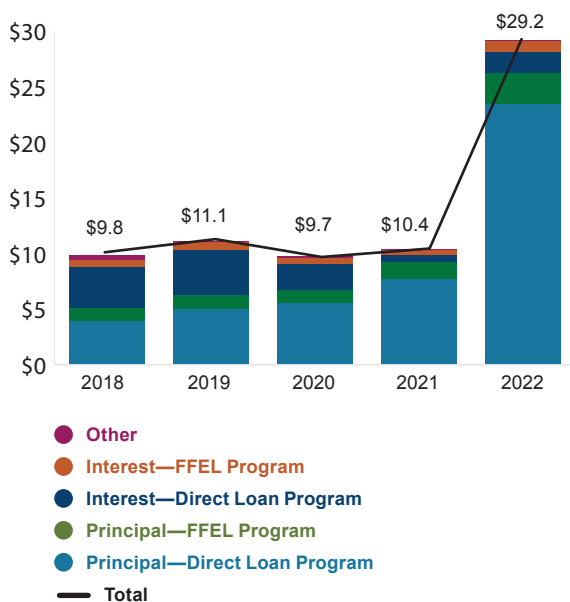
In addition, because of the other debt relief actions taken by the Department:

- **1.1 million borrowers** have already received discharges related to borrower defense or school closures.
- More than **1 million borrowers** have already received additional credit toward forgiveness through the temporary changes to the PSLF program.
- More than **425,000 borrowers** received loan relief due to a total and permanent disability.

As shown in Figure 1, cancellations of loan principal and interest increased 181% during FY 2022, primarily for the Direct Loan Program. A large portion of cancellations of loan principal and interest during FY 2022 were associated with the PSLF program and discharges for total and permanent disability, as they made up 46.7% and 40.8%

of total cancellations, respectively. Other notable types of cancellation activity include borrower defense discharges, cancellations of loan principal and interest for loans in default status, and discharges due to death of the borrower.

**Figure 1. Loan Cancellations**  
(Dollars in Billions)



**FY 2022 Loan Cancellations**  
(Dollars in Millions)

Loan Cancellation Type	FY 2022					Total
	Direct Loan Program		FFEL Program		Other	
	Principal	Interest	Principal	Interest	Other	
Discharges for closed schools	\$ 443	\$ 56	\$ 36	\$ 7	\$ 0	\$ 542
Discharges due to death of the borrower	766	60	34	6	0	866
Discharges for total and permanent disability	7,537	1,129	2,363	877	2	11,908
Public service loan forgiveness	13,036	594	0	0	0	13,630
Borrower defense discharges	877	0	146	3	0	1,026
Cancellation of loans in default status	447	72	172	134	6	831
Other	310	(25)	9	(2)	69	361
<b>Total Loan Cancellations</b>	<b>\$ 23,416</b>	<b>\$ 1,886</b>	<b>\$ 2,760</b>	<b>\$ 1,025</b>	<b>\$ 77</b>	<b>\$ 29,164</b>

## FINANCIAL STATEMENT IMPACTS OF COVID-19 ACTIVITIES

Many of the significant changes to the Department's financial statements resulted from the impacts due to coronavirus disease 2019 (COVID-19) activities. Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021, including the following that provided a total of \$282.5 billion of direct appropriation funding for educational purposes:

- *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) \$31.0 billion
- *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* (CRRSAA) \$82.0 billion
- *American Rescue Plan Act of 2021* (ARP) \$169.5 billion

These appropriations funded a variety of programs administered primarily through grant programs. The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund which included (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 for outlying areas.

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers by:

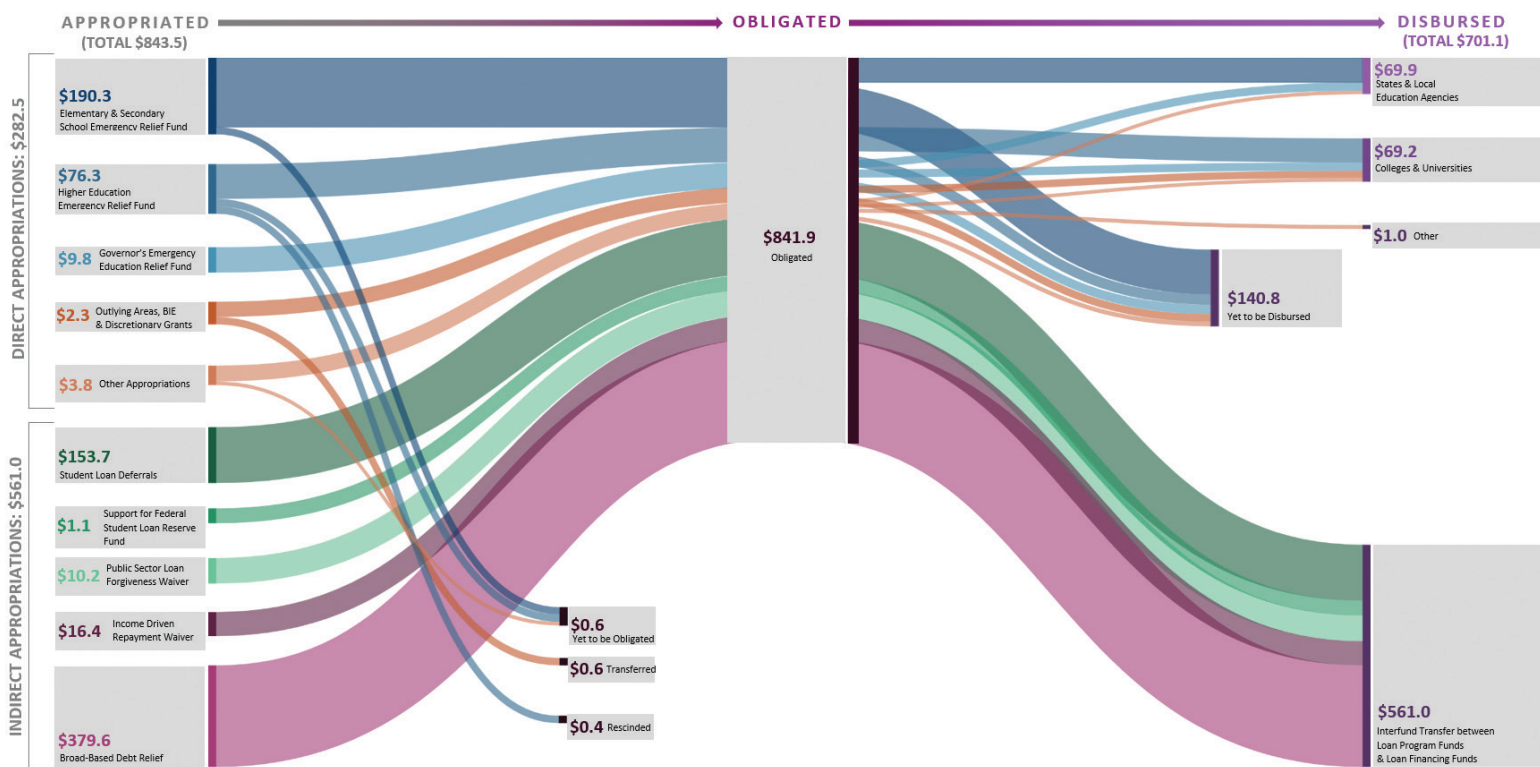
- Providing broad-based debt relief to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at the highest risk of delinquencies or default once payments resume. Applications for this debt relief launched on October 17, 2022.
- Temporarily suspending nearly all federal student loan payments, interest free.

- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals. This reimbursement covers the share of what a guaranty agency might have reasonably collected during the pandemic, but for the suspension.
- Making temporary changes to the PSLF program through a Limited PSLF Waiver to allow student borrowers to get credit for payments made while working for a qualifying employer, regardless of loan type or repayment plan.
- Addressing issues with income-driven repayment (IDR) payment counting by allowing any borrower who made IDR-qualifying payments to count toward IDR, regardless of repayment plan.

Funding for each of these actions was provided through indefinite appropriations. Cost impacts of the COVID-19 loan modifications were recorded as loan modifications and are a component of subsidy expense, which reduced the overall loan receivable balances for the student loan programs. Detailed explanations of the COVID-19 Direct Loan Program loan modifications are provided in the Analysis of Direct Loan Program Subsidy Expense section beginning on page 21 and in Note 5 of the financial statements beginning on page 66.

The direct and indirect funding stemming from the combined COVID-19 relief legislation and administrative actions is summarized in Figure 2. Obligated and unobligated COVID-19 funds remaining to be disbursed as of September 30, 2022, totaled \$142.1 billion. Most of the undisbursed funds are for the Elementary and Secondary School Emergency Relief (ESSER) Fund. While states may have made subawards for all of their ESSER funding, subawardees may still be in the process of completing their obligations and requesting reimbursement from the states who will then in turn drawdown the remaining undisbursed funds.

**Figure 2. COVID-19 Funding Flow**  
(Dollars in Billions)



**Elementary and Secondary School Emergency Relief (ESSER) Fund**—Funds provided for state educational agencies (SEAs) and local educational agencies (LEAs) to support continued learning for K-12 students whose educations have been disrupted by COVID-19, and grants for the specific needs of homeless children and youth to address the challenges of COVID-19.

**Higher Education Emergency Relief Fund (HEERF)** — Funds provided for institutions of higher education (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**—Grants 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**—Funds provided for outlying areas and discretionary grants to states with the highest COVID-19 burdens.



## BALANCE SHEETS

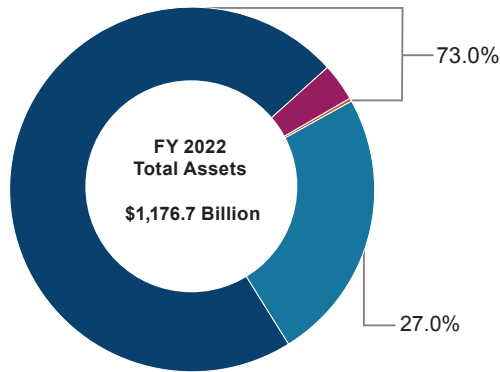
The consolidated balance sheets present, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.

The Department's assets totaled \$1,176.7 billion as of September 30, 2022. As shown in Figure 3, most assets relate to loans receivables, \$858.6 billion, which comprised 73.0 percent of all assets. Direct loans comprise the largest share of these receivables. Analysis of the net change in Direct Loan Program receivable balances begins on page 16. All other assets totaled \$318.1 billion, most of which was Fund Balance with Treasury, \$317.0 billion,

which decreased by \$34.9 billion during FY 2022, largely due to a decrease in undisbursed COVID-19 funds as of September 30, 2022.

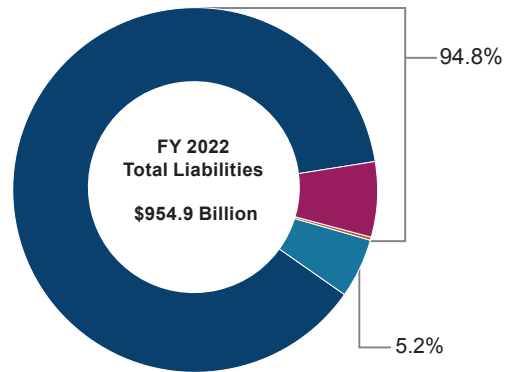
The Department's liabilities totaled \$954.9 billion as of September 30, 2022. As shown in Figure 4, most of the Department's liabilities are also associated with loan programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with the Direct Loan Program totaled \$837.4 billion as of September 30, 2022. Analysis of debt associated with the Direct Loan Program begins on page 18.

Figure 3. Assets by Type



- Loans Receivable, Net**
- Direct Loans
  - FFEL Loans
  - Other Loans
- All Other Assets

Figure 4. Liabilities by Type



- Debt Associated with Loans**
- Direct Loans
  - FFEL Loans
  - Other Loans
- All Other Liabilities

## ANALYSIS OF DIRECT LOAN PROGRAM RECEIVABLES, NET

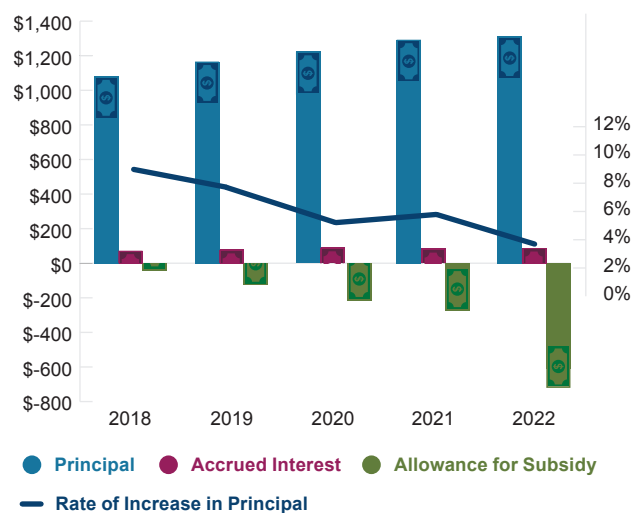
Figure 5 shows the changes in the Direct Loan Program receivable components over the past five years. The principal amount has continued to grow as the Direct Loan Program has originated all new federal loans since July 2010, when originations of new FFEL loans ended. Prior to COVID-19, the rate of increase in principal slowed as enrollment stagnated and sometimes declined. Also, accrued interest amounts had been increasing as more Direct Loans were moving into active repayment statuses, and the rate of enrollment in income-driven repayment plans that allow for payments to be lower than interest accrual had increased.

The rate of increase in principal has slowed in recent years as the Direct Loan program has disbursed fewer than \$95 billion in new loans each year since FY 2016 as a result of stagnant, and in some cases declining, enrollment. 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. The student loan repayment deferrals implemented in response to COVID-19 caused the rate of increase in principal to be lower in FYs 2020, 2021, and 2022 compared to previous years.

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.

A negative allowance for subsidy balance means that the present value of funds expected to be recovered is less than the principal outstanding. The increase in the negative allowance from FY 2018 through FY 2022 is due primarily to higher subsidy costs, the main causes being high participation in IDR plans and the COVID-19 deferrals of student loan repayments. In addition to these factors, the increase in the negative allowance for subsidy during FY 2022 was also due to higher subsidy costs due to broad-based debt relief (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 21).

Figure 5. Components of Direct Loan Receivables, Net (Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2018	2019	2020	2021	2022
Principal	\$1,083.7	\$1,164.9	\$1,224.8	\$1,292.2	\$1,341.8
Rate of Increase in Principal	8.5%	7.5%	5.1%	5.5%	3.8%
Accrued Interest	\$ 72.0	\$ 83.3	\$ 92.1	\$ 86.5	\$ 86.7
Allowance for Subsidy	\$ (40.7)	\$ (124.4)	\$ (216.4)	\$ (273.9)	\$ (611.9)
<b>Total No. of Direct Loan Borrowers (in Millions)</b>	<b>34.2</b>	<b>35.1</b>	<b>35.9</b>	<b>37.0</b>	<b>37.1</b>

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

Loan Status	Fiscal Year				
	2018	2019	2020**	2021**	2022**
Total No. of Direct Loan Recipients (in Millions)	34.2	35.1	35.9	37.0	37.1
<b>Total Dollar Amount of Direct Loans Outstanding</b>	<b>\$1,155.70</b>	<b>\$1,248.10</b>	<b>\$1,316.90</b>	<b>\$1,378.70</b>	<b>\$1,428.50</b>
Current Repayment <sup>1</sup>	\$ 531.20	\$ 594.70	\$ 14.20	\$ 16.20	\$ 11.80
% Current Repayment	46.0%	47.6%	1.1%	1.2%	0.8%
In School, Grace Period, and Education Deferments	\$ 295.50	\$ 294.80	\$ 282.80	\$ 271.90	\$ 259.50
% In School, Grace Period, and Education Deferments	25.6%	23.6%	21.5%	19.7%	18.2%
Forbearance and Noneducation Deferments	\$ 121.50	\$ 133.20	\$ 887.50	\$ 967.80	\$1,039.70
% Forbearance and Noneducation Deferments	10.5%	10.7%	67.4%	70.2%	72.8%
Delinquent (Past Due 31–360 Days)	\$ 92.50	\$ 90.80	\$ 0.50	\$ 0.00	\$ 0.00
% Delinquent (Past Due 31–360 Days)	8.0%	7.3%	0.0%	0.0%	0.0%
Default/Bankruptcy/Other*	\$ 115.00	\$ 134.60	\$ 131.90	\$ 122.80	\$ 117.50
% Default/Bankruptcy/Other*	10.0%	10.8%	10.0%	8.9%	8.2%

<sup>1</sup> 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 DL Portfolio (principal and interest)

\*\*Student loan payment pause in effect from March 2020

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. 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 balances reported for Current Repayment and Delinquent in FY 2020, FY 2021, and FY 2022 are significantly lower than other years, primarily due to the COVID-19 student loan repayment deferrals that placed loans in forbearance and subsequently cured delinquencies. As a result of the COVID-19 student loan repayment deferrals, the delinquent balances are now zero.

While the COVID-19 student loan repayment deferrals suspended payments for federally owned student loans, some borrowers elected to continue to make student loan payments. In addition to improving borrowers' overall financial health, factors that may have influenced borrowers to continue making payments on their student loans during forbearance include the following:

- Borrower flexibility to make payments or suspend payments as their financial circumstances permitted without notification to the loan servicer.
- Potential earlier loan payoff.
- Lower total cost of a loan over time to the borrower due to the zero percent interest rate. (Before the pause, an average of two-thirds of each dollar paid went to principal. During the pause, this quickly increased to above 90 percent, and now an average of 95 percent of each dollar goes toward principal).
- Potentially improving the borrower's credit rating by reducing the student debt balance. The relative strength of FSA borrower payment activity has been driven, in part, by efforts of borrowers to improve their credit stance to purchase homes during the period of forbearance. During the pandemic, the U.S. Department of Housing and Urban Development and Federal Housing Authority implemented nontemporary policy changes to improve the underwriting stance of federal student loan borrowers.
- Potentially improved overall borrower financial health and reduced financial stress by reducing student debt.

### ANALYSIS OF DEBT ASSOCIATED WITH LOANS, DIRECT LOAN PROGRAM

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.

The Department's total debt associated with the Direct Loan Program was \$837.4 billion as of September 30, 2022, which was a \$304.8 billion decrease from FY 2021. Total debt decreased largely because the Department received subsidy appropriations for loan modifications during FY 2022 and used these resources to repay debt to Treasury.

Figure 6 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 7 on page 19 of this report.

**Figure 6.** Components of Direct Loan Receivables, Net  
(Dollars in Billions)

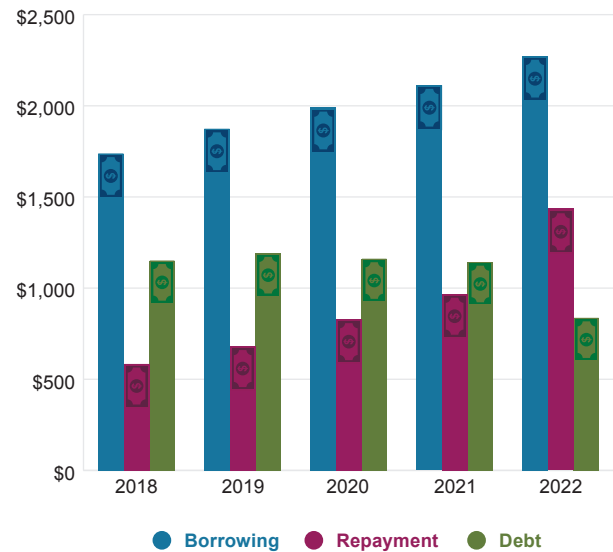
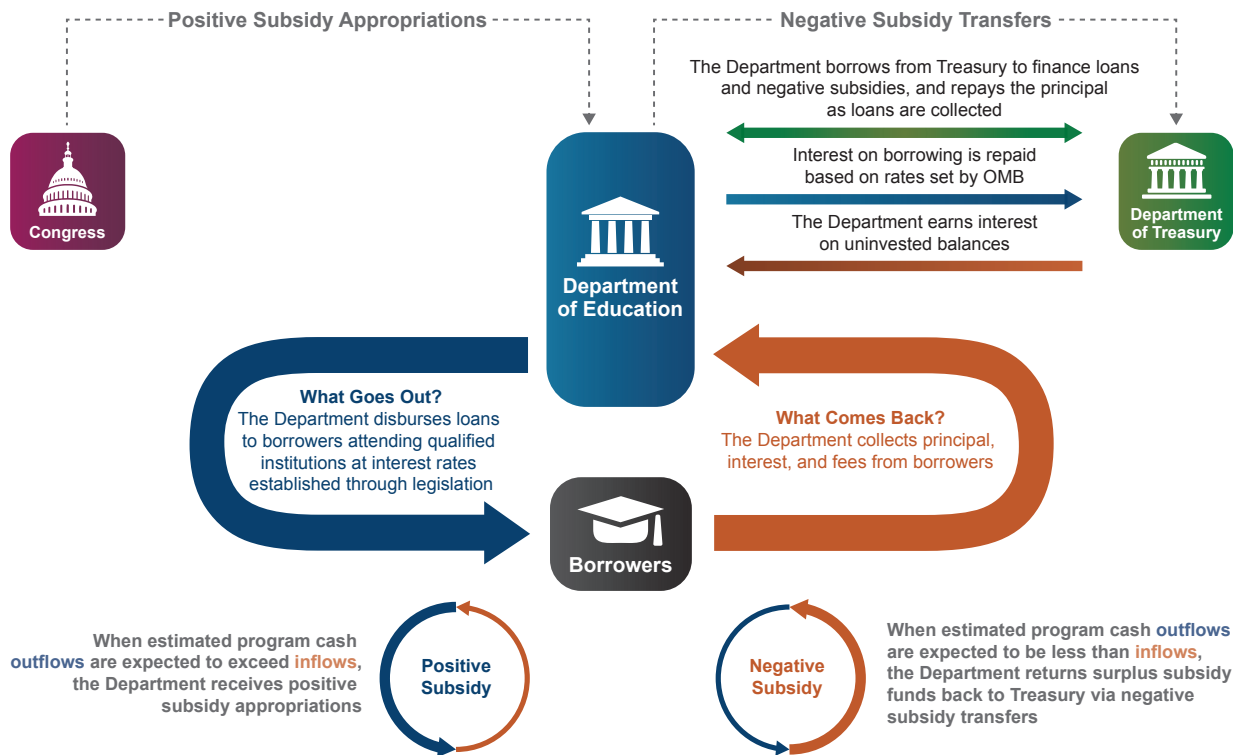


Figure 7. William D. Ford Federal Direct Loan Program: **Following the Funding**



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	2018	2019	2020	2021	2022
<b>Net Borrowing</b>	\$ 89.1	\$ 41.5	\$ (32.0)	\$ (17.9)	\$ (304.8)
Borrowing from Treasury	155.3	137.6	116.9	120.0	162.8
Debt Repayments to Treasury	(66.2)	(96.1)	(148.9)	(137.9)	(467.6)
Interest Expense to Treasury	(32.3)	(33.8)	(34.7)	(33.0)	(30.6)
Interest Earned from Treasury	3.9	4.1	4.8	4.2	7.6
Cumulative Taxpayer Cost / (Savings)	40.7	124.4	216.4	273.9	611.9
Current Subsidy Expense / (Revenue)	4.4	61.5	100.9	93.9	385.4

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2018	2019	2020**	2021**	2022**
<b>Loan Disbursements</b>	\$ 134.1	\$ 130.7	\$ 117.4	\$ 104.8	\$ 120.4
Stafford Subsidized	20.3	20.0	19.1	18.3	15.7
Stafford Unsubsidized	49.0	48.1	46.1	44.1	45.5
Parent Loan for Undergraduate Students (PLUS)	23.1	22.7	21.7	20.8	22.2
Consolidation <sup>1</sup>	41.6	39.8	30.4	21.5	36.9
<b>Loan Collections<sup>2</sup></b>	<b>84.9</b>	<b>91.3</b>	<b>69.9</b>	<b>37.2</b>	<b>45.5</b>
Principal	63.5	67.0	55.3	33.3	41.3
Interest	19.5	22.4	12.9	2.3	2.6
Fees	1.9	1.9	1.7	1.6	1.6

\* Numbers may not add due to rounding.

\*\* Student loan payment pause in effect from March 2020 through December 2022.

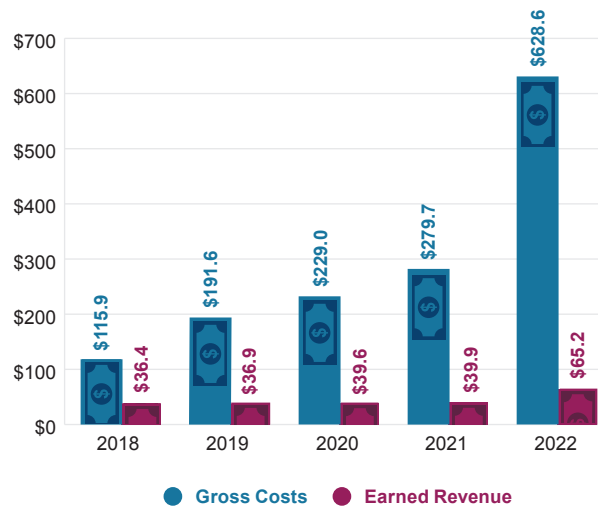
<sup>1</sup> Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

<sup>2</sup> 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 8 shows the Department's gross costs and earned revenue over the past five years. As shown in Table 1 and discussed in more detail below, significant changes in the Department's net costs for FY 2022 were primarily due to loan modifications and reestimates (subsidy expense) and grant expenses related to COVID-19 activities.

**Figure 8. Gross Costs & Earned Revenue**  
(Dollars in Billions)

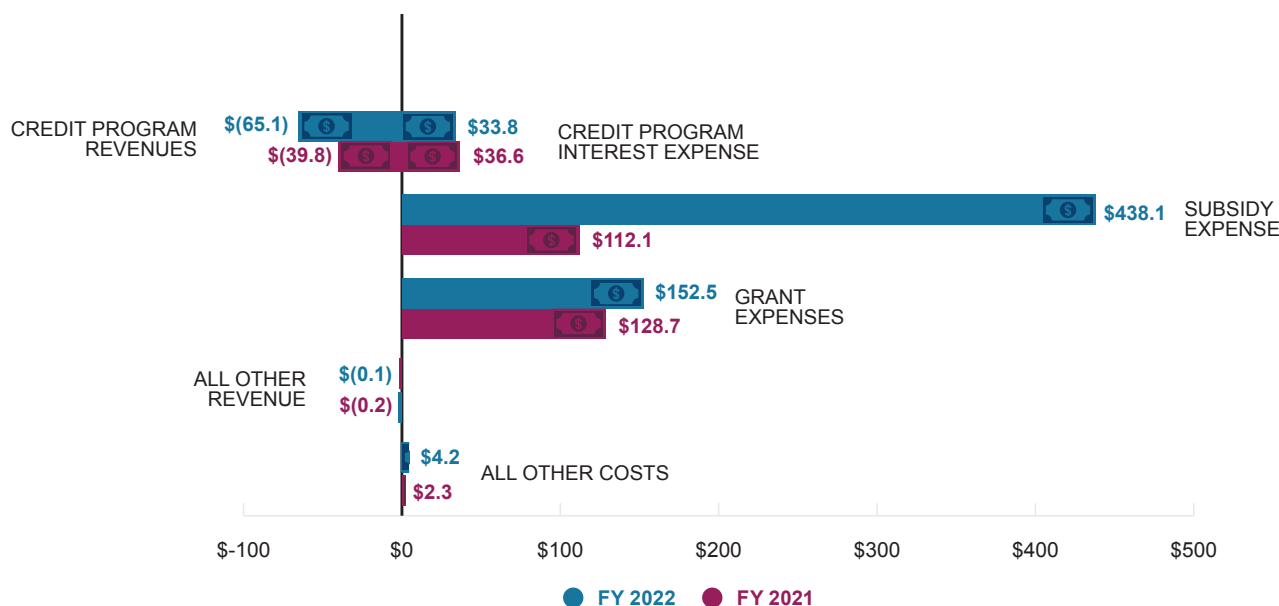


### GROSS COSTS AND EARNED REVENUE BY TYPE

As shown in Figure 9, 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).
- Grant expenses. (See Figure 11)

**Figure 9. 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 estimated subsidy expenses—primarily subsidy expenses for direct loans. The primary components of subsidy expenses include year-end subsidy re-estimates and loan modifications.

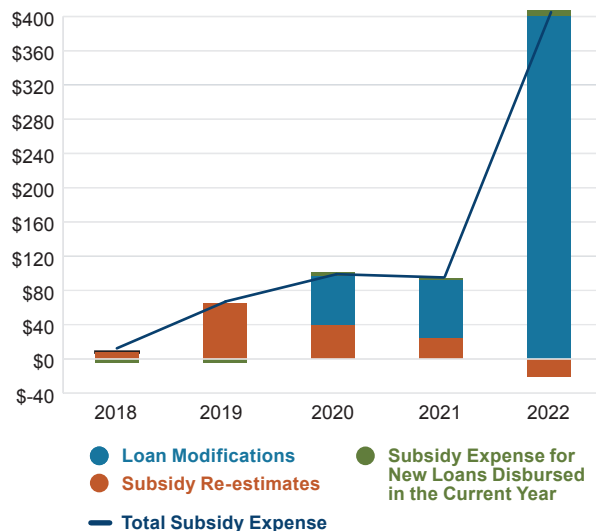
Subsidy expenses are estimates of the present value cost of providing direct loans but exclude the administrative costs of issuing and servicing the loans. The Department estimates subsidy expenses using a set of econometric and financial models as well as cash flow models.

The Department estimates subsidy expenses annually for new loans disbursed in the current year and updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates). The Department also updates subsidy expenses due to changes to terms of existing loans (subsidy modifications). Figure 10 shows these three components of the Direct Loan Program subsidy expense for the past five years. 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 individual components and overall subsidy expense are positive or negative.

The Direct Loan Program subsidy expense for new loans disbursed in the current year was negative from FY 2018 through FY 2019 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 since FY 2020 has been positive due to rising enrollment in IDR plans and a reduction in projected future income of borrowers in IDR plans, both of which contribute to a higher expected cost to the government for issuing student loans by reducing the amount that many borrowers will repay over the life of their loans and/or creating a student loan forgiveness benefit for amounts remaining after 20 or 25 years, particularly common among high-debt borrowers.

The Department updates its subsidy cost estimates each year for outstanding loans disbursed in prior years using a process referred to as a subsidy re-estimate. The total of Direct Loan subsidy re-estimates during FY 2022 was a net \$21.9 billion downward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Figure 10.

Figure 10. Direct Loan Program Subsidy (Dollars in Billions)



	2018	2019	2020	2021	2022
Subsidy Expense for New Loans Disbursed in the Current Year	\$ (3.1)	\$ (3.0)	\$ 5.1	\$ 1.6	\$ 7.3
Subsidy Re-estimates	7.4	64.5	56.1	24.0	(21.9)
Loan Modifications	0.1	-	39.7	68.3	400.0
<b>Total Subsidy Expense</b>	<b>\$ 4.4</b>	<b>\$ 61.5</b>	<b>\$100.9</b>	<b>\$ 93.9</b>	<b>\$385.4</b>

Subsidy Re-estimate Components	2022	2021
Income-Driven Repayment (IDR) Model Changes	\$ (24.0)	\$ 22.4
Prior Year's Cohort Assumption Changes	7.7	15.5
Interest on the Re-Estimate	(0.4)	5.0
Default	3.0	(6.4)
Repayment Plan Selection	(3.0)	0.7
Discount Rates	(16.6)	(11.5)
Non-IDR Discharges	2.9	3.2
Deferment And Forbearance	2.6	(4.8)
Collections	(1.7)	1.5
Interactive Effects	7.4	(1.6)
Other Assumptions	0.2	-
<b>Total Direct Loan Program Subsidy Re-estimates</b>	<b>\$ (21.9)</b>	<b>\$ 24.0</b>

Loan Modification Components	Modification Costs	
	2022	2021
Student Loan Repayment Deferrals	\$ 48.6	\$ 49.5
Broad-Based Debt Relief	337.3	-
Shift to Business Process Operations	(9.1)	-
PSLF Waiver	9.1	-
IDR Waiver	14.1	-
Total and Permanent Disability	-	18.7
Faith-Based Final Rule	-	0.1
<b>Total Direct Loan Program Loan Modifications</b>	<b>\$ 400.0</b>	<b>\$ 68.3</b>

The Department also updates previous cost estimates based on any new legislation or other government actions that change the terms of existing loans and alter the estimated subsidy cost. This process is referred to as a modification. During FY 2022, the Department recorded a total of \$400.0 billion in net upward modifications. The table below Figure 10 also identifies the components of modifications that were recorded during FY 2022. More detail about these modifications and components of re-estimated subsidy cost can be found in the notes to the financial statements beginning on page 56.

The FY 2022 year-end subsidy re-estimates also resulted in a \$25.5 billion increase in the Subsidy Due to Treasury shown in Table 1 on page 10 of this report. This represents the amount of accrued downward re-estimates of subsidy expense that will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. More detail on Subsidy Due to Treasury can be found in the notes to the financial statements beginning on page 56.

### GRANT EXPENSES

As shown in Figure 11, overall grant expenses changed primarily because of COVID-19 grants. More detail concerning COVID-19 grants can be found in Note 11 of the financial statements beginning on page 87. In addition to COVID-19 funded grants, the Department has more than 100 other grant and loan programs. The three largest of these grant program areas are:

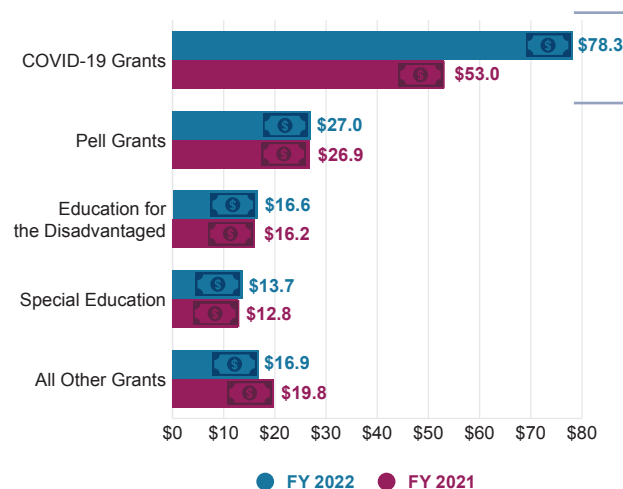
- **Pell Grants**—Provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on the student's expected family

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. The program 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 in correctional facilities.
- **Special Education**—Primarily consists of *Individuals with Disabilities Education Act* 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 2 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 nonstudent aid funds awarded by formula and 10 percent through competitive processes.

**Figure 11. Grant Expenses by Program Areas**  
(Dollars in Billions)



**COVID-19 Grant Expenses**  
(Dollars in Millions)

COVID-19 Grants	FY 2022	FY 2021
<b>Education Stabilization Fund:</b>		
Elementary and Secondary School Emergency Relief Fund	\$ 48,502	\$ 20,036
Higher Education Emergency Relief Fund	25,976	31,407
Governor's Emergency Education Relief Fund	2,654	1,341
Outlying Areas & Discretionary Grants	312	130
<b>Total Education Stabilization Fund</b>	<b>77,444</b>	<b>52,914</b>
Other COVID-19 Grants	865	66
<b>Total COVID-19 Grants</b>	<b>\$ 78,309</b>	<b>\$ 52,980</b>



## 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 is the residual difference between assets and liabilities and 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

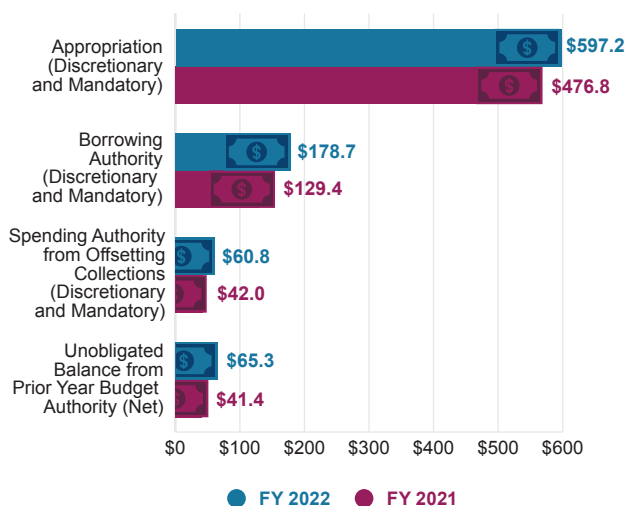
The combined statements of budgetary resources present information on how budgetary resources were made available and their status at the end of the fiscal year. Information in the statements is based on budgetary transactions as prescribed by OMB and Treasury.

Figure 12 shows the components of the Department's budgetary resources, which totaled \$902.0 billion for FY 2022, increasing from \$689.6 billion, or 30.8 percent, from the prior year. This increase was primarily due to a net increase in appropriations received totaling \$120.4 billion, of which \$154.9 billion was for an increase in direct and indirect appropriations for COVID-19 activity.

Other significant changes to the Department's combined statements of budgetary resources include the following:

- Unobligated Balances from Prior Year Budget Authority (Net) increased by \$23.9 billion, or 57.7 percent. Of this increase, \$17.9 billion was due to COVID-19 funded balances.
- New Obligations and Upward Adjustments (Total) decreased by \$186.2 billion, or 29.7 percent, due primarily to a decrease of \$190.8 billion for grant obligations funded by the COVID-19 appropriations and loan modifications for COVID-19 student loan deferrals, broad-based debt relief, and IDR and PSLF Waivers.
- Unobligated Balance, End of Year increased \$26.2 billion, or 42.2 percent. This increase was largely due to a \$42.5 billion increase in unapportioned balances for the credit program accounts, net of a \$17.9 billion decrease due to COVID-19-funded balances.

**Figure 12.** Components of Budgetary Resources  
(Dollars in Billions)



The combined statements of budgetary resources also present the Department's summary disbursement and collection amounts shown in Table 3.

Outlays, Net is comprised of gross outlays and offsetting collections in the Department's budgetary funds. Outlays, net increased \$401.4 billion (150.3 percent) due primarily to an increase of \$368.3 billion in credit programs outlays. Total credit program outlays during FY 2022, \$510.0 billion, included \$461.1 billion associated with upward loan modifications.

Distributed Offsetting Receipts primarily 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 modifications, and negative subsidies. The \$22.5 billion net increase in FY 2022 versus FY 2021 was attributed to the Direct Loan Program.

Disbursements, Net is comprised of gross outlays and offsetting collections in the Department's credit program nonbudgetary financing funds. Of the \$342.4 billion net decrease in FY 2022 versus FY 2021, \$321.3 billion was attributed to the Direct Loan Program.

**Table 3.** Outlays, Distributed Offsetting Receipts, and Disbursements, Net

(Dollars in Billions)

	FY 2022	FY 2021
<b>Outlays, Net</b>		
Credit Programs	\$510.0	\$141.7
Grants	155.3	122.4
Contractual Services	2.5	2.3
Personnel Compensation and Benefits	0.7	0.7
<b>Total Outlays, Net</b>	<b>\$668.5</b>	<b>\$267.1</b>
<b>Distributed Offsetting Receipts</b>		
Negative Subsidies and Downward Re-estimates Of Subsidies	(28.2)	(5.6)
Repayment of Perkins Loans and Capital Contributions	(0.7)	(0.9)
Other	(0.2)	(0.1)
<b>Total Distributed Offsetting Receipts</b>	<b>\$(29.1)</b>	<b>\$(6.6)</b>
<b>Disbursements, Net</b>		
Direct Loan Program		
Gross Disbursements	\$177.6	\$143.8
Offsetting Collections	(526.6)	(171.5)
<b>Total Direct Loan Program Disbursements, Net</b>	<b>(349.0)</b>	<b>(27.7)</b>
FFEL Program		
Gross Disbursements	10.3	8.3
Offsetting Collections	(43.6)	(19.2)
<b>Total FFEL Program Disbursements, Net</b>	<b>(33.3)</b>	<b>(10.9)</b>
Other Loan Programs		
Gross Disbursements	0.5	0.7
Offsetting Collections	(0.5)	(2.0)
<b>Total Other Loan Program Disbursements, Net</b>	<b>-</b>	<b>(1.3)</b>
<b>Total Disbursements, Net</b>	<b>\$(382.3)</b>	<b>\$(39.9)</b>

## Analysis of Systems, Controls, and Legal Compliance

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### MANAGEMENT ASSURANCES

The Secretary of the Department of Education's Fiscal Year 2022 Statement of Assurance provided below is the final report produced by the Department's annual assurance process.

**STATEMENT OF ASSURANCE**  
**FISCAL YEAR 2022**  
 January 23, 2023

The Department of Education's (the Department's) 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 (DQP) in accordance with Appendix A of OMB Circular A-123.

The Department's management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. The Department conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2022.



Miguel A. Cardona, Ed.D.

## 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 and mission-support operations. This is achieved through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. Furthermore, 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, and explains assurances provided by the Department's leadership.

### Enterprise Risk Management Framework

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 has established a systematic and deliberate view of risk into key management practices,

ultimately yielding more effective performance and operational outcomes.

The Division of Enterprise Data Analytics and Risk Management (EDARM), within the Office of Finance and Operations (OFO), leads the agency's overall ERM strategy and formally aligns ERM and internal controls processes. EDARM leverages partnerships with agency leaders (e.g., the Senior Management Council, the Senior Executive Cadre, political leadership) to identify, measure, and assess challenges related to mission delivery, policy development, and operations to develop coordinated, actionable response plans.

EDARM collaborated with every Principal Office Component (POC) to identify and evaluate risk priority within each POC and at the Department wide level. The FY 2022 Department of Education ERM profile was published with the aggregated result and analysis from the annual assessment process. This profile highlights the top 11 risks for the Department around the following 5 main functional processes:

- *Financial Management*: Student Loan Cost Estimation, Budget Formulation.
- *Human Capital Management*: Recruitment & Hiring, Workforce & Succession Planning, Employee Training & Development.
- *Information Technology Management*: IT Process Governance, Cybersecurity, and Infrastructure.
- *Data Management*: Data Quality.
- *Oversight and Compliance*: Grants and Contracts Management.

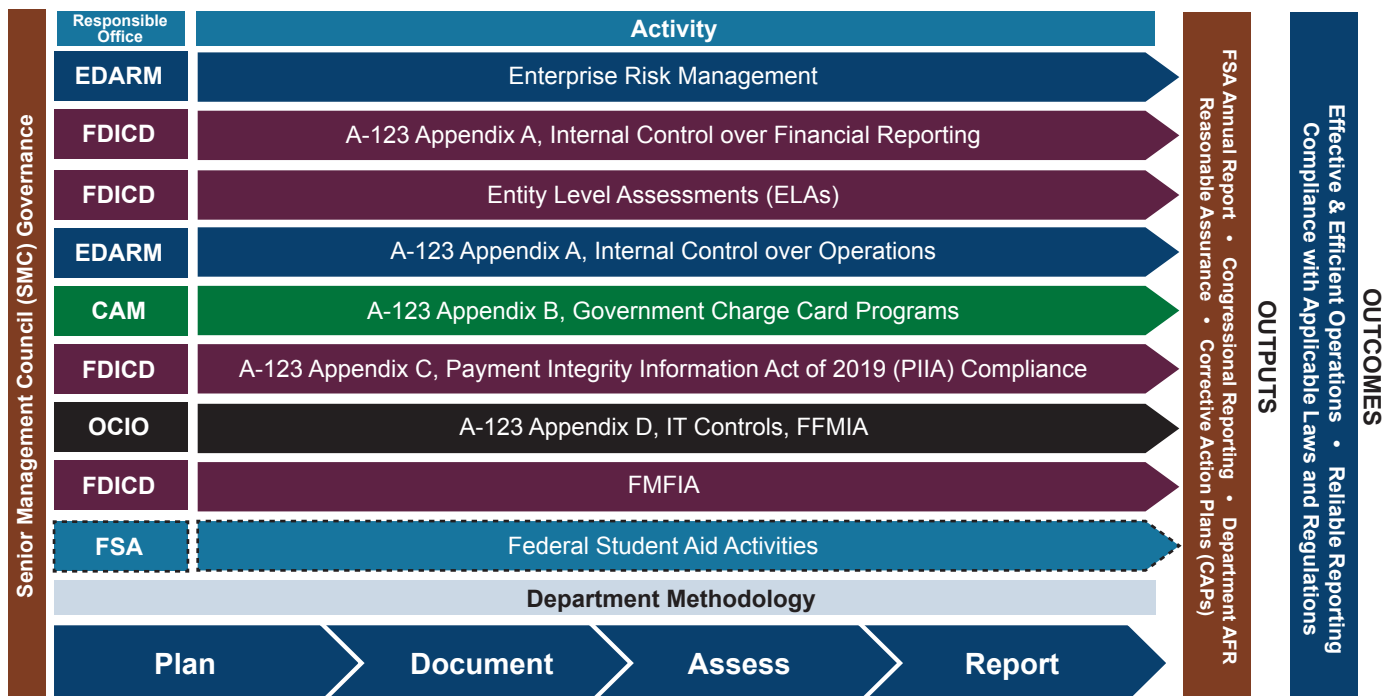
In FY 2022, EDARM also launched the ERM digital tool for collecting, analyzing, and reporting risk data to promote transparency and accountability across the Department.

EDARM continues to make progress in developing and implementing new trainings, tools, and helpful content to better educate and promote healthy risk culture, 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.

### 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 13. Department of Education Internal Control Framework



- EDARM** Division of Enterprise Data Analytics and Risk Management
- FDICD** Financial Data Integrity and Controls Division
- CAM** Contracts & Acquisitions Management
- FMFIA** Federal Managers' Financial Integrity Act of 1982
- OCIO** Office of the Chief Information Officer
- FSA** Federal Student Aid

The Department continues to focus on streamlining and coordinating internal control activities to ensure efficiency of operations, recognize the connection points across areas, and enable transparency of information across the Department. This framework enables increased compliance, process efficiency, oversight, and more informed monitoring of internal controls and risk management by all offices and governance bodies, including the Department's Senior Management Council. The framework also allows for the Department to obtain outcomes from an improved control system and 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; internal controls are in place and working as intended; and operations are efficient and effective.

### ANALYSIS OF CONTROLS

Overall, the Department relies on annual assurances provided by the heads of its principal offices, supported by risk-based internal control evaluations and testing – as well as annual internal control training provided for all employees – to demonstrate 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 2022, the Department and Federal Student Aid (FSA) did not self-identify any material weaknesses related to the effectiveness and efficiency of its operations. However, an area of noncompliance with laws and regulations is noted in the Analysis of Legal Compliance section below. The Department acknowledges that it has areas of control that need further strengthening, as well as major challenges identified by the Department's Office of the Inspector General (OIG) in its FY 2023 Management Challenges report. As an example, data quality and reporting are a challenge identified by the 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 (DQP) integrated into testing of controls is helping to address this challenge identified by the OIG.

The Department maintains processes and procedures to identify, document, and assess internal control over reporting and operations. Key activities include:

- Maintaining process documentation for the Department's significant business processes and subprocesses.
- Maintaining an extensive library of key financial, operational, and information technology (IT) controls.
- Providing technical assistance to principal offices to help them understand and monitor key controls.
- Refining the DQP 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.
- Recommending and assisting with implementation of robust tools to design more efficient and effective operating procedures.

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, operations, and compliance with key financial management laws and regulations, as described below.

### Internal Control Over Reporting

In FY 2022, the Department tested a proportionate number of key financial controls in significant business processes in non-grant areas based on qualitative risk assessments and rotational test plans. The internal controls assessment did not find any control deficiencies or material weakness. However, recommendations have been provided to process owners to strengthen internal controls, such as verifying immaterial differences, obtaining electronic signatures, and updating policies and procedures.

### Internal Control Over Operations

In FY 2022, the Department reviewed a number of operational processes based on qualitative risk assessments (in alignment with the Department's ERM profile) and detected some control deficiencies but none that would rise to the level of material weakness. As a result, tools have been developed in the areas of workforce planning, acquisition planning and the procurement process to better utilize resources, improve the flow, timeliness and quality of information and allow for more effective decision-making. A major accomplishment has been the development of a workforce dashboard that consolidates relevant and up-to-date human resources data from multiple systems in a single location and visually depicts complex relationships in an easily digestible manner, enhancing decision-makers' ability to identify critical human resource trends and challenges across the Department.

## ANALYSIS OF FINANCIAL MANAGEMENT SYSTEMS

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with 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 FFMIA, 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 integrated 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:

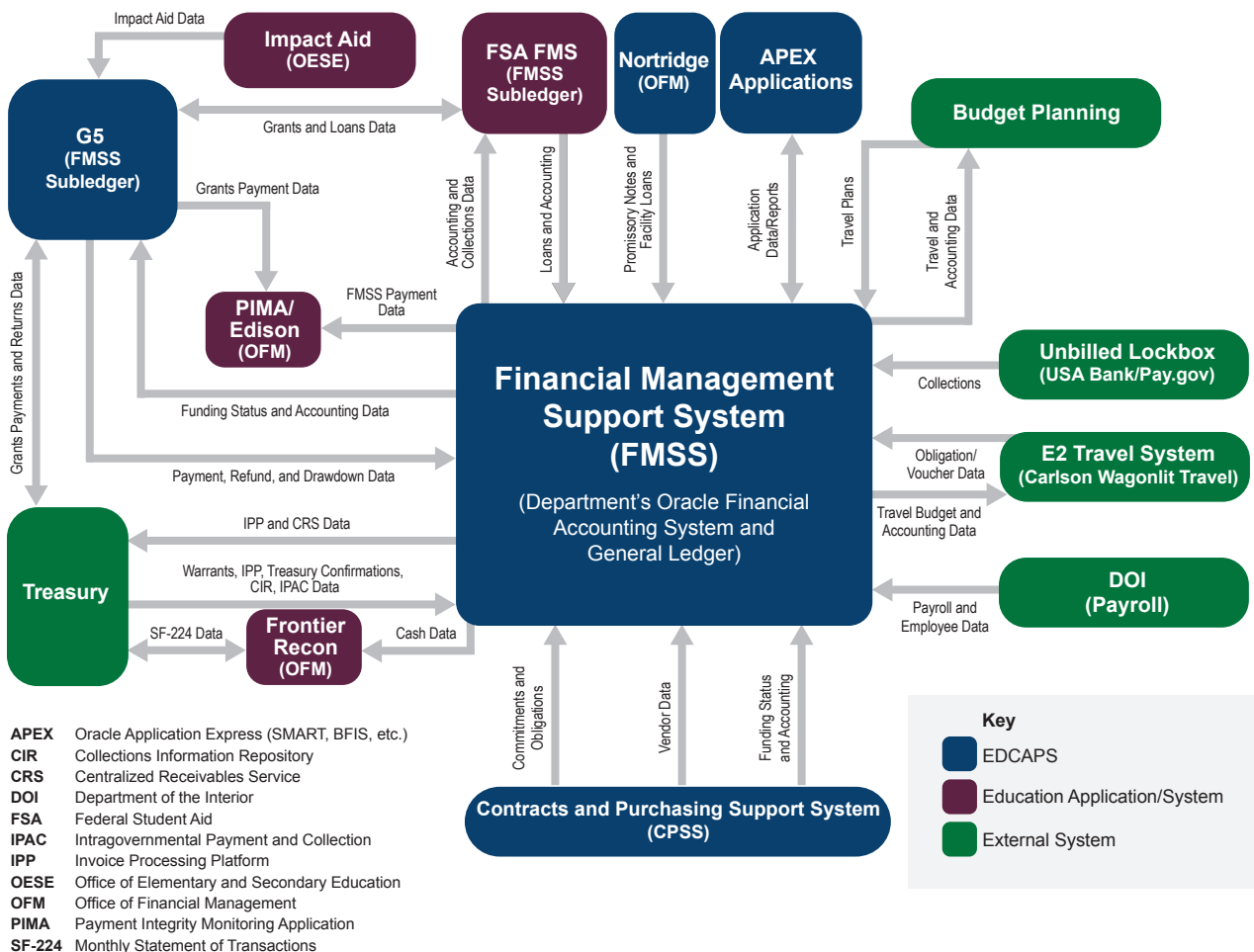
- General ledger—Preparation of financial statements and reconciliation of general ledger balances with subsystems maintained in program areas and Treasury.
- Funds management—Budget formulation, budget execution, and funds control.
- Grants pre- and post-award processing, including grant payment processing.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

EDCAPS is composed of five main integrated components:

- Financial Management Support System (FMSS)—FMSS is the Department's core financial system. It provides financial management functions such as the general ledger, financial statement preparation, funds control and budget execution, purchase receiving, accounts receivable, and accounts payable.
- The FMSS Oracle E-Business Suite application resides behind the Department firewall and not an external-facing application.
- Contracts and Purchasing Support System (CPSS)—CPSS provides the Department with a central repository to enter, retrieve, manage, and view acquisition/contract-related data. The centralized data provides enhanced information dissemination, with the ability to respond to both internal and external information requests.
- Grants Management System (G5)—G5 provides the Department with a platform to manage all grant activities, from initial recipient contact to grant processing to payments and grant closeout. This single-system approach provides improved grant information management, recipient response time, and accuracy of financial management information.
- E2 Travel System—E2 provides the Department, under a GSA contract with third party, with a platform to manage travel functions. EDCAPS interfaces with E2 in accordance with an established Memorandum of Understanding and Information Security Agreement between the Department and the vendor.

The following diagram provides the data flow in and out of EDCAPS, including data flow with other Department applications/systems and external applications/systems.

## EDCAPS (FMSS) Functional Flow Diagram



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 40,970 external users, mostly users of Grants Management System (G5). In FY 2022, the Department conducted an annual risk assessment of EDCAPS and tested 103 IT security controls out of a baseline of 630 IT security controls, as follows:

- EDCAPS—18<sup>3</sup>
- FMSS—28
- CPSS—12
- G5—33
- E2—12

The Department designated the FMSS as a mission-critical system that provides core financial management services

3 Number of IT controls tested. No significant deficiencies or material weaknesses were identified.

and focused its system strategy on the following areas during FY 2022:

- 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 external systems:



- Department Systems:
  - Oracle Enterprise Performance Management Cloud Planning (formerly Hyperion).
  - Fiserv Frontier.
  - G5.
  - CPSS.
- External Systems:
  - Treasury systems (Invoice Processing Platform [IPP] invoices/receipts/obligation data, IPP invoice status; payment files, debt referrals, CRS invoices, warrants, Treasury confirmations, CIR collections and administrative return, collections/payments).
  - Department of Interior systems (Payroll).
  - E2 Travel System.

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:

### **Payment Integrity Information Act of 2019 (PIIA)**

The *Payment Integrity Information Act of 2019 (PIIA)*, **Pub. L. 116-117, 134 Stat. 113**, was enacted into law on March 2, 2020. The primary purpose of the PIIA is to reorganize and revise several existing improper payments statutes,<sup>4</sup> which establish requirements for federal agencies to cut down on improper payments made by the federal government. PIIA requires federal agencies to report improper payments annually for programs that are deemed susceptible to significant improper payments. PIIA also

requires each agency's OIG to review the agency's improper payment reporting in its Agency Financial Report (AFR) and accompanying materials, and to determine whether the agency has met six compliance requirements.

In its annual improper payment compliance audit for FY 2021, the OIG concluded that the Department was not compliant with PIIA because it did not meet one of the six compliance requirements. Specifically, the Department reported an improper payment estimate for the Title I, Part A program of 14.77 percent. To comply with 31 U.S.C. section 3351(2)(F), an agency must report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published. The Department's improper payment estimates were not reliable for three of its programs (Title I, Part A; Pell; and Direct Loan) that required an estimate for FY 2021. Specifically, the improper payment sampling and estimation plan the Department developed for the Title I, Part A program was not adequate for State Educational Agencies (SEAs) that use an advance payment process that does not allow the SEA to directly link payment transactions (expenditures) to specific G5 system drawdowns.

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

### **Debt Collection Improvement Act of 1996 (DCIA)**

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 *Digital Accountability and Transparency Act of 2014 (DATA Act)*, Pub. L. 113-101, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require notification of a legally enforceable nontax debt that is over 120 days delinquent to the Department of the Treasury for purposes of administrative offset. While the Department continued to work toward an accelerated process to refer delinquent debt to Treasury, extension of the provisions of the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)* in FY 2022 continued to afford administrative forbearance for eligible loans. Beginning in March 2020, the provisions of the CARES Act suspended involuntary collection through the Treasury Offset Program. The suspension of involuntary collections will continue to apply through 2023. Pursuant to the CARES Act and related authorities, no loans were required to be transferred to Treasury during FY 2022. Accordingly, the Department was and is compliant with DCIA as amended by the DATA Act.

<sup>4</sup> *Improper Payments Information Act of 2002 (IPIA)*, Pub. L. 107-300, 116 Stat. 2350, as amended by the *Improper Payments Elimination and Recovery Act of 2010 (IPERA)*, Pub. L. 111-204, 124 Stat. 2224, and the *Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)*, Pub. L. 112-248, 126 Stat. 2390.

**Federal Information Security Modernization Act of 2014 (FISMA)**

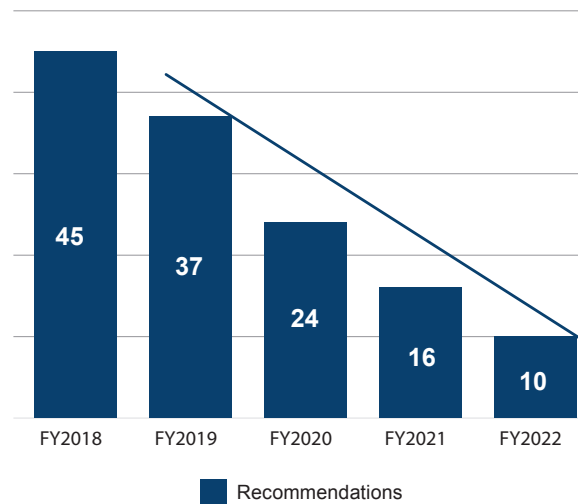
The *Federal Information Security Modernization Act of 2014* (FISMA 2014) requires federal agencies to develop, document, and implement an agencywide program to provide security for the information and relevant information technology systems. The Act supports the operations and assets of the agency and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

The Department's and FSA's information security programs completed numerous significant activities in FY 2022 to improve cybersecurity capabilities and functions, some of which include:

- The Department received an overall *Federal Information Security Modernization Act of 2014* (FISMA) assessment of "Effective," or a Level 4 Cybersecurity Maturity Level for FY 2022, which marks a significant improvement from FY 2021. This is the first time the Department has achieved this level with seven of nine FISMA domains increasing in score, as supported by information in the graphics below.

Security Function	Metric Domain	Maturity Level	Change from 2021	Met Federal Goal
Identify	Risk Management	Consistently Implemented	=	
Identify	Supply Chain Risk Management	Consistently Implemented	▲	
Protect	Configuration Management	Managed and Measurable	▲	✓
Protect	Identity and Access Management	Consistently Implemented	▲	
Protect	Data Protection and Privacy	Consistently Implemented	=	
Protect	Security Training	Managed and Measurable	▲	✓
Detect	Information Security Continuous Monitoring	Managed and Measurable	▲	✓
Respond	Incident Response	Managed and Measurable	▲	✓
Recover	Contingency Planning	Managed and Measurable	▲	✓

**FISMA Recommendations 2018–2022**



- In February 2022, the Department implemented a new cybersecurity policy framework aligned with Executive Order (EO) 14028 Improving the Nation's Cybersecurity and *National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5*. The updated framework ensures a more comprehensive inventory of policies that directly align with the latest catalog of security control families and requirements levied through EO 14028. Five Instructions and 22 Standards have been converted into 20 new Standards (control families) aligned with the Cybersecurity Framework (CSF) and NIST 800-53, Revision 5. The framework modernizes the Department's cybersecurity policies, enables system

stakeholders to find the Department's requirements quickly, and allows for updates to the Department's system of record for FISMA reporting, Cyber Security Assessment and Management System (CSAM) with ED-defined control parameters to support System Security Plan (SSP) development and assessments. This includes control overlays for requirements not within 800-53 control baselines, and enhances maintenance and strengthens the ability to update for new requirements while maintaining mapping to CSF rapidly and NIST controls.

- The Department released Standard PR.DS: Protection of Federal Tax Information. Released in January 2022, this standard establishes the Department standards

for safeguarding the confidentiality of Federal Tax Information (FTI) as required by Internal Revenue Service (IRS) Safeguards Program 1 and IRS Publication 1075, Tax Information Security and Privacy Guidelines for Federal, State and Local Agencies. This is in accordance with Internal Revenue Code (IRC), Section 6103(p)(4)3; and IRS Publication 1075, as a condition of receiving FTI directly from either the IRS or from secondary sources.

- Office of the Chief Information Officer (OCIO) refined and used the Department's cybersecurity risk tolerance and appetite, which integrates with the Department's overall ERM program. In FY 2022, OCIO updated its target profile and key performance indicators (KPI) and key risk indicators (KRI) to support tracking and reporting progress made towards the Department's OCIO ERM target profile. OCIO continues membership and participation in ERM Working Groups and mini working groups (ERMWG) to continue to mature integration of Cyber Risk Management with ERM:
  - ERM maturity model metric refinement.
  - ERM digital tools risk reporting and analysis.
  - ERM training for leaders and staff.
  - ERM knowledge management.
- The Department's Security Assessment Team worked with OCIO to implement the Ongoing Security Assessment & Authorization (OSA) program, which started in December 2021. The OSA program and method of assessment replaced the older static-point-in-time assessment model of Assessment & Authorization. The threshold for entry into the OSA program is a risk assessment that focuses on the following areas: system demonstration, control baseline and inheritance review, and the Department's CSF Scorecard and discrepancy reports. The OSA program will reduce steps and modify artifacts to improve efficiency. The overall outcome is more frequent system stakeholder engagement and timely risk visibility.
- OCIO publishes monthly Department's CSF Risk Scorecards as part of the Department's Information Security Continuous Monitoring efforts to identify cybersecurity risks, issues, and opportunities for improvements in its 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 2022, the Department continued to mature its risk management processes through enhancements made to the CSF Risk Scorecard. These enhancements have improved the accuracy and timeliness of the Department's risk reporting and continuous monitoring. System stakeholders are now provided daily visibility of their system's risk and data quality. Additional views were established to augment and consolidate risk reporting to allow the Department's authorizing officials to quickly identify which systems require attention and prioritization of authorization and risk reduction activities. These enhancements are targeted to result in a reduced number of past due Plan of Actions and Milestones (POA&M) and data quality issues. With near-real time risk scoring and reporting in place, executive and system level stakeholders can effectively prioritize and manage the Department's cybersecurity risk daily.

- Throughout the year, the Department continued outreach and risk communications by disseminating monthly "State of IT" reports to the Department's senior leaders. These executive-level reports provide the Department's senior leaders with a holistic view of their IT investments, services, and cybersecurity posture through comprehensive IT and cybersecurity trends, metrics, and key insights to prompt top-down engagement and actions. These reports prepare senior POC leaders for the Monthly Deputy Secretary cybersecurity briefings facilitated by the Department's Chief Information Security Officer (CISO). The meeting communicates Department cyber risks, trends, metrics, key insights, upcoming announcements, and actions.
- The Department continued to mature its risk management processes through enhancements to the CSF Risk Scorecard. POC leadership can now monitor status of program-level business continuity planning and testing activities. These enhancements allowed the Department to close corrective action plan (CAP) 8.3 from the FY 2020 FISMA audit and are targeted to result in consistent implementation of business continuity planning activities. In FY 2022 Quarter 1, the Department enhanced its Power BI reporting to track and report compliance with the Department's 14028 mandates including, but not limited to, Multifactor Authentication (MFA), encryption, and resiliency. The FISMA Dashboard was also enhanced to visualize compliance statuses against recently released FY 2022 OCIO Metrics reporting guidelines (v1.1), issued by OMB/Cybersecurity and Infrastructure Security Agency (CISA) in support of EO 14028 requirements.

- In FY 2022, the Department was approached to provide a demonstration of its cybersecurity risk scoring and visualization capabilities to several partner federal Departments. As a result of the Department's demonstration of risk scoring and visualization capabilities, the partner Departments have expressed interest in establishing similar capabilities within their cybersecurity mission space.
- The Department established a Vulnerability Disclosure Policy (VDP) program in FY 2021, to provide an open channel and legal safe harbor for the discoverer of vulnerabilities to report it to the Department. The VDP allows the research community and others to alert the Department about vulnerabilities in its systems through a clearly established program. The Department expanded the VDP program in FY 2022 Quarter 1 to cover all internet accessible Department systems. Information submitted to the Department under the VDP will be used to mitigate or remediate internet-accessible systems and services vulnerabilities, or vendors' internet-accessible systems or services.
- The Department updated internal vulnerability management procedures in accordance with Binding Operational Directive (BOD) 22-01 Reducing the Significant Risk of Known Exploited Vulnerabilities. The Department continues to remediate each vulnerability according to the timelines set forth in the CISA-managed vulnerability catalog. The Department is working with CISA to mature Continuous Diagnostics and Mitigation (CDM) capabilities to augment and enhance remediation actions as required by this directive.
- The Department developed and implemented a new FISMA 2014 reporting dashboard through Microsoft Power BI to reflect the updated FY 2022 OCIO Metrics. The new dashboard allows leadership to visualize all data collected across the Department in support of its quarterly reporting requirements to DHS and OMB. The dashboard provides the ability to proactively identify discrepancies or potential risks as a result of data captured and presented to both leadership and FISMA 2014 metric owners for action.
- The Department took immediate action in Quarter 1 and Quarter 2 regarding M-22-09 Moving the U.S. Government Toward Zero Trust Cybersecurity Principles by creating, funding, and onboarding a GS-15 zero-trust architecture (ZTA) program manager and releasing a Department strategy and project schedule for full implementation by the end of FY 2024. The Department received the initial transfer of \$15 million

in Technology Modernization Fund (TMF) funds, used to:

- establish a ZTA Project Management office (PMO).
- engage the recompute of Enterprise Identity, Credential, and Access Management (ICAM).
- obtain Secure Access Service Edge (SASE) & Security Orchestration Automation & Response (SOAR) capabilities.

There is ongoing collaboration between ZTA, ICAM, Enterprise Detection and Response (EDR), and Cyber Data Lake (CDL) PMOs to fulfill progress towards all pillars of Zero Trust. A "zero trust" approach to security provides the Department with a necessary and defensible architecture against increasingly sophisticated cyber-attacks. The Department is on track to meet the requirements set forth by OMB and maintain a resilient cybersecurity posture.

- During the first half of FY 2022, OCIO successfully continued to provide IT services to support nearly 100% telework in response to the COVID-19 pandemic. However, during the second half of FY 2022, the Department shifted from nearly 100% telework to a hybrid telework posture. Throughout this transition, there was no significant impact or compromise to the Department Information Security Program, and the Department continued execution of missions without interruption. Despite the challenging work environment necessitated by the COVID-19 pandemic and the evolving technology changes to meet working requirements, the Department did not have any major information security incidents occur. To continue strengthening its cloud portfolio, the Department has continued its close working relationship with the FedRAMP Project Management Office (PMO) which established increased reoccurring continuous monitoring meetings with participating agencies to help improve the security posture of those Cloud Service Providers.
- In response to the January 2022 Apache Log4j vulnerability, the Department Vulnerability Management (VM) team identified all impacted systems, assets, and remediation actions. All reports were forwarded to the EDSOC for further incident response activities. The EDSOC coordinated across the Department (FSA Security Operations Center [SOC], CSOC, etc.) to identify impacted assets, patch immediately, block indicators of compromise, and take necessary incident response actions if compromises were discovered. The EDSOC completed all network traffic and forensics analysis on the Department's systems and concluded that no Department assets showed

indication of a successful compromise. The Department was selected to participate in the first Cybersecurity Safety Review Board analysis of Log4j and was cited as providing the most input and support of Federal Cabinet-level Departments.

- In response to Emergency Directive 22-03 Mitigate VMWare Vulnerabilities, the Department issued a CISO Memorandum on May 20, 2022. Information System Owners and Information System Security Officers were required to enumerate all instances of impacted VMWare products within their system authorization boundaries, report findings to the OCIO VM team, and deploy updates (or remove the VMWare product until an update is available). There were no findings of impact to the Department, which was reported to CISA.
- The Department implemented measures in the wake of the COVID-19 pandemic to permit remote work, including issuance of Standard PR.AC: Emergency personal identity verification (PIV) Alternative Standard. As restrictions have been lifted and per the requirement of Homeland Security Presidential Directive 12, the Department released a CISO memorandum on April 15, 2022, for the rescission of Standard PR.AC. As a result of the memo, more than 90% of Department users are now utilizing PIV. This ensures the security of user access to the Department's networks and systems.
- In support of SOC consolidation and maturation, the Department continues to identify task separation, integrate security tooling, coordinate incident investigation and response, and remove duplication between the Department's two SOCs, EDSOC and FSA SOC. Existing milestones include refining current processes that support incident response and management to be aligned to a singular source, establishing automation within our incident response tool, and evolving training on newly enhanced processes and technologies. In FY 2021, the SOC maturation plan was updated to address key requirements levied on the Department in support of the recently released EO 14028 on Improving the Nation's Cybersecurity and NIST 800-53 Revision 5. Updates to the plan in FY 2022 will result in improved incident response (IR) maturation in keeping within Federal IR requirements, continued improvement to our data loss prevention systems, increased cost savings through virtualization, and increased use of specialized personnel dedicated to threat intelligence analysis, law enforcement cooperation, and hunt team activities, providing a more robust and complete threat analysis product to our customer.

## Forward-Looking Information

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

### 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,<sup>5</sup> 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:

- More than 73 percent of the direct loan portfolio is in administrative forbearance—the suspended payment status provided to students through the extension of the student loan repayment deferrals.
- As of June 2022, nearly 8.4 million direct loan recipients were enrolled in IDR plans, representing a 1 percent increase from June 2021 and a 3 percent increase from June 2020. Overall, more than 45 percent of direct loan dollars and 33 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.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Gen FSA, see page 39.
- Continue to support the development of additional tools, such as the College Scorecard and College Financing Plan, to increase transparency around higher education costs and outcomes that may help students and families make informed decisions before college enrollment.

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

Direct Loan Program costs are estimated consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the act, the future 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 in developing estimates. Estimation of Federal credit programs involves inherent risk. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used. 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

<sup>5</sup> <https://cew.georgetown.edu/cew-reports/collegepayoff2021/>

be significantly altered if policies around loan forgiveness are expanded. 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:

**Extension of Student Loan Payment Relief During the COVID-19 Pandemic:** The emergency relief measures in the Direct Loan Program, including suspending loan payments, halting collections on defaulted loans, and setting interest rates to 0 percent have been extended. These actions have insulated federal student loan performance from economic disruption caused by the COVID-19 pandemic, while at the same time reducing the amount of loan repayments being remitted to the Department. As the pandemic is ongoing, there is uncertainty regarding cost estimates as future actions to support borrowers during the return to repayment in 2023 could affect those received payments.

**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 2022 loan cohort, it is estimated that the government will recover 47 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. 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. In general, however, the proliferation of IDR plans has made IDR terms more generous and made the plans available to a greater number of borrowers; these plans are traditionally more costly to the government. Selected comparisons between projected originations and borrower repayments under the different IDR plans are available on the **Department's website**. Future commitment to promote these programs, and potential increased participation in these plans, are areas of uncertainty. Future legislative and/or 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 loan borrower to have the balance of their direct 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.

On October 5, 2021, the Department announced a temporary change to the PSLF program to allow previously ineligible loans to be immediately eligible for forgiveness, or additional progress toward forgiveness, with no further action from the borrower. The changes included a limited PSLF waiver that allows all payments by student borrowers to count toward PSLF, regardless of loan program or payment plan and a review of denied PSLF applications for errors, giving borrowers the ability to have their PSLF determinations reconsidered. Borrowers who have not previously certified employment have been able to apply for the waiver. Two permanent changes to military borrowers working toward PSLF were also implemented. This opportunity ended on October 31, 2022.

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, and the *Consolidated Appropriations Act*, FY 2021, each provided \$50 million for TEPSLF.

Data on approved PSLF applications first became available in FY 2018 since borrowers first became eligible for PSLF discharges starting October 1, 2017, after having made 120 qualifying payments. As of July 31, 2022, the total number of borrowers who received forgiveness from the PSLF waiver exceeded 172,000. The value of this forgiveness totaled \$10.5 billion. Including TEPSLF and PSLF discharges not associated with the waiver, the value of forgiveness exceeded \$12 billion.

As of July 31, 2022, the number of borrowers with certified employment totaled nearly 1.33 million. 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. Any future congressional or regulatory action that may affect eligibility for PSLF continues to be an area of uncertainty.

**Broad-Based Debt Relief:** In August, the administration announced its plan to cancel up to \$20,000 in student debt for eligible borrowers to give working and middle-class families more breathing room as they recover from the pandemic. As a result of Student Debt Relief, millions of borrowers will no longer have to make repayments on their loans and millions more will be able to substantially reduce their repayments. The Department estimates that the vast majority of eligible borrowers—81%—will take the necessary steps to get relief. This assumption is uncertain, as other relief programs vary in terms of take-up rates.

The executive action carrying out the plan for Student Debt Relief is based on extensive legal analysis by multiple federal offices concluding that the action is within the Secretary's authority and otherwise complies with the law. That conclusion is reflected in a **memorandum** by the Office of the General Counsel and an **opinion** from the Department of Justice's Office of Legal Counsel, which were both made available with the action's announcement on August 24. As is the case with many high-profile executive actions, the plan is the subject of recent litigation, which is pending. The Department cannot predict the outcome of litigation, but the conclusions in the legal memoranda made available in August have not changed in the intervening time. Accordingly, the Department plans to vigorously defend the executive action against all existing and future challenges.

**Borrower Defense to Repayment:** On June 22, 2022, the Department and the plaintiffs reached a proposed settlement in the case titled *Sweet v. Cardona* (formerly *Sweet v. DeVos*). If approved by the court, that agreement will affect the processing of borrower defense applications in FY 2023. In the proposed settlements, if the borrower defense application is related to federal student loans taken out to pay for attendance at any school on **the list of schools attached to the settlement agreement**, the borrower will receive "Full Settlement Relief." Full Settlement Relief means that the federal student loan(s) associated with the borrower's attendance at the school will be discharged, the Department will refund any amounts paid to it on those loans, and the credit tradeline for those loans will be deleted from the borrower's credit report.

### 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 2022 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 prior to completing repayment, 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 size 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. Lastly, the direct loan portfolio has grown from approximately \$356 billion in FY 2011 to more than \$1.3 trillion as of the end of FY 2022. 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 2022, the COVID-19 pandemic continued to cause widespread disruption to the American economy. The emergency relief measures provided by Congress and the President resulted in flexibilities for federal student loan borrowers, continuing to prevent 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 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:

**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 to strengthen their credentials, change career paths, or improve future employment opportunities. The exact impact on the cost estimates from the current period remains an 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, limited to cohorts 2017–21, resulted in a projected increase in the re-estimate of \$3.4 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 because of the pandemic. The estimates are sensitive to slight changes in model assumptions. 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. Similarly, the Department is working to implement the *FAFSA Simplification Act*, which makes significant changes to the need analysis formula that will also introduce operational challenges. 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.

Another potentially unforeseen issue that may impact cost estimates is when federal loan servicers or private collection agencies exit the student loan servicing program, as several have over the last year. The Department remains committed to ensuring that borrowers receive high-quality service that helps them access the benefits granted by law.

## NEXT GEN FSA

### About FSA

As the nation's largest provider of financial aid for education beyond high school, Federal Student Aid (FSA) delivers approximately \$112 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 and career school. FSA's loan portfolio has grown to more than \$1.6 trillion. FSA also provides oversight of 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

Through the Next Generation Federal Student Aid (Next Gen FSA) initiative, the Department continues to modernize FSA's programs, technology, processes, and operations to improve student, parent, and borrower experiences and outcomes, as well as those of student aid partners. Moreover, through Next Gen FSA, the Department continues to strengthen cybersecurity protections for students, parents, borrowers, institutions, and other financial partners.

### Legacy Environment

In the current federal student aid process, students and families navigate a complex and fragmented landscape and interact with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. This poor customer experience creates confusion and results

in customers failing to understand how to apply for and maintain their aid eligibility. Because of a confusing current state, federal student loan borrowers do not know for which loan forgiveness and repayment options they qualify. Additionally, operational complexities result in higher administrative costs and hinder effective oversight of the Department's vendors.

### Next Gen FSA Environment

FSA combined multiple websites, contact centers, and other customer interfaces into a simplified, consistent, and engaging customer experience, which has been enhanced by standardized training and tools. FSA's website—StudentAid.gov—continues to be customers' single front door on the web. FSA continues to enhance its modern self-service and consumer information tools that help customers understand the aid they have received, their remaining eligibility, for what loan forgiveness programs they may be eligible, and how they can manage loan repayment in a way that meets their goals.

Some of FSA's Digital and Customer Care (DCC) tools include the Federal Student Aid Estimator, Loan Simulator, Aidan Virtual Assistant, and a Public Service Loan Forgiveness (PSLF) help tool. In FY 2022, FSA launched Medallia, a new survey tool, that allows FSA to use customers' feedback to better serve them, and FSA retired the myStudentAid mobile app due to low usage. In FY 2022, FSA also enhanced the PSLF Help Tool to reflect program changes as a result of the limited PSLF waiver the Department announced. FSA enhanced resources and tools to help borrowers prepare for student loan payments to restart after the COVID-19 payment pause ends. FSA also updated the income-driven repayment (IDR) plan application to allow borrowers to self-certify income and better streamline the application process, as well as updated its virtual assistant to answer more IDR plan-related questions.

Customers now are getting questions answered through contact centers staffed by Next Gen Business Process Operations (BPO) vendors, which the Department brought online in FY 2022 under enhanced cybersecurity standards. BPO is the personnel component of the Next Gen vision. These vendors manage millions of customer interactions, have been trained in a uniform way, and operate on a single contact center platform that will improve operational consistency, efficiency, and oversight. While managing customer and partner relations, BPO vendors:

- Deliver efficient and effective customer and partner experiences.
- Improve customer outcomes.
- Ensure compliance with consumer protections standards.
- Establish greater operational flexibility.
- Reduce operational complexity.

In FY 2022, FSA required customers who create a new account on StudentAid.gov to set up and use two-step verification, a commonly-used process where students, parents, and borrowers must provide two or more pieces of information to verify their identity to gain access to an application or digital resource. Two-step verification helps prevent cybercriminals from illegally obtaining student aid account information and credentials used to access online tools, such as the *Free Application for Federal Student Aid* (FAFSA®), PSLF Help Tool, and Loan Simulator. The Department's actions meet the requirements—in *Executive Order 14028 - Improving the Nation's Cybersecurity*—to implement multi-factor authentication.

Next Gen remains deeply committed to improving the FSA experience for partners as well as customers. In FY 2022, FSA introduced an enhanced, modernized National Student Loan Data System (NSLDS®) Professional Access website for the institutions and other partners that administer the federal student aid programs. The updated site is more secure and easier to navigate. The site also improves the user experience, eliminates the need for users to toggle between systems to see students' grant information, and simplifies the process to download most reports.

The FSA Partner Connect website, [fsapartners.ed.gov](https://fsapartners.ed.gov), consolidates the tools that partners use regularly onto a single digital platform that streamlines operational information by award year, provides notifications related to a partner's specific school activities, tracks scheduled system outages, and more. FSA Partner Connect also reduces the administrative burden on financial aid professionals at more than 5,600 postsecondary schools around the globe, allowing them more time to serve students. FSA's future plans for the Partner Connect site include replacing the legacy Postsecondary Education Participants System (PEPS) and redesigning the Application for Approval to Participate in the Federal Student Financial Aid Programs (E-App).

In FY 2022, FSA posted the solicitation for its long-term loan servicing solution, the Unified Servicing and Data Solution (USDS). Currently, six federal loan servicers (i.e., legacy loan servicers) support borrowers first while they are

in school and in loan repayment. Each legacy loan servicer operates under its own brand and has its own website and self-service tools for customers. This disjointed servicing system is often confusing for borrowers, and they are understandably frustrated when they receive inconsistent information about something as important as their student loans. The overarching goals of the USDS are to:

- Provide all federally managed borrowers with complete account management capabilities on StudentAid.gov.
- Increase servicer accountability to reduce loan delinquencies and defaults and other customer service benchmarks through clear, measurable service-level agreements and performance incentives.
- Allow FSA to collect more and better data from legacy loan servicers to improve account transfers, borrowers' access to information, and FSA's ability to monitor servicer performance.
- Bring legacy loan servicers up to enhanced cybersecurity standards.

To maintain the stability of the loan servicing environment, FSA expects to award new loan servicing contracts through the USDS and ensure that USDS vendors are compliant with modern cybersecurity standards before the legacy loan servicing contracts expire in December 2023. Through the USDS solicitation, FSA will award contracts to multiple loan servicers who will help guide more than 35 million student loan borrowers with federally managed loans through successful repayment.

## LEVERAGING DATA AS A STRATEGIC ASSET

The Department continues to focus on leveraging its data as a strategic asset by further implementing requirements in the *Foundations for Evidence-Based Policymaking Act* (Evidence Act; **P.L. 115-435**) and the **Federal Data Strategy**. The Department has implemented efforts to strengthen data governance while overseeing the unprecedented investment in students and schools through the Education Stabilization Fund, created and subsequently augmented through the triad of COVID relief laws. This section highlights five areas guiding the Department towards realizing the power of data in daily operations and national policy: (1) the ED Data Strategy; (2) Open Data; (3) the Education Stabilization Fund Transparency Portal; (4) Data Quality; and (5) the ED Learning Agenda.

## The Department's Data Strategy

The FY 2020 Action Plan for the Federal Data Strategy called for agencies to “put in place a data strategy or road map,” and in December 2020, the Department completed and **published** its inaugural Data Strategy. The Department's Data Governance Board (DGB) guided the development of four goals—to strengthen agency-wide data governance, build human capacity to leverage data, advance the strategic use of data, and to improve data access, transparency, and privacy. The Office of the Chief Data Officer (OCDO) led agency-wide working groups composed of representatives of each principal office to develop 19 objectives and a multi-year action plan to guide implementation throughout FY 2021 and FY 2022.

December 2021 marked the completion of the first year implementing the Department's **Data Strategy** and executing its priority goals and objectives designed to realize the full potential of data to drive decision-making and support our nation's students. Building on progress made in FY 2021, the DGB and OCDO coordinated across principal offices of the Department in FY 2022 to implement data governance policies, strengthen data management functions, launch an agency data literacy program, conduct research for a data privacy playbook, improve our data quality approach, and more.

More specifically, in FY 2022, OCDO recommended improvements to the management of data-related investments through the Department's capital planning process, to support Goal 1 of the Data Strategy, documenting the current state and target state, with an implementation plan for Quarter Four of FY 2022. The agency also continued exemplary progress in Goal 2 with the implementation of a suite of new curricular opportunities for Department staff to enhance their data competencies and skills, continued internal outreach and advocacy through weekly and monthly data skill engagements and principal office-specific sessions, and a focus on cross-agency engagement to share the Department's leading-edge work in this space.

As evidence of the impact and effectiveness of these efforts to instill a data centric culture throughout the Department, in early FY 2022, the DGB completed a review of the FY 2021 Agency Data Maturity Assessment (DMA), in which 93% of ED's principal offices improved their data maturity from FY 2020. This analysis of the DMA further informed the DGB's priorities for FY 2022, which include a focus on data management strategies and oversight as well as data quality. ED's pioneering work in the Data Maturity arena was highlighted in a *Partnership for Public Service* **issue brief** as an example for other federal agencies to emulate.

Finally, OCDO and the DGB have commenced an analysis to gauge the progress and accomplishments rendered through ED's inaugural Data Strategy with the goal of publishing by early FY 2023 the agency's Data Strategy version 2.0 to guide and inform efforts throughout FYs 2023, 2024, and 2025.

### Open Data

Improving access to Department data, while maintaining its quality and confidentiality, is key to expanding the agency's ability to generate evidence to inform policy and program decisions. Increasing access to data for Department staff, federal, state, and local lawmakers, and researchers can help the Department to make new connections and foster evidence-based decision making.

The Department's Open Data Platform (ODP) (<https://data.ed.gov/>) was publicly launched in December 2020, with an initial population of public data profiles. A central repository for Department data assets, ODP 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 and guided by Data Strategy Goal 4, throughout FY 2022, the Department continued to advance towards a comprehensive data inventory by further expanding on the ODP; 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, and growing the number of Department open data assets listed in the Federal Data Catalogue.

The ODP significantly improves the Department's ability to grow and operationalize its comprehensive data inventory while progressing on open data requirements. In FY 2022, OCDO and the National Center for Education Statistics (NCES) worked to catalogue and consolidate NCES data sets to the comprehensive data inventory. The data inventory will become significantly more comprehensive when that consolidation has been completed later in FY 2022. Additionally, the Open Data Platform has been enhanced to provide principal office data stewards with login.gov access as well as improved upload and meta data entry interface that will simplify growing and maintaining the comprehensive data inventory.

Finally, while guidance related to the consistent implementation of Title II of the Evidence Act remains unpublished by OMB and the 2022 Federal Data Strategy Action Plan has yet to be released to agencies, the Department remains committed to publishing and executing the Act's required open data plan by the end of FY 2022. Collectively, the Department remains at the forefront of federal agencies in realizing the requirements of the *Open, Public, Electronic and Necessary Government Data Act (OPEN)* (Title II of the

Evidence Act), and the ODP is leading example of how the Department is making its data open by default.

### Education Stabilization Fund Public Transparency Portal

Launched publicly in the first quarter of FY 2021, the Education Stabilization Fund (ESF) Transparency Portal (Portal), located at [covid-relief-data.ed.gov](https://covid-relief-data.ed.gov), is the Department's website dedicated to collecting and disseminating data and information about the ESF programs managed by the Department and authorized through the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*, *Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act*, and the *American Rescue Plan (ARP) Act*. The Portal provides decision-makers, parents, students, teachers, education leaders, and taxpayers with information about ESF programs and discloses how states, districts, and institutions of higher education (IHEs) spent COVID relief funds. The funding data is from public data sources and reflects data collected by the Department and data released or shared by other federal agencies, including the General Services Administration, and the Department of the Treasury. The Portal enables state and IHE grantees to submit annual performance reports on funding authorized through the ESSER, GEER, EANS, and HEER Funds, providing the public and decision makers fuller insight into the expenditures and usage of ESF program funds.

Throughout FY 2022, the Department executed several enhancements to the Portal which improved transparency and increased accountability. For example, in FY 2022, the Office of Elementary and Secondary Education (OESE) collaborated with OCDO to include state level award and expenditure data for the Emergency Assistance to Non-Public Schools (EANS) program authorized through the ARP Act. This feature was in addition to a cyclical monthly refresh of award and expenditure data for all ESF programs as disclosed on [USAspending.gov](https://USAspending.gov) and subsequently published to the Portal.

OCDO, in coordination with OESE and the Office of Postsecondary Education, also developed and published the Year 2 Annual Performance Report (APR) forms for the ESSER, GEER, and HEER Fund programs and Year 1 APR form for the EANS program. This involved the review and adjudication of hundreds of public comments and the training on the APR form requirements via webinars for grantees of each of the four main ESF programs featured on the Portal. ESSER and GEER grantees were also afforded the opportunity to submit corrections to improve the quality of their now final Year 1 APR data submissions documenting usage of CARES Act funds. Collectively, the enhanced level of technical assistance provided to ESF grant

recipients in FY 2022 supports the Department's efforts to improve the quality and accuracy of the data it receives from ESF grantees on the expenditure and use of funding under CARES, CRRSA, and ARP Acts.

Beginning in quarter three of FY 2022, the Department commenced collection of Year 2 APR data for the ESSER, GEER, and HEER Fund grantees and Year 1 data for EANS prime grantees through the Portal. The Department anticipates publishing the near 5,000 APRs collectively received across the four main ESF programs represented on the Portal in the first quarter of FY 2023. An exemplar of open, transparent data, the Portal is fully responsive to the mandate in the OPEN Government Data Act (Title II of the Evidence Act) to make public data open and accessible.

### Data Quality

The Department, states, and schools must have effective controls to ensure that reported data are accurate, reliable, and accessible to improve the use of that data at the Department and in the education community. However, the Department's program offices have historically had varying levels of data quality control among their data sets, and findings from the 2023 Office of Inspector General's Management Challenges Report citing a lack of overall integrity and persistent weaknesses in the data quality and reporting it receives from grantees provide further evidence that a comprehensive strategy is warranted.

The ED Data Strategy Objective 1.5 calls for the Department to "Implement a cohesive data quality approach for the agency, leveraging best practices, technical assistance, and controls." Building on efforts launched in previous fiscal years, the Department has continued to refine and execute components of a multi-pronged approach to address root causes and improve data quality. Executing initially with grantees participating in ESF programs, such actions throughout FY 2022 have included 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. Resources and technical assistance have also been levied to improve the varying capacity of grantees in reporting data and varying capacity among Department staff in reviewing grantee-reported data.

As monitoring program performance remains a key motive for improving data quality, improving the development, reporting, and use of the agency's programs' performance and accountability measures remains a focus for the Department as well (Data Strategy Objective 3.4). The focus throughout FY 2021 and into FY 2022 has been

the review of the *Government Performance and Results Act* (GPRA) lifecycle with agency stakeholders. The Department's work has included drafting a framework for review of performance measures that support evidence-based decisions, incorporating budget guidance for programs, the development of a data quality review checklist for performance measures, and identifying opportunities to review the work during the Information Collection Request process.

The Department has continued to work on developing data quality controls for each stage of the data lifecycle, including mechanisms for evaluating, preventing, and remediating data irregularities to assure higher quality data for the agency to use in meeting its mission and strategic objectives. To help further this goal, in FY 2022, the Department completed and published in October 2023, a Data Quality Playbook, outlining authorities, tools, and resources for grant program managers. The playbook helps grant program managers assess and improve data quality before submission, proposes meaningful incentives for data submitters, strengthens communication strategies, and proposes ways to reduce the burden on both Department staff and grantees. The playbook provides guidance for strengthening the agency's data quality standards to help reduce data quality issues and improve data interoperability. It also builds common language for discussing data quality with internal and external stakeholders and provides recommendations for handling common irregularities.

Other critical initiatives planned for implementation in FY 2022 and start of FY 2023 include updating the Department's *Information Quality Act* (IQA) Guidelines and the establishment of data quality plans as a component in early stages of the data collection (and investment lifecycle). To better align with updated expectations from the Office of Management and Budget (**OMB M-19-15**), the Evidence Act, as well as organizational need, the Department plans to revise its IQA Guidelines to provide clearer guidance to the public (and Department staff) about data quality requirements, processes, and appeals. The Department will also be placing a stronger emphasis on the establishment and transparency of data quality plans in advance of data collection or creation, to ensure appropriate levels of resourcing are provided to ensure data are fit for purpose.

### The Department's Learning Agenda

The Department's FY 2022–FY 2026 Learning Agenda was published in July 2022, in conjunction with the release of the Department's Strategic Plan. The Learning Agenda is aligned to the Department's goals and strategic objectives, reflecting the Secretary's priorities for the Department over

the next four years. The Learning Agenda is complemented by an Annual Evaluation Plan. The Annual Evaluation Plan includes a listing of the Department's most significant evaluation activities in a given fiscal year. All Evidence Act deliverables are located at <https://www.ed.gov/data>.

The Learning Agenda was developed in consultation with the Department's Evidence Leadership Group (ELG). The ELG is co-chaired by the Department's Evaluation Officer 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, was also used to inform the Department's Learning Agenda.

In addition to advising the Evaluation Officer on the development of the Learning Agenda, the ELG advises Department leaders on how to support the capacity of Department staff to make better use of data and evidence. The GPO, led by the ELG co-chair, continues to spearhead 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.

## 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 the new G6 modernization is one of the Department's key initiatives.

### G5 Modernization/G6

The G5 modernization project is an initiative that started in 2019 to develop a new grants management system that will support the Department's grant programs and the broader grants community. G6 is the modernized system that will replace G5, allowing users to apply, track, and manage all grants through an improved user experience. It will modernize and consolidate existing business processes and manual workarounds into one platform and streamline the grants management lifecycle, improving oversight and monitoring.

## Project Objectives

The Department's Grants Management System, G5, is a custom-built, full life cycle grants management and payment system that has reached the end of life. Despite years of ongoing G5 maintenance, stakeholders continue to identify concerns regarding the system's functionality and/or ease of use. The Department's current grant processes rely on multiple systems utilizing various technologies. Much of the data is duplicated, there is a lack of visibility, and there are ad-hoc workarounds.

To effectively address the needs of all users, the Business Systems Support Division within the Office of Finance and Operations initiated the G5 Modernization Initiative to replace G5 and implement a state-of-the-art grants management system. The objective of this program is to implement an enterprise-wide grants management platform that achieves the following objectives:

1. Improved effectiveness of grant programs by **streamlining grant processes, tools, and technology agency-wide**.
2. Enhanced and **modularized grants platform** with superior customer experience using industry best practices.
3. **Reduced cost** by minimizing disjointed grants systems, lowering maintenance, and reducing paper.
4. **More informed decision-making** by Program Offices by utilizing advanced analytics and collaboration tools.
5. An evergreen platform capable of **easily incorporating future technology advancements and compliance requirements**.

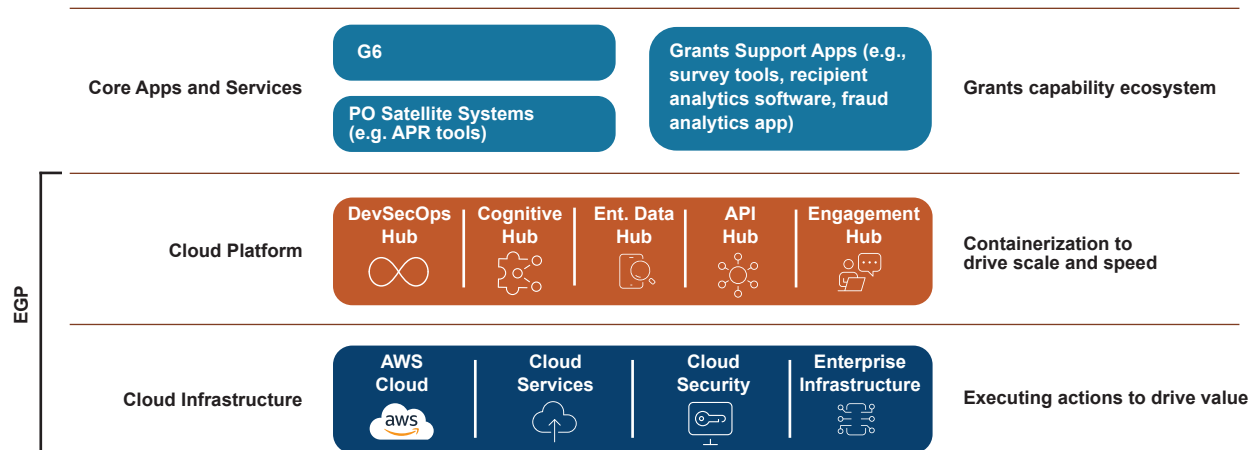
## System Components

The "system" consists of two main components.

- **Education Grants Platform (EGP)**. The EGP will serve as the foundation for the entire Grants Segment Portfolio of Systems. The EGP, implemented as a "Platform of Platforms," will house Grants Management functionality and capabilities needed across the Department. The EGP, depicted below, is a grants platform that incorporates Infrastructure as a Service provided by Amazon Web Services, Platform as a Service provided by Red Hat OpenShift, and a host of Software as a Service and traditionally deployed

tools that establish a framework for advanced analytics, technology development, and data integration for improved grant operations. Over time, the EGP will be used to both develop and host the Department's grants ecosystem (technology and services). G6 is considered the nucleus of the EGP.

- G6.** The Department's grants modernization initiative will implement an incremental modern, modular, and secure application that segments the grants process into granular modules using microservices that are interdependent, yet autonomous enough to be maintained separately. Managing the end-to-end grants process, G6 will combine state-of-the-art Interactive Experience and Customer Experience frameworks to provide users with a cognitive grants experience powered by Artificial Intelligence, Natural Language Processing, and advanced analytics.



### Agile Development

The Grants Modernization Initiative is developing G6 through a user-centered and incremental approach using the Agile methodology over multiple years. The subsequent years will be used to roll out G6 capabilities in an incremental manner to production and retire the corresponding capabilities from the legacy G5 system. As functionality is built, groups of grant users will test and validate what is built prior to it being released in the system. OFO has facilitated multiple working groups, user research interviews, and outreach sessions that all keep stakeholders informed and include them in the planning efforts around development.

### G6 Capabilities

G6 is being developed to execute the G5 business processes and functionality across the grant lifecycle. The G6 system will:

- Include all the Department's core requirements.
- Maintain an advanced security posture for the data and infrastructure.

- Utilize Advanced Business Intelligence and Collaboration features to allow Program Officers to make more informed decisions with increased communication and visibility into data.
- Provide an intuitive user experience.

The G6 system will have the following characteristics:

- Modular with the ability to turn off or restrict a module or sub-module as needed.
- Based on an open architecture and OMB approved grant standards.
- Built to ensure flexibility, adaptability, interoperability, and configurability.
- Built using a modern technology stack that ensures the underlying technology components do not become outdated before reaching their end of life.
- Mobile-enabled.

- Highly automated.
- Compliant with legislative changes.
- Roles-based and rules-driven.

### Timeline

In Year 1 (FY 2022), the modernization program is implementing the EGP.

Looking to Year 2 (FY 2023), the program will begin its first phase of the G5 modernization to G6. The team will implement the Pre-award phase of the grants' lifecycle, including Planning and Scheduling, Applications, Application Packages (Grants.gov, Impact Aid, Fellowship), Discretionary Grants, Formula Grants, Loans, Application Technical Review Plan, and Review Process. These

capabilities are identified based on what is available in the current G5; however, the Department expects that the implementation team shall design the G6 system with a much superior user experience using the industry best practices, human-centered design, and federal guidelines.

The Department is planning for the development effort for the remaining years and capabilities. FY 2023 to FY 2025 will be dedicated to Phases 2, 3 and 4 where we will migrate different modules to the new platform and decommission the corresponding modules from the legacy system, therefore stabilizing the G6. In FY 2026, we envision decommissioning the legacy G5 and moving into steady state G6.



FINANCIAL  
SECTION

(FISCAL YEAR 2022 UNAUDITED)



## Message From the Chief Financial Officer

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The Office of Finance and Operations is committed to supporting the Department of Education’s mission to “promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access,” while also ensuring effective financial stewardship of taxpayer dollars. This FY 2022 Agency Financial Report (AFR) is another valuable tool the public can use to better understand the Department of Education and its programs.

This year was again challenging and rewarding as the agency completed its transition to new normal operations following two years of pandemic impacts, published a new strategic plan, completed another major upgrade of its financial management systems and supported the administration’s debt relief program initiative.

This year, the Department received a disclaimer of opinion on our FY 2022 financial statements from our independent auditor. The Department will develop and implement a corrective action plan to begin addressing improvements identified in the audit report and remains committed to continually evaluating business processes for improvement opportunities in FY 2023 and beyond. More information regarding this disclaimer of opinion and our ongoing efforts may be found in *Management’s Response* in the *Independent Auditors’ Report* of this AFR.

On April 1, 2022, the agency successfully transitioned to its new hybrid work model after spending two years in a 100% telework posture due to COVID-19. Managers and employees have continually shown that they can perform at the highest levels no matter where they are working.

On July 8, 2022, the agency published its new FY 2022-2026 Strategic Plan which now serves as our roadmap for implementing key program and operational goals which support students, educational staff, and parents while also optimizing agency operations. The Strategic Plan Goals are:

- Strategic Goal 1: Promote equity in student access to educational resources, opportunities, and inclusive environments.
- Strategic Goal 2: Support a diverse and talented educator workforce and professional growth to strengthen student learning.

- Strategic Goal 3: Meet students’ social, emotional, and academic needs.
- Strategic Goal 4: Increase postsecondary value by focusing on equity-conscious strategies to address access to high-quality institutions, affordability, completion, post-enrollment success, and support for inclusive institutions.
- Strategic Goal 5: Enhance the Department’s internal capacity to optimize the delivery of its mission.

On August 24, 2022, the administration announced a one-time loan cancellation for more than 40 million Americans with federal student loans. This program provides eligible borrowers who make less than \$125,000 a year with a one-time loan cancellation of up to \$20,000. It is estimated that this program will result in total loan forgiveness for approximately 20 million Americans, and for many of those borrowers who still have a balance remaining, their monthly loan payments will be reduced.

In addition, the Department recently released details on its proposal regarding a new income-driven repayment plan to further assist borrowers in managing their student debt.

And finally, this year the Department again received external validation of our sustained efforts to produce user-friendly, transparent financial reporting by earning the Department’s 18th award of the AGA’s 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.

*Denise L. Carter*

**Denise L. Carter**

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

*January 23, 2023*

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## About the Financial Section

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**I**n FY 2022, 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.** Loan Receivables, Net and Loan Guarantee Liabilities
- Note 6.** Liabilities Not Covered by Budgetary Resources
- Note 7.** Debt Associated with Loans
- Note 8.** Subsidy Due to Treasury
- 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 Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process
- Note 16.** Subsequent Events

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This section contains the Combining Statements of Budgetary Resources for the periods ended September 30, 2022, and September 30, 2021.

## REPORT OF THE INDEPENDENT AUDITORS

The results of the audit of the Department's financial statements for FY 2022 and FY 2021 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 contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of the Department as of September 30, 2022, and 2021, and for the years then ended.

**U.S. Department of Education**  
**Consolidated Balance Sheets**  
**As of September 30, 2022 and September 30, 2021**  
(Dollars in Millions)

	FY2022 (Unaudited)	FY2021
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 317,007	\$ 351,868
Other Assets (Note 4)	92	114
<b>Total Intragovernmental</b>	<b>317,099</b>	<b>351,982</b>
Other than Intragovernmental:		
Loans Receivable, Net (Note 5)		
Direct Loan Program	816,514	1,104,851
Federal Family Education Loan (FFEL) Program	39,802	58,246
Other Credit Programs for Higher Education	2,332	1,967
Cash and Other Monetary Assets	725	1,913
Other Assets (Note 4)	208	324
<b>Total Other than Intragovernmental</b>	<b>859,581</b>	<b>1,167,301</b>
<b>Total Assets</b>	<b>\$ 1,176,680</b>	<b>\$ 1,519,283</b>
<b>LIABILITIES (Note 6)</b>		
Intragovernmental:		
Debt Associated with Loans (Note 7)		
Direct Loan Program	\$ 837,440	\$ 1,142,195
FFEL Program	66,995	78,254
Other Credit Programs for Higher Education	912	1,096
Accounts Payable	1	1
Other Liabilities:		
Subsidy Due to Treasury (Note 8)	26,965	1,513
Guaranty Agency Funds Due to Treasury	725	1,913
Other Liabilities (Note 9)	1,067	739
<b>Total Intragovernmental</b>	<b>934,105</b>	<b>1,225,711</b>
Other than Intragovernmental:		
Accounts Payable	4,509	5,010
Loan Guarantee Liabilities (Note 5)	10,655	7,496
Other Liabilities:		
Accrued Grant Liabilities	5,130	7,589
Other Liabilities (Note 9)	550	382
<b>Total Other than Intragovernmental</b>	<b>20,844</b>	<b>20,477</b>
<b>Total Liabilities</b>	<b>\$ 954,949</b>	<b>\$ 1,246,188</b>
Commitments and Contingencies (Note 14)		
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 231,218	\$ 301,798
Cumulative Results of Operations	(9,487)	(28,703)
<b>Total Net Position</b>	<b>\$ 221,731</b>	<b>\$ 273,095</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,176,680</b>	<b>\$ 1,519,283</b>

*The accompanying notes are an integral part of these statements.*

**U.S. Department of Education**  
**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2022 and September 30, 2021**  
(Dollars in Millions)

	FY2022 (Unaudited)	
<b>PROMOTE EQUITY FOR PREKINDERGARTEN THROUGH GRADE 12 STUDENTS WITH ACCESS TO EDUCATIONAL RESOURCES, OPPORTUNITES, AND INCLUSIVE ENVIRONMENTS</b>		
Gross Costs	\$	90,852
Earned Revenue		(68)
<b>Net Program Costs</b>	<b>\$</b>	<b>90,784</b>
<b>INCREASE POSTSECONDARY VALUE BY FOCUSING ON EQUITY STRATEGIES TO ADDRESS ACCESS TO AFFORDABILITY, COMPLETION, AND POST-ENROLLMENT SUCCESS</b>		
<b>Direct Loan Program</b>		
Gross Costs	\$	445,958
Earned Revenue		(58,831)
<b>Net Cost of Direct Loan Program</b>	<b>\$</b>	<b>387,127</b>
<b>FFEL Program</b>		
Gross Costs	\$	28,553
Earned Revenue		(5,163)
<b>Net Cost of FFEL Program</b>	<b>\$</b>	<b>23,390</b>
<b>Other Credit Programs for Higher Education</b>		
Gross Costs	\$	234
Earned Revenue		(1,133)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>\$</b>	<b>(899)</b>
<b>Non-Credit Programs</b>		
Gross Costs	\$	63,014
Earned Revenue		(3)
<b>Net Cost of Non-Credit Programs</b>	<b>\$</b>	<b>63,011</b>
<b>Net Program Costs</b>	<b>\$</b>	<b>472,629</b>
<b>Total Program Gross Costs</b>	<b>\$</b>	<b>628,611</b>
<b>Total Program Earned Revenue</b>	<b>\$</b>	<b>(65,198)</b>
<b>Net Cost of Operations (Notes 10 &amp; 13)</b>	<b>\$</b>	<b>563,413</b>

	FY2021	
<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>		
Gross Costs	\$	61,013
Earned Revenue		(118)
<b>Net Program Costs</b>	<b>\$</b>	<b>60,895</b>
<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>		
<b>Direct Loan Program</b>		
Gross Costs	\$	131,088
Earned Revenue		(35,673)
<b>Net Cost of Direct Loan Program</b>	<b>\$</b>	<b>95,415</b>
<b>FFEL Program</b>		
Gross Costs	\$	16,898
Earned Revenue		(3,095)
<b>Net Cost of FFEL Program</b>	<b>\$</b>	<b>13,803</b>
<b>Other Credit Programs for Higher Education</b>		
Gross Costs	\$	1,673
Earned Revenue		(1,060)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>\$</b>	<b>613</b>
<b>Non-Credit Programs</b>		
Gross Costs	\$	68,994
Earned Revenue		(15)
<b>Net Cost of Non-Credit Programs</b>	<b>\$</b>	<b>68,979</b>
<b>Net Program Costs</b>	<b>\$</b>	<b>178,810</b>
<b>Total Program Gross Costs</b>	<b>\$</b>	<b>279,666</b>
<b>Total Program Earned Revenue</b>	<b>\$</b>	<b>(39,961)</b>
<b>Net Cost of Operations (Notes 10 &amp; 13)</b>	<b>\$</b>	<b>239,705</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of Education**  
**Consolidated Statements of Changes in Net Position**  
**For the Years Ended September 30, 2022 and September 30, 2021**  
(Dollars in Millions)

	FY2022 (Unaudited)		FY2021	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
<b>Beginning Balances</b>	\$ 301,798	\$ (28,703)	\$ 99,314	\$ (54,383)
Appropriations Received	599,069	-	477,507	-
Appropriations Transferred - In/Out	15	-	(409)	-
Other Adjustments (Rescissions, etc.)	(2,412)	-	(1,107)	1
Appropriations Used	(667,252)	667,252	(273,507)	273,507
Nonexchange Revenue	-	21	-	8
Donations and Forfeitures of Cash and Cash Equivalents	-	1	-	1
Imputed Financing from Costs Absorbed by Others	-	38	-	36
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(84,683)	-	(8,168)
Net Cost of Operations	-	(563,413)	-	(239,705)
<b>Net Change</b>	\$ (70,580)	\$ 19,216	\$ 202,484	\$ 25,680
<b>Net Position</b>	\$ 231,218	\$ (9,487)	\$ 301,798	\$ (28,703)

*The accompanying notes are an integral part of these statements.*



**U.S. Department of Education**  
**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2022 and September 30, 2021**  
 (Dollars in Millions)

	FY2022 (Unaudited)		FY2021	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	\$ 43,131	\$ 22,216	\$ 20,772	\$ 20,650
Appropriations (Discretionary and Mandatory)	594,475	2,759	476,520	239
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	178,717	-	129,407
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	105	60,593	(206)	42,224
<b>Total Budgetary Resources</b>	<b>\$ 637,711</b>	<b>\$ 264,285</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
New Obligations and Upward Adjustments (Total)	\$ 615,000	\$ 198,706	\$ 457,228	\$ 170,268
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	17,832	-	35,815	-
Unapportioned, Unexpired Accounts	748	65,579	1,931	22,252
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 18,580</b>	<b>\$ 65,579</b>	<b>\$ 37,746</b>	<b>\$ 22,252</b>
Expired Unobligated Balance, End of Year	4,131	-	2,112	-
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 22,711</b>	<b>\$ 65,579</b>	<b>\$ 39,858</b>	<b>\$ 22,252</b>
<b>Total Budgetary Resources</b>	<b>\$ 637,711</b>	<b>\$ 264,285</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>
<b>OUTLAYS, NET</b>				
Outlays, Net (Discretionary and Mandatory)	\$ 668,455		\$ 267,076	
Distributed Offsetting Receipts (-) (Note 12)	(29,086)		(6,625)	
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 and 13)</b>	<b>\$ 639,369</b>		<b>\$ 260,451</b>	
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ (382,288)</b>		<b>\$ (39,881)</b>

The accompanying notes are an integral part of these statements.

## Notes to the Financial Statements for the Years Ended September 30, 2022 and September 30, 2021

### 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 governmentwide 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.

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 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 Loans. 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 with reinsurance and interest subsidies provided by the Department. 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 (TEACH) Grant 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 (IHE) 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, 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 passed multiple COVID-19 relief bills in fiscal year (FY) 2020 and FY 2021 including the following that provided funding for educational purposes: the *Coronavirus Aid, Relief, and Economic Security Act*, of 2020 (CARES Act), the *Coronavirus Response and Relief Supplemental Appropriations Act* of 2021 (CRRSAA), and the *American Rescue Plan Act* of 2021 (ARP). The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund, which includes the (1) Elementary and Secondary School Emergency Relief Fund, (2) Higher Education Emergency Relief Fund, (3) Governor's Emergency Education Relief Fund, and (4) funds for outlying areas. The Education Stabilization Fund is being distributed to recipients through various grant programs. The Department transferred \$563 million of the funds to the Department of the Interior to be administered by the Bureau of Indian Education. (See Notes 3, 10, and 11)

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers by:

- Providing broad-based debt relief to address the financial harms of the pandemic.
- Temporarily suspending nearly all federal student loan payments, interest free.
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals.
- Making temporary changes to the PSLF program to allow student borrowers to get credit for payments made while working for a qualifying employer.
- Addressing issues with IDR payment counting.

Funding for these actions was provided through indefinite appropriations. (See Notes 5, 10, and 11)

Other regulatory flexibilities and incentives provided in the COVID-19 legislation include:

- Stopping all federal wage garnishments and collection actions for borrowers with federally held loans in default.
- Federal Supplemental Educational Opportunity Grants to provide emergency aid to students.
- Continuation of work-study payments, even if students can no longer work on-site.
- Pell Grants, financial aid, and loans originated for the spring 2020 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 to help 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 educational agencies (SEA) and local educational agencies (LEA) 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 states, 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 through the vigorous enforcement of civil rights and the collection of data from public schools, 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 United States 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 that 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 (expense) 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 U.S. 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 costs 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) that 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.

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 nonbudgetary 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.

Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 7.7 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 canceled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also canceled 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 income-driven repayment plans under which borrowers

may receive forgiveness of the remaining balance of their loans after 20 or 25 years under certain rules.

## BUDGETARY TERMS

The purpose of Federal budgetary accounting is to control, monitor, and report on funds made available to the Department by law and help ensure compliance with the law.

Budgetary resources are amounts that are available to incur and liquidate obligations in a given year. 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. Obligations are legally binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

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 if cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 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

canceled 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 President's Budget presumes all programs continue in accordance with congressional budgeting rules.

Outlays are the liquidation of obligations that often takes the form of an electronic funds transfer. Outlays are reported on the SBR net of offsetting collections and distributed offsetting receipts.

Offsetting collections and offsetting receipts are generally amounts collected from (1) business-like transactions with the public or (2) intragovernmental transfers. Offsetting collections usually may be used by the Department once received without further legislation whereas offsetting receipts must be appropriated to be used.

Offsetting receipts and offsetting collections both "offset" or reduce outlays. Offsetting collections reduce outlays at the expenditure account level, whereas offsetting receipts generally reduce outlays at the agency or Government-wide level. Offsetting receipts can be either "distributed" or "undistributed," with distributed offsetting receipts shown on the SBR reducing agency outlays and undistributed offsetting receipts reducing Government-wide outlays (and not shown on the SBR).

Budgetary transactions are included as outlays or receipts in the Budget and ultimately affect the budget deficit or surplus whereas non-budgetary amounts are a means of financing and do not affect the deficit or surplus. Non-

budgetary amounts include the non-budgetary financing account amounts for loan and loan guarantee programs shown on the SBR. Financing accounts reflect program cash flows as distinct from credit "program" accounts, which are budgetary and reflect the subsidy cost of the programs. (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 other federal agencies (intragovernmental) and the public (other than intragovernmental). Other than intragovernmental receivables 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)

## CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets are the federal government's interest in the program assets held by state and nonprofit FFEL Program guaranty agencies (guaranty agencies' federal funds). Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds. Guaranty agencies' 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 of guaranty agencies' federal funds represents consolidated reserve balances of the 18 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 to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as other than intragovernmental non-entity assets and are offset by a corresponding liability due to Treasury on the Department's balance sheets. The funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The guaranty agencies' federal funds are the property of the United States and are reflected in the President's Budget. 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 Note 2)

## LOAN RECEIVABLES, NET AND LOAN GUARANTEE LIABILITIES

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 loan guarantee liabilities represent 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 ASSOCIATED WITH LOANS

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 30. 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

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. Other than intragovernmental accounts payable primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans before requesting funds. (See Note 9)

## ACCRUED GRANT LIABILITIES

The Department records grant expenses as grantees drawdown funding on their available grant balances. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet drawn on their available balances to be reimbursed by the Department. The Department accrues liabilities for these allowable expenditures. The liability amounts are estimated using a combination of historical data and a statistical sample survey of current unliquidated balances. Some grantees drawdown funding in advance of incurring grant expenditures. A statistical estimate is made for these advance drawdowns and is recorded as other than intragovernmental advances (see Note 4).

## 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 U.S. 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 an other than intragovernmental liability, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. (See Notes 6 and 9)

## 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

As required by the *GPR 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. 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). The change in book value of direct loans resulting from a modification and the cost of modification will normally differ due to the use of different discount rates or the use of different measurement methods. Any difference between the change in book value and the cost of modification is recognized as a modification adjustment transfer gain or a modification adjustment transfer loss. (See Notes 5 and 10)

**Credit Program Interest Revenue and Expense.** The Department recognizes other than intragovernmental interest revenue 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 30. 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 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, best available data, economic assumptions, 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)

## NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2022 (Unaudited)		2021	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
<b>Non-Entity Assets</b>				
Fund Balance with Treasury	\$ 448	\$ -	\$ 285	\$ -
Loans Receivable, Net	-	1,066	-	693
Cash and Other Monetary Assets	-	725	-	1,913
Accounts Receivable, Net	-	32	-	66
<b>Total Non-Entity Assets</b>	<b>448</b>	<b>1,823</b>	<b>285</b>	<b>2,672</b>
Entity Assets	316,651	857,758	351,697	1,164,629
<b>Total Assets</b>	<b>\$ 317,099</b>	<b>\$ 859,581</b>	<b>\$ 351,982</b>	<b>\$ 1,167,301</b>

The Department's FY 2022 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 other than intragovernmental assets primarily consist of guaranty agency reserves (39.8 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (58.5 percent), reported as loan 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 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)

	2022 (Unaudited)			2021		
	COVID-19 Funds	All Other Funds	Total	COVID-19 Funds	All Other Funds	Total
Unobligated Balance						
Available	\$ 541	\$ 17,291	\$ 17,832	\$ 18,515	\$ 17,300	\$ 35,815
Unavailable	23	69,710	69,733	-	24,382	24,382
Obligated Balance, Not Disbursed	140,753	131,421	272,174	203,460	130,330	333,790
Authority Temporarily Precluded from Obligation	-	(1,003)	(1,003)	-	(396)	(396)
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 12)	-	(42,130)	(42,130)	-	(41,978)	(41,978)
Other	-	401	401	-	255	255
<b>Total Fund Balance with Treasury</b>	<b>\$ 141,317</b>	<b>\$ 175,690</b>	<b>\$ 317,007</b>	<b>\$ 221,975</b>	<b>\$ 129,893</b>	<b>\$ 351,868</b>

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 (\$69.7 billion) differs from unapportioned and expired amounts on the SBR (\$70.4 billion) due to the Guaranty Agencies' Federal Funds (\$0.7 billion).

In FY 2022 and FY 2021, \$587 million and \$354 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)

	2022 (Unaudited)		2021	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Accounts Receivable, Net	\$ 7	\$ 198	\$ 9	\$ 284
Advances to Others and Prepayments	85	2	104	34
Property and Equipment, Net	-	6	-	6
Other	-	2	1	-
<b>Total Other Assets</b>	<b>\$ 92</b>	<b>\$ 208</b>	<b>\$ 114</b>	<b>\$ 324</b>

Included in the other than intragovernmental accounts receivable are amounts owed because 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, 2022, related to criminal restitutions totaled \$127 million and \$117 million, respectively.

Changes in property and equipment balances were as follows:

**Property and Equipment**

(Dollars in Millions)

	Acquisition Value	Accumulated Depreciation	Net
<b>2022 (Unaudited)</b>			
Balance Beginning of the Year	\$ 168	\$ (162)	\$ 6
<b>Balance At End of Year</b>	<b>\$ 168</b>	<b>\$ (162)</b>	<b>\$ 6</b>
<b>2021</b>			
Balance Beginning of the Year	\$ 167	\$ (161)	\$ 6
Capitalized Acquisitions	1	-	1
Depreciation Expense	-	(1)	(1)
<b>Balance At End of Year</b>	<b>\$ 168</b>	<b>\$ (162)</b>	<b>\$ 6</b>

**NOTE 5. Loan Receivables, Net and Loan Guarantee Liabilities**
**Loans Receivables**

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
<b>2022 (Unaudited)</b>				
Direct Loan Program	\$ 1,341,770	\$ 86,663	\$ (611,919)	\$ 816,514
FFEL Program	80,262	21,599	(62,059)	39,802
Other Credit Programs for Higher Education	2,452	466	(586)	2,332
<b>Total Loans Receivable</b>	<b>\$ 1,424,484</b>	<b>\$ 108,728</b>	<b>\$ (674,564)</b>	<b>\$ 858,648</b>
<b>2021</b>				
Direct Loan Program	\$ 1,292,214	\$ 86,501	\$ (273,864)	\$ 1,104,851
FFEL Program	82,009	23,902	(47,665)	58,246
Other Credit Programs for Higher Education	2,060	294	(387)	1,967
<b>Total Loans Receivable</b>	<b>\$ 1,376,283</b>	<b>\$ 110,697</b>	<b>\$ (321,916)</b>	<b>\$ 1,165,064</b>

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 COVID-19 pandemic were recorded as loan modifications and are described in each of the programs below. Per OMB guidance, loan modifications were calculated using the President's Budget formulation discount rates.

As the net loans receivable represents the net present value of future cash flows, it is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market. The net loans receivable decreased by \$306.4 billion during FY 2022 as a result of activity identified in the following table.

### Reconciliation of Loans Receivable, Net (Dollars in Millions)

	Direct Loan Program	Defaulted FFEL Guaranteed Loans	Acquired FFEL Loans	Other Credit Programs for Higher Education	Total
<b>2022 (Unaudited)</b>					
<b>Beginning Balance of Loans Receivable, Net</b>	<b>\$ 1,104,851</b>	<b>\$ 16,138</b>	<b>\$ 42,108</b>	<b>\$ 1,967</b>	<b>\$ 1,165,064</b>
Add Loan Disbursements:					
New Loan Disbursements	83,451	-	-	173	83,624
Consolidations	36,939	-	-	-	36,939
Add Defaulted Loan Claim Payments	-	3,680	-	-	3,680
Less Principal, Interest, and Fee Payments Received:					
Principal	(41,283)	(1,172)	(2,163)	(47)	(44,665)
Interest	(2,561)	(14)	(309)	(6)	(2,890)
Fees	(1,613)	-	-	-	(1,613)
Add Interest Accruals	(564)	(1,153)	(117)	(1)	(1,835)
Less Loans Written Off:					
Principal	(23,416)	(1,974)	(786)	(67)	(26,243)
Interest	(1,886)	(865)	(160)	(8)	(2,919)
Fees	(1)	(1)	-	-	(2)
Allowance for Subsidy	25,303	2,840	946	75	29,164
Add Amortization of Net Interest:					
Interest Revenue on Uninvested Funds	(7,631)	-	(290)	(22)	(7,943)
Interest Revenue from the Public	564	-	117	1	682
Administrative Fees	(5)	-	-	-	(5)
Interest Expense on Borrowing	30,589	-	1,334	41	31,964
Positive Subsidy Transfers	(10,827)	-	-	(41)	(10,868)
Negative Subsidy Transfers	3,535	-	-	-	3,535
Upward Subsidy Re-Estimate	(14,563)	-	(26)	(367)	(14,956)
Downward Subsidy Re-Estimate	36,500	-	2,031	295	38,826
Loan Modifications	(400,055)	-	(12,817)	(67)	(412,939)
Other:					
Other Adjustments to Allowance for Subsidy	147	(6,593)	27	(115)	(6,534)
Other Non-Cash Reconciling Items	(960)	(955)	(24)	521	(1,418)
<b>Ending Balance of Loans Receivable, Net</b>	<b>\$ 816,514</b>	<b>\$ 9,931</b>	<b>\$ 29,871</b>	<b>\$ 2,332</b>	<b>\$ 858,648</b>

When Department-held loans are written off, the unpaid principal and interest are removed from the gross amount of loans receivable, along with an offsetting amount charged to the allowance for subsidy. Prior to the write off transaction, the estimated uncollectible amounts are provided for in the subsidy cost allowance through the subsidy cost estimate, re-estimates, or loan modifications. Therefore, the write off transactions do not affect the net loan receivable or expenses.

Other adjustments to allowance for subsidy for defaulted FFEL guaranteed loans shown in the table above includes the Department's allocation of current year subsidy re-estimates and modifications to the allowance for subsidy for Department-held defaulted FFEL guaranteed 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 \$1,428.4 billion in gross loan receivables, as of September 30, 2022, \$85.8 billion (6.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to \$91.5 billion (6.6 percent) as of September 30, 2021.

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

	2022 (Unaudited)	2021
Stafford	\$ 15,728	\$ 18,325
Unsubsidized Stafford	45,486	44,146
PLUS	22,237	20,824
Consolidation	36,939	21,508
<b>Total Disbursements</b>	<b>\$ 120,390</b>	<b>\$ 104,803</b>

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 \$36.9 billion during FY 2022 and \$21.5 billion during FY 2021. 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)

	2022 (Unaudited)	2021
Interest Expense on Treasury Borrowing	\$ 30,589	\$ 32,957
<b>Total Interest Expense</b>	<b>\$ 30,589</b>	<b>\$ 32,957</b>
Interest Revenue From the Public	(564)	(459)
Interest Revenue on Uninvested Funds	7,631	4,230
Administrative Fees	5	32
Amortization of Subsidy	23,517	29,154
<b>Total Revenues</b>	<b>\$ 30,589</b>	<b>\$ 32,957</b>

## Direct Loan Program Subsidy Expense (Dollars in Millions)

	2022 (Unaudited)	2021
<b>Subsidy Expense for Direct Loans Disbursed in the Current Year</b>		
Interest Rate Differential	\$ 24,653	\$ 19,844
Defaults, Net of Recoveries	353	606
Fees	(1,644)	(1,603)
Other	(16,070)	(17,259)
<b>Total Subsidy Expense for Direct Loans Disbursed in the Current Year</b>	<b>7,292</b>	<b>1,588</b>
<b>Modifications and Re-Estimates</b>		
Loan Modifications		
Modification Adjustment Transfer Gain	(28,242)	(2,716)
Modification Adjustment Transfer Loss	2,483	182
Loan Modifications	425,814	70,812
<b>Total Loan Modifications</b>	<b>400,055</b>	<b>68,278</b>
Net Upward/(Downward) Subsidy Re-Estimates		
Interest Rate Re-estimates	(1,652)	(6,221)
Technical and Default Re-estimates	(20,285)	30,246
<b>Total Net Upward/(Downward) Subsidy Re-estimates</b>	<b>(21,937)</b>	<b>24,025</b>
<b>Total Modifications and Re-estimates</b>	<b>378,118</b>	<b>92,303</b>
<b>Direct Loan Subsidy Expense</b>	<b>\$ 385,410</b>	<b>\$ 93,891</b>

**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 2022 included the following:

- **Broad-Based Debt Relief.** To address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at highest risk of delinquencies or default once payments resume, the Department provided broad-based debt relief. Borrowers with loans held by the Department who received a Pell Grant in college and meet the specified income limits are eligible for up to \$20,000 in debt relief, while non-Pell Grant recipients who meet the specified income limits are eligible for up to \$10,000 in relief. Applications for this debt relief launched on October 17, 2022. This action resulted in an upward modification cost of \$361.0 billion in the Direct Loan Program. There was a net negative \$23.7 billion modification adjustment transfer associated with this modification, bringing the total FY 2022

modification cost for the Direct Loan Broad-Based Debt Relief to \$337.3 billion.

- **Loan Deferral Extension.** In FY 2022, the administration extended the student loan repayment deferrals through December 31, 2022.<sup>6</sup> The extended relief for borrowers resulted in an upward modification cost of \$48.4 billion. There was a net positive \$0.2 billion modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost for the student loan repayment deferrals to \$48.6 billion.
- **PSLF Waiver.** The PSLF Program removes the burden of student debt on public servants by cancelling loans after 10 years of payments while the borrower is in public service. Temporary changes were made to the program through a Limited PSLF Waiver to allow student borrowers to get credit for payments made while working for a qualifying employer, regardless of loan type or repayment plan. The Waiver, which ran through October 31, 2022, applies to borrowers with Direct Loans, those who have already consolidated into the Direct Loan Program, and those with other types of federal student loans who submit a consolidation application into the Direct Loan Program while the waiver is in effect. These temporary changes resulted in an upward modification cost of \$10.1 billion in the Direct Loan Program. There

<sup>6</sup> Subsequent to the end of FY 2022, the administration announced an additional extension of the student loan repayment deferrals. (See Note 16)

was a net negative \$1.0 billion modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost for the Direct Loan Program PSLF Waiver to \$9.1 billion.

- **Income-Driven Repayment (IDR) Waiver one time account adjustment.** Borrowers on most IDR plans are entitled to forgiveness after 20 years of payments and depend on FSA and its servicers to accurately track their progress toward relief. However, the Department's review of IDR payment-tracking procedures revealed significant flaws that suggested borrowers had been missing out on progress toward IDR forgiveness. To address past issues with IDR payment counting, the IDR Waiver allowed any borrower who made IDR-qualifying payments to count toward IDR, regardless of repayment plan. Any borrower who made the required number of payments for IDR forgiveness based on this payment-count revision would receive loan forgiveness automatically, and months spent in deferment prior to 2013 would count toward forgiveness as well. These changes resulted in an upward modification cost of \$16.4 billion during FY 2022 in the Direct Loan Program. There was a net negative \$2.3 billion modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost for the Direct Loan Program IDR Waiver to \$14.1 billion.
- **Shift to Business Process Operations (BPO).** The holder of defaulted federal student debt has historically entered into contracts with Private Collection Agencies (PCAs) to collect on defaulted student loans. FSA transitioned PCA services to new BPO contracts in FY 2022, which is estimated to result in lower costs for future defaulted student loan collection activities. This action resulted in a downward modification cost (savings) of \$10.1 billion in the Direct Loan Program. There was a net positive \$1.0 billion modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost (savings) for the Direct Loan Program shift to business process operations to \$9.1 billion.
- **Non-IDR Discharges.** The Department updated the assumption to reflect changes made in recent cycles, including adjustments made for COVID-related Return of Title IV Fund claims, the VA-match and SSA-match TPD adjustments, and the change to a 30-year distribution. One addition in this update cycle was for an expected increase in closed school discharges. The combined effect of these updates led to a new upward re-estimate of \$2.9 billion.
- **IDR Model Changes.** The Department completed a standard IDR data update. The income calibration used in the IDR model was updated to use more of the available data from NSLDS. The calibration was done by the risk groups used in the model. Doing so resulted in a smaller calibration for some groups (especially graduate students), which contributed significantly to savings for this component. Data on inflation, interest rates, and the poverty line were adjusted to reflect the latest current data, as well as OMB's most recent forecasts. Several smaller technical updates were made to improve the accuracy and functioning of the IDR model, including the handling of payments during the COVID-19 payment pause and calculating the percentage of debt allocated to the borrower when jointly repaying with the borrower's spouse. The combined effect of these updates led to a net downward re-estimate of \$24.0 billion.
- **Deferment and Forbearance.** The Department updated actual deferment and forbearance rates for FY 2021 and calibrated FY 2022 and FY 2023 rates using data from FSA on borrower payments made during the period of repayment deferral. The combined effect of these changes led to a net upward re-estimate of \$2.6 billion.
- **Collections.** The Department updated the data and calibrated FY 2022 collection rates to reflect the extension of the repayment deferral. The combined effect of these changes led to a net downward re-estimate of \$1.7 billion.
- **Default.** In addition to the adjustments for the extension of the student loan repayment deferrals, the Department updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics and projected unemployment rates from OMB. The combined effect of these changes led to a net upward re-estimate of \$3.0 billion.
- **Repayment Plan Selection.** The Department incorporated new repayment plan data through FY 2021. This update led to a downward re-estimate of \$3.0 billion.

**Net Upward/Downward Subsidy Re-Estimates for All Prior-Year Loan Cohorts.** The Direct Loan Program subsidy re-estimate decreased subsidy expense in FY 2022 by \$21.9 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2021). 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 loan volume, enter repayment rates, and Teacher Loan Forgiveness.



- **2021 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 \$7.7 billion for these current-year assumption changes attributable to the FY 2021 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 downward re-estimate of \$0.4 billion.
- **Interactive Effects.** The re-estimate includes a net upward re-estimate of \$7.4 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.
- **Discount Rates.** The rates are used to calculate the NPV of the cash flows to create subsidy rates. Adjustments to the 2020 and 2021 cohorts were calculated. All other cohorts are actual. The combined effect of these changes led to a net downward re-estimate of \$16.6 billion.

**Direct Loan Subsidy Rates—Cohort 2022 (Unaudited)**

	Interest Differential	Defaults	Fees	Other	Total
Stafford	22.42%	0.83%	-1.06%	-14.21%	7.98%
Unsubsidized Stafford	23.21%	0.60%	-1.06%	-20.50%	2.25%
PLUS	10.39%	0.39%	-4.23%	-20.70%	-14.15%
Consolidation	18.83%	-0.70%	0.00%	6.40%	24.53%
<b>Weighted Average Total</b>	<b>20.04%</b>	<b>0.19%</b>	<b>-1.31%</b>	<b>-12.86%</b>	<b>6.06%</b>

\*The Other component reflects costs associated with loan cancellations 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-year 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)**

	2022 (Unaudited)	2021
<b>Beginning Balance of Allowance for Subsidy</b>	<b>\$ 273,864</b>	<b>\$ 216,404</b>
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	7,292	1,588
Adjustments		
Loan Modifications	400,055	68,278
Fees Received	1,611	1,562
Loans Written Off	(25,303)	(8,354)
Subsidy Allowance Amortization	(23,517)	(29,154)
Other Activities	(146)	(485)
<b>Ending Balance of Allowance for Subsidy Before Re-Estimates</b>	<b>633,856</b>	<b>249,839</b>
Net Upward/(Downward) Subsidy Re-estimates	(21,937)	24,025
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 611,919</b>	<b>\$ 273,864</b>

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 that 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 related to contractual cash flows within the loan programs.

Due to the complexity of the Direct Loan Program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years),

and the multitude of projection paths and possible outcomes. The high percentage of borrowers in IDR plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element that displays the interrelated risks facing the Direct Loan Program. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used.

Loans written off result from borrowers having died, becoming disabled, or having a loan approved for discharge in bankruptcy or other type of discharge, including borrower defense discharges. 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 *SAFRA Act*, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or canceled.

### FFEL Guaranteed Loans Outstanding (Dollars in Billions)

	2022 (Unaudited)
Outstanding Principal of Guaranteed Loans, Face Value	\$ 98.6
Amount of Outstanding Principal Guaranteed	\$ 98.6

As of September 30, 2022, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately \$98.6 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2022, the interest balances outstanding for guaranteed loans held by lenders was approximately \$4.2 billion. The Department’s total FFEL Program guarantees (principal and interest) are approximately \$102.8 billion as of September 30, 2022. 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
<b>2022 (Unaudited)</b>				
<b>DEFAULTED FFEL GUARANTEED LOANS</b>				
FFEL GSL Program (Pre-1992)	\$ 3,310	\$ 4,966	\$ (7,940)	\$ 336
FFEL GSL Program (Post-1991)	34,298	8,226	(32,929)	9,595
<b>Total Defaulted FFEL Guaranteed Loans</b>	<b>37,608</b>	<b>13,192</b>	<b>(40,869)</b>	<b>9,931</b>
<b>ACQUIRED FFEL LOANS</b>				
Loan Purchase Commitment	14,189	2,593	(7,945)	8,837
Loan Participation Purchase	27,181	5,461	(12,952)	19,690
ABCP Conduit	1,284	353	(293)	1,344
<b>Total Acquired FFEL Loans</b>	<b>42,654</b>	<b>8,407</b>	<b>(21,190)</b>	<b>29,871</b>
<b>FFEL Program Loan Receivables</b>	<b>\$ 80,262</b>	<b>\$ 21,599</b>	<b>\$ (62,059)</b>	<b>\$ 39,802</b>
<b>2021</b>				
<b>DEFAULTED FFEL GUARANTEED LOANS</b>				
FFEL GSL Program (Pre-1992)	\$ 3,638	\$ 5,739	\$ (8,418)	\$ 959
FFEL GSL Program (Post-1991)	32,612	9,302	(26,735)	15,179
<b>Total Defaulted FFEL Guaranteed Loans</b>	<b>36,250</b>	<b>15,041</b>	<b>(35,153)</b>	<b>16,138</b>
<b>ACQUIRED FFEL LOANS</b>				
Loan Purchase Commitment	15,238	2,716	(4,822)	13,132
Loan Participation Purchase	29,178	5,776	(7,316)	27,638
ABCP Conduit	1,343	369	(374)	1,338
<b>Total Acquired FFEL Loans</b>	<b>45,759</b>	<b>8,861</b>	<b>(12,512)</b>	<b>42,108</b>
<b>FFEL Program Loan Receivables</b>	<b>\$ 82,009</b>	<b>\$ 23,902</b>	<b>\$ (47,665)</b>	<b>\$ 58,246</b>

**FFEL Program Subsidy Expense**

(Dollars in Millions)

	2022 (Unaudited)	2021
<b>Loan Modification Costs</b>		
FFEL Guaranteed Loan Program		
Net Modification Adjustment Transfer (Gain)/Loss	\$ (979)	\$ (302)
Loan Modifications	10,813	3,164
<b>Total FFEL Guaranteed Loan Program Loan Modifications</b>	<b>9,834</b>	<b>2,862</b>
Loan Purchase Commitment		
Net Modification Adjustment Transfer (Gain)/Loss	(319)	-
Loan Modifications	4,454	1,069
<b>Total Loan Purchase Commitment Loan Modifications</b>	<b>4,135</b>	<b>1,069</b>
Loan Participation Purchase		
Net Modification Adjustment Transfer (Gain)/Loss	(604)	-
Loan Modifications	9,286	1,879
<b>Total Loan Participation Purchase Loan Modifications</b>	<b>8,682</b>	<b>1,879</b>
<b>Total Loan Modification Costs</b>	<b>22,651</b>	<b>5,810</b>
<b>Upward/(Downward) Subsidy Re-Estimates</b>		
FFEL Loan Guarantee Program	1,391	7,226
Loan Purchase Commitment	(428)	208
Loan Participation Purchase	(1,577)	397
<b>Total FFEL Program Subsidy Re-Estimates</b>	<b>(614)</b>	<b>7,831</b>
<b>FFEL Program Subsidy Expense</b>	<b>\$ 22,037</b>	<b>\$ 13,641</b>

**Loan Modifications.** Loan modifications for the FFEL Loan Program for FY 2022 included the following:

- **Broad-Based Debt Relief.** To address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at highest risk of delinquencies or default once payments resume, the Department provided broad-based debt relief. Borrowers with loans held by the Department who received a Pell Grant in college and meet the specified income limits are eligible for up to \$20,000 in debt relief, while non-Pell Grant recipients who meet the specified income limits are eligible for up to \$10,000 in relief. Applications for this debt relief launched on October 17, 2022. This action resulted in an upward modification cost of \$18.1 billion in the FFEL Program. There was a net negative \$2.0 billion modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost for the FFEL Broad-Based Debt Relief to \$16.1 billion.
- **Loan Deferral Extension.** In FY 2022, the administration extended the student loan repayment deferrals for Department-held loans through December 31, 2022.<sup>7</sup> The extended relief for borrowers resulted in an

upward modification cost of \$5.8 billion. There was a net positive \$0.1 billion modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost for the student loan repayment deferrals to \$5.9 billion.

- **Support for the Federal Student Loan Reserve Fund.** The Department authorized the Guaranty Agencies to reimburse themselves from the Federal Fund for lost revenue that resulted from the student loan repayment deferrals. The reimbursements cover the share of what the Guaranty Agencies would have collected during the pandemic but for the suspension. This relief for the Guaranty Agencies resulted in an upward modification cost of \$1.1 billion.
- **Shift to Business Process Operations.** The holder of defaulted federal student debt has historically entered into contracts with PCAs to collect on defaulted student loans. FSA transitioned PCA services to new BPO contracts in FY 2022, which is estimated to result in lower costs for future defaulted student loan collection activities. This action resulted in a downward modification cost (savings) of \$0.6 billion in the FFEL Loan Program.

<sup>7</sup> Subsequent to the end of FY 2022, the administration announced an additional extension of the student loan repayment deferrals. (See Note 16)

- Shift of FFEL Special Allowance to SOFR. For the purposes of Special Allowance Payment calculations on certain FFEL Program loans, lenders or beneficial owners were given the option to substitute the 1-month London Interbank Offered Rate (LIBOR) for the 3-month commercial paper rate. However, as LIBOR is expected to be discontinued by June 2023, lenders and servicers in the FFEL Program have begun switching to the Secured Overnight Financing Rate (SOFR), permitted by the Consolidated Appropriations Act of 2022. This shift resulted in an upward modification cost of \$0.2 billion.

**Net Upward/Downward Subsidy Re-Estimates.** The total FFEL subsidy re-estimate decreased subsidy expense in FY 2022 by \$0.6 billion. The net upward re-estimates in the FFEL Program were due primarily to updated IDR model changes in the Loan Purchase Commitment and Loan Participation Purchase programs.

**Reconciliation of Liabilities for Loan Guarantees**  
(Dollars in Millions)

	2022 (Unaudited)	2021
<b>Beginning Balance of Post-1991 FFEL Loan Guarantee Liability</b>	<b>\$ 7,252</b>	<b>\$ 884</b>
Adjustments		
Loan Modifications	9,834	2,862
Interest Supplements Paid	(351)	(348)
Claim Payments to Lenders	(3,657)	(2,613)
Fees Received	780	1,014
Interest on Accumulation on the Liability Balance	(223)	(863)
Other Activities	(4,617)	(910)
Net Upward Subsidy Re-estimates	1,391	7,226
<b>Ending Balance of Post-1991 FFEL Loan Guarantee Liability</b>	<b>10,409</b>	<b>7,252</b>
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	-	-
<b>FFEL Liabilities for Loan Guarantees</b>	<b>10,409</b>	<b>7,252</b>
HEAL Liabilities for Loan Guarantees	246	244
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 10,655</b>	<b>\$ 7,496</b>

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
<b>2022 (Unaudited)</b>				
<b>Beginning Balance of Allowance for Subsidy</b>	\$ 4,822	\$ 7,316	\$ 374	\$ 12,512
<b>Adjustments</b>				
Loan Modifications	4,135	8,682	-	12,817
Subsidy Allowance Amortization	(331)	(787)	(43)	(1,161)
Loans Written Off	(251)	(658)	(37)	(946)
Other Activities	(2)	(24)	(1)	(27)
<b>Ending Balance of Allowance for Subsidy Before Re-estimates</b>	<b>8,373</b>	<b>14,529</b>	<b>293</b>	<b>23,195</b>
Net Downward Subsidy Re-Estimates	(428)	(1,577)	-	(2,005)
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 7,945</b>	<b>\$ 12,952</b>	<b>\$ 293</b>	<b>\$ 21,190</b>
<b>2021</b>				
<b>Beginning Balance of Allowance for Subsidy</b>	\$ 4,102	\$ 6,424	\$ 434	\$ 10,960
<b>Adjustments</b>				
Loan Modifications	1,069	1,879	-	2,948
Subsidy Allowance Amortization	(424)	(952)	(42)	(1,418)
Loans Written Off	(136)	(424)	(16)	(576)
Other Activities	3	(8)	(2)	(7)
<b>Ending Balance of Allowance for Subsidy Before Re-estimates</b>	<b>4,614</b>	<b>6,919</b>	<b>374</b>	<b>11,907</b>
Net Upward Subsidy Re-Estimates	208	397	-	605
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 4,822</b>	<b>\$ 7,316</b>	<b>\$ 374</b>	<b>\$ 12,512</b>

**OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION**
**Loans Receivables, Other Credit Programs for Higher Education**

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
<b>2022 (Unaudited)</b>				
Federal Perkins Loans	\$ 997	\$ 368	\$ (299)	\$ 1,066
TEACH Program Loans	790	71	(365)	496
HEAL Program Loans	380	26	(7)	399
Facilities Loan Programs	285	1	85	371
<b>Total</b>	<b>\$ 2,452</b>	<b>\$ 466</b>	<b>\$ (586)</b>	<b>\$ 2,332</b>
<b>2021</b>				
Federal Perkins Loans	\$ 708	\$ 197	\$ (212)	\$ 693
TEACH Program Loans	783	70	(256)	597
HEAL Program Loans	388	26	(1)	413
Facilities Loan Programs	181	1	82	264
<b>Total</b>	<b>\$ 2,060</b>	<b>\$ 294</b>	<b>\$ (387)</b>	<b>\$ 1,967</b>

**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 canceled.

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were used 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 that 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 \$393 million and \$79 million for FY 2022 and FY 2021, 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. Before the authority for new Perkins loans ended, collections made by the schools would go back into each school's Perkins fund to be used 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 \$689 million and \$850 million to the Department in FY 2022 and FY 2021, 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 2022–23 reporting year shows a \$2.6 billion outstanding principal balance on Perkins loans held by schools, and the Department's equity interest on this portfolio is \$2.2 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 program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans.

Loan modifications for the TEACH Program for FY 2022 included the following:

- **Broad-Based Debt Relief.** This action resulted in an upward modification cost of \$55 million in the TEACH Program for Department-held TEACH Program loans. There was a net negative \$4 million modification adjustment transfer associated with this modification, bringing the total FY 2022 modification cost for the TEACH Broad-Based Debt Relief to \$51 million.
- **Loan Deferral Extension.** In FY 2022, the administration extended the student loan repayment deferrals through December 31, 2022<sup>8</sup> for Department-held TEACH Program loans. The extended relief for borrowers resulted in an upward modification cost of \$16 million. There was a net positive \$1 million modification, bringing the total FY 2022 modification for student loan repayment deferrals to \$17 million.
- **Shift to Business Process Operations.** This action resulted in a downward modification cost (savings) of \$2 million in the TEACH Program.

<sup>8</sup> Subsequent to the end of FY 2022, the administration announced an additional extension of the student loan repayment deferrals. (See Note 16)

**TEACH Subsidy Rates—Cohort 2022 (Unaudited)**

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	79.33%	-0.14%	0.00%	-36.62%	42.57%

\*The Other component reflects costs associated with loan cancelations 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 before 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts. In FY 2022, the administration extended the student loan repayment deferrals through December 31, 2022.<sup>9</sup> The extended relief for borrowers resulted in an upward modification cost of \$1.5 million. There was a net negative \$0.1 million modification adjustment transfer associated with this modification, bringing the total modification cost to \$1.4 million.

**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 *FAFSA Simplification Act* provided debt relief for most outstanding HBCU Capital Financing program loans as of December 27, 2020. This resulted in an upward loan modification cost of \$1.6 billion during FY 2021.

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 \$271 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and \$617 million obligated to support near term lending as of September 30, 2022.

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)

	2022 (Unaudited)		2021	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
<b>Liabilities Not Covered By Budgetary Resources</b>				
Unfunded Leave	\$ -	\$ 52	\$ -	\$ 52
FECA Liabilities	3	15	2	14
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>3</b>	<b>67</b>	<b>2</b>	<b>66</b>
<b>Liabilities Not Requiring Budgetary Resources</b>				
Subsidy Due to Treasury General Fund	513	-	1,209	-
Federal Perkins Loan Program	1,057	-	682	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(9)	453	38	289
Custodial Liabilities	1	-	4	-
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>1,562</b>	<b>453</b>	<b>1,933</b>	<b>289</b>
Total Liabilities Covered By Budgetary Resources	932,540	20,324	1,223,776	20,122
<b>Total Liabilities</b>	<b>\$ 934,105</b>	<b>\$ 20,844</b>	<b>\$ 1,225,711</b>	<b>\$ 20,477</b>

<sup>9</sup> Subsequent to the end of FY 2022, the administration announced an additional extension of the student loan repayment deferrals. (See Note 16)



## NOTE 7. Debt Associated with Loans

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
<b>2022 (Unaudited)</b>					
<b>Debt to the Bureau of Public Debt</b>					
Direct Loan Program	\$ 1,142,195	\$ 162,823	\$ (467,578)	\$ -	\$ 837,440
FFEL Program	78,254	3,283	(14,542)	-	66,995
Other Credit Programs for Higher Education	936	58	(353)	-	641
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,221,385</b>	<b>166,164</b>	<b>(482,473)</b>	<b>-</b>	<b>905,076</b>
<b>Debt to the Federal Financing Bank</b>					
Other Credit Programs for Higher Education	160	404	(293)	-	271
<b>Total Debt Associated with Loans</b>	<b>\$ 1,221,545</b>	<b>\$ 166,568</b>	<b>\$ (482,766)</b>	<b>\$ -</b>	<b>\$ 905,347</b>
<b>2021</b>					
<b>Debt to the Bureau of Public Debt</b>					
Direct Loan Program	\$ 1,160,099	\$ 119,950	\$ (137,854)	\$ -	\$ 1,142,195
FFEL Program	88,986	1,630	(12,362)	-	78,254
Other Credit Programs for Higher Education	784	308	(156)	-	936
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,249,869</b>	<b>121,888</b>	<b>(150,372)</b>	<b>-</b>	<b>1,221,385</b>
<b>Debt to the Federal Financing Bank</b>					
Other Credit Programs for Higher Education	1,518	192	(1,551)	1	160
<b>Total Debt Associated with Loans</b>	<b>\$ 1,251,387</b>	<b>\$ 122,080</b>	<b>\$ (151,923)</b>	<b>\$ 1</b>	<b>\$ 1,221,545</b>

The Department borrows from Treasury's Bureau of the Public Debt and the FFB to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2022, debt decreased 25.9 percent from \$1,221.5 billion in the prior year to \$905.3 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 92.5 percent of the Department's debt, as of September 30, 2022, is attributable to the Direct Loan Program. Most of the new borrowing activity for the year was designated for funding new direct loan disbursements.

During FY 2022, TEACH net borrowing of \$(96) million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2022, debt in HBCU decreased by \$81 million, or 19.5 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

**NOTE 8. Subsidy Due to Treasury**  
(Dollars in Millions)

	2022 (Unaudited)	2021
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	\$ 23,101	\$ 303
FFEL Program	3,351	1
<b>Total Credit Program Downward Subsidy Re-estimates</b>	<b>26,452</b>	<b>304</b>
Future Liquidating Account Collections		
FFEL Program	513	1,209
<b>Total Future Liquidating Account Collections</b>	<b>513</b>	<b>1,209</b>
<b>Total Subsidy Due to Treasury General Fund</b>	<b>\$ 26,965</b>	<b>\$ 1,513</b>

**NOTE 9. Other Liabilities**  
(Dollars in Millions)

	2022 (Unaudited)		2021	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Federal Perkins Loan Program	\$ 1,057	\$ -	\$ 682	\$ -
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(9)	453	38	289
Liability for Advances and Prepayments	3	-	3	-
Accrued Funded Payroll and Leave	-	29	-	26
Accrued Unfunded Annual Leave	-	52	-	52
Employer Contributions and Payroll Taxes Payable	12	1	10	1
FECA Liabilities	3	15	2	14
Custodial Liabilities	1	-	4	-
<b>Total Other Liabilities</b>	<b>\$ 1,067</b>	<b>\$ 550</b>	<b>\$ 739</b>	<b>\$ 382</b>

### NOTE 10. Net Cost of Operations

As required by the *GPRRA Modernization Act of 2010*, the Department’s programs have been aligned with the goals presented in the Department’s *Strategic Plan* as shown below. Goal 5 in the *Strategic Plan* is considered a crosscutting goal, and therefore costs and revenues associated with these activities are included in the net cost programs associated with Goals 1 through 4. Programs associated with COVID-19 activities are administered by multiple program offices but are summarized separately. (See Note 11)

Program Offices	Strategic Goal	Net Cost Program
<b>Net Cost Statement Program Alignment with Strategic Plan</b>		
OESE OSERS Other: OCTAE IES OELA OCR	<p><b>Goal 1:</b> Promote equity in student access to educational resources, opportunities, and inclusive environments.</p> <p><b>Goal 2:</b> Support a diverse and talented educator workforce and professional growth to strengthen student learning.</p> <p><b>Goal 3:</b> Meet students’ social, emotional, and academic needs.</p>	Promote equity for prekindergarten through grade 12 students with access to educational resources, opportunities, and inclusive environments
FSA OSERS Other: OCTAE IES OPE OCR	<p><b>Goal 4:</b> Increase postsecondary value by focusing on equity-conscious strategies to address access to high-quality institutions, affordability, completion, post-enrollment success, and support for inclusive institutions.</p>	Increase postsecondary value by focusing on equity strategies to address access to affordability, completion, and post-enrollment success
All Offices	<b>Goal 5:</b> Enhance the Department’s internal capacity to optimize the delivery of its mission.	Crosscutting Goal

**Gross Costs and Earned Revenue by Program**

(Dollars in Millions)

	2022 (Unaudited)					
	FSA	OESE	OSERS	COVID-19	Other	Total
<b>PROMOTE EQUITY FOR PREKINDERGARTEN THROUGH GRADE 12 STUDENTS WITH ACCESS TO EDUCATIONAL RESOURCES, OPPORTUNITES, AND INCLUSIVE ENVIRONMENTS</b>						
Gross Cost						
Grants	\$ -	\$ 22,592	\$ 13,570	\$ 51,529	\$ 2,217	\$ 89,908
Other	-	80	-	30	834	944
Earned Revenue	-	-	-	-	(68)	(68)
<b>Net Program Costs</b>	<b>-</b>	<b>22,672</b>	<b>13,570</b>	<b>51,559</b>	<b>2,983</b>	<b>90,784</b>
<b>INCREASE POSTSECONDARY VALUE BY FOCUSING ON EQUITY STRATEGIES TO ADDRESS ACCESS TO AFFORDABILITY, COMPLETION, AND POST-ENROLLMENT SUCCESS</b>						
<u>Direct Loan Program</u>						
Gross Cost						
Credit Program Interest Expense	30,589	-	-	-	-	30,589
Subsidy Expense	(23,758)	-	-	437,410	-	413,652
Administrative Expenses	1,658	-	-	59	-	1,717
Earned Revenue						
Subsidy Expense	-	-	-	(28,242)	-	(28,242)
Interest & Administrative Fees	(7,072)	-	-	-	-	(7,072)
Subsidy Amortization	(23,517)	-	-	-	-	(23,517)
<b>Net Cost of Direct Loan Program</b>	<b>(22,100)</b>	<b>-</b>	<b>-</b>	<b>409,227</b>	<b>-</b>	<b>387,127</b>
<u>FFEL Program</u>						
Gross Cost						
Credit Program Interest Expense	3,202	-	-	-	-	3,202
Subsidy Expense	(924)	-	-	25,140	-	24,216
Subsidy Amortization (Guaranteed Loans)	(223)	-	-	-	-	(223)
Guaranty Agencies	1,193	-	-	-	-	1,193
Administrative Expenses	158	-	-	7	-	165
Earned Revenue						
Subsidy Expense	(6)	-	-	(2,173)	-	(2,179)
Interest & Administrative Fees	(1,818)	-	-	-	-	(1,818)
Subsidy Amortization (Acquired FFEL Loans)	(1,161)	-	-	-	-	(1,161)
Guaranty Agencies	(5)	-	-	-	-	(5)
<b>Net Cost of FFEL Program</b>	<b>416</b>	<b>-</b>	<b>-</b>	<b>22,974</b>	<b>-</b>	<b>23,390</b>
<u>Other Credit Programs for Higher Education</u>						
Gross Cost						
Credit Program Interest Expense	18	-	-	-	27	45
Subsidy Expense	109	-	-	74	2	185
Administrative Expenses	3	-	-	-	1	4
Earned Revenue						
Subsidy Expense	-	-	-	-	-	-
Interest & Administrative Fees	(5)	-	-	-	(23)	(28)
Subsidy Amortization	(13)	-	-	-	(4)	(17)
Other	(1,088)	-	-	-	-	(1,088)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>(976)</b>	<b>-</b>	<b>-</b>	<b>74</b>	<b>3</b>	<b>(899)</b>
<u>Non-Credit Programs</u>						
Gross Cost						
Grants	28,102	11	3,434	26,780	4,242	62,569
Other	155	-	2	6	282	445
Earned Revenue	-	-	-	-	(3)	(3)
<b>Net Cost of Non-Credit Programs</b>	<b>28,257</b>	<b>11</b>	<b>3,436</b>	<b>26,786</b>	<b>4,521</b>	<b>63,011</b>
<b>Net Program Costs</b>	<b>5,597</b>	<b>11</b>	<b>3,436</b>	<b>459,061</b>	<b>4,524</b>	<b>472,629</b>
<b>Total Program Gross Costs</b>	<b>40,282</b>	<b>22,683</b>	<b>17,006</b>	<b>541,035</b>	<b>7,605</b>	<b>628,611</b>
<b>Total Program Earned Revenue</b>	<b>(34,685)</b>	<b>-</b>	<b>-</b>	<b>(30,415)</b>	<b>(98)</b>	<b>(65,198)</b>
<b>Net Cost</b>	<b>\$ 5,597</b>	<b>\$ 22,683</b>	<b>\$ 17,006</b>	<b>\$ 510,620</b>	<b>\$ 7,507</b>	<b>\$ 563,413</b>

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

	2021					
	FSA	OESE	OSERS	COVID-19	Other	Total
<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>						
Gross Cost						
Grants	\$ -	\$ 24,328	\$ 12,685	\$ 20,965	\$ 2,173	\$ 60,151
Other	-	68	-	30	764	862
Earned Revenue	-	-	-	-	(118)	(118)
<b>Net Program Costs</b>	<b>-</b>	<b>24,396</b>	<b>12,685</b>	<b>20,995</b>	<b>2,819</b>	<b>60,895</b>
<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>						
<u>Direct Loan Program</u>						
Gross Cost						
Credit Program Interest Expense	32,957	-	-	-	-	32,957
Subsidy Expense	44,426	-	-	52,181	-	96,607
Administrative Expenses	1,516	-	-	8	-	1,524
Earned Revenue						
Subsidy Expense	(9)	-	-	(2,707)	-	(2,716)
Interest & Administrative Fees	(3,803)	-	-	-	-	(3,803)
Subsidy Amortization	(29,154)	-	-	-	-	(29,154)
<b>Net Cost of Direct Loan Program</b>	<b>45,933</b>	<b>-</b>	<b>-</b>	<b>49,482</b>	<b>-</b>	<b>95,415</b>
<u>FFEL Program</u>						
Gross Cost						
Credit Program Interest Expense	3,538	-	-	-	-	3,538
Subsidy Expense	9,994	-	-	4,006	-	14,000
Subsidy Amortization (Guaranteed Loans)	(863)	-	-	-	-	(863)
Guaranty Agencies	79	-	-	-	-	79
Administrative Expenses	144	-	-	-	-	144
Earned Revenue						
Subsidy Expense	-	-	-	(359)	-	(359)
Interest & Administrative Fees	(1,257)	-	-	-	-	(1,257)
Subsidy Amortization (Acquired FFEL Loans)	(1,418)	-	-	-	-	(1,418)
Guaranty Agencies	(61)	-	-	-	-	(61)
<b>Net Cost of FFEL Program</b>	<b>10,156</b>	<b>-</b>	<b>-</b>	<b>3,647</b>	<b>-</b>	<b>13,803</b>
<u>Other Credit Programs for Higher Education</u>						
Gross Cost						
Credit Program Interest Expense	22	-	-	-	105	127
Subsidy Expense	104	-	-	22	1,393	1,519
Administrative Expenses	1	-	-	-	26	27
Earned Revenue						
Subsidy Expense	(1)	-	-	-	-	(1)
Interest & Administrative Fees	(4)	-	-	-	(49)	(53)
Subsidy Amortization	(18)	-	-	-	(56)	(74)
Other	(932)	-	-	-	-	(932)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>(828)</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>1,419</b>	<b>613</b>
<u>Non-Credit Programs</u>						
Gross Cost						
Grants	29,117	24	3,721	32,015	3,707	68,584
Other	130	-	3	3	274	410
Earned Revenue	(1)	-	-	-	(14)	(15)
<b>Net Cost of Non-Credit Programs</b>	<b>29,246</b>	<b>24</b>	<b>3,724</b>	<b>32,018</b>	<b>3,967</b>	<b>68,979</b>
<b>Net Program Costs</b>	<b>84,507</b>	<b>24</b>	<b>3,724</b>	<b>85,169</b>	<b>5,386</b>	<b>178,810</b>
<b>Total Program Gross Costs</b>	<b>121,165</b>	<b>24,420</b>	<b>16,409</b>	<b>109,230</b>	<b>8,442</b>	<b>279,666</b>
<b>Total Program Earned Revenue</b>	<b>(36,658)</b>	<b>-</b>	<b>-</b>	<b>(3,066)</b>	<b>(237)</b>	<b>(39,961)</b>
<b>Net Cost</b>	<b>\$ 84,507</b>	<b>\$ 24,420</b>	<b>\$ 16,409</b>	<b>\$ 106,164</b>	<b>\$ 8,205</b>	<b>\$ 239,705</b>

## Credit Program Interest Expense and Revenues

(Dollars in Millions)

	Gross Interest Expense		Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	Other than Intragovernmental		Intragovernmental	Other than Intragovernmental		
<b>2022 (Unaudited)</b>							
Direct Loan Program	\$ 30,589	\$ -	\$ 30,589	\$ 7,631	\$ (559)	\$ 23,517	\$ 30,589
FFEL Program	3,202	(223)	2,979	1,935	(117)	1,161	2,979
Other Credit Programs for Higher Education	45	-	45	22	6	17	45
<b>Total</b>	<b>\$ 33,836</b>	<b>\$ (223)</b>	<b>\$ 33,613</b>	<b>\$ 9,588</b>	<b>\$ (670)</b>	<b>\$ 24,695</b>	<b>\$ 33,613</b>
<b>2021</b>							
Direct Loan Program	\$ 32,957	\$ -	\$ 32,957	\$ 4,230	\$ (427)	\$ 29,154	\$ 32,957
FFEL Program	3,538	(863)	2,675	1,326	(69)	1,418	2,675
Other Credit Programs for Higher Education	127	-	127	28	25	74	127
<b>Total</b>	<b>\$ 36,622</b>	<b>\$ (863)</b>	<b>\$ 35,759</b>	<b>\$ 5,584</b>	<b>\$ (471)</b>	<b>\$ 30,646</b>	<b>\$ 35,759</b>

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.

Due to the COVID-19 relief actions to temporarily suspend nearly all required federal student loan payments and set borrower interest rates to zero percent, no new interest revenues were recognized in FY 2021 and FY 2022. However, interest adjustments and reapplication activities are included in the current year's other than intragovernmental interest in the schedule above. Adjustments and reapplications cause loan activity during the period between the original effective date and the new processing date to be reversed and reposted. As a result, interest accrued in a prior year is reversed and typically reposted. The amount of interest reposted can be different than the original amount depending on the purpose of the adjustment and whether the adjustment or reapplication caused an increase or decrease to the principal balance as of the original effective date. These adjustments and reapplications resulted in net negative FY 2021 and FY 2022 interest revenues for the Direct Loan Program and the FFEL Program.

**Grant Expenses by Appropriation**  
(Dollars in Millions)

	2022 (Unaudited)		2021
<b>PROMOTE EQUITY FOR PREKINDERGARTEN THROUGH GRADE 12 STUDENTS WITH ACCESS TO EDUCATIONAL RESOURCES, OPPORTUNITIES, AND INCLUSIVE ENVIRONMENTS</b>		<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>	
COVID-19	\$ 51,529	COVID-19	\$ 20,965
Education for the Disadvantaged	16,635	Education for the Disadvantaged	16,171
Special Education - IDEA Grants	13,570	Special Education - IDEA Grants	12,685
School Improvement Programs	4,156	School Improvement Programs	6,069
Impact Aid	1,369	Impact Aid	1,484
Innovation and Improvement	849	Innovation and Improvement	928
English Language Acquisition	750	English Language Acquisition	667
Career, Technical, and Adult Education	433	Career, Technical, and Adult Education	425
Hurricane Education Recovery	83	Hurricane Education Recovery	271
Institute of Education Sciences	186	Institute of Education Sciences	152
Other	348	Other	334
<b>Subtotal</b>	<b>89,908</b>	<b>Subtotal</b>	<b>60,151</b>
<b>INCREASE POSTSECONDARY VALUE BY FOCUSING ON EQUITY STRATEGIES TO ADDRESS ACCESS TO AFFORDABILITY, COMPLETION, AND POST-ENROLLMENT SUCCESS</b>		<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>	
COVID-19	\$ 26,780	COVID-19	\$ 32,015
Student Financial Assistance		Student Financial Assistance	
Pell Grants	26,983	Pell Grants	26,852
Federal Work-Study Program	668	Federal Work-Study Program	1,145
Federal Supplemental Educational Opportunity Grants	451	Federal Supplemental Educational Opportunity Grants	1,120
Rehabilitation Services	3,030	Rehabilitation Services	3,347
Higher Education	2,551	Higher Education	1,977
Career, Technical, and Adult Education	1,403	Career, Technical, and Adult Education	1,440
Special Education - IDEA Grants	124	Special Education - IDEA Grants	122
Hurricane Education Recovery	11	Hurricane Education Recovery	24
Institute of Education Sciences	44	Institute of Education Sciences	35
Other	524	Other	507
<b>Subtotal</b>	<b>62,569</b>	<b>Subtotal</b>	<b>68,584</b>
<b>Total Grant Costs</b>	<b>\$ 152,477</b>	<b>Total Grant Costs</b>	<b>\$ 128,735</b>

The Department has more than 100 grant programs. Descriptions of COVID-19 grant programs are provided in Note 11. Descriptions of non-COVID-19 major grant program areas are as follows:

**Student Financial Assistance**

- **Pell Grant**—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 Grant**—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 2 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 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 to educate children of federal workers that live on government property, which is exempt from local property taxes that finance education.

**Innovation and Improvement**—Includes support for 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 noncognitive skills of middle school students 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

Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021 including the following that provided the Department with a total of 282.5 billion of direct appropriation funding for educational purposes:

- *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) \$31.0 billion.
- *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* (CRRSAA) \$82.0 billion.
- *American Rescue Plan Act of 2021* (ARP) \$169.5 billion.

These appropriations funded a variety of programs administered primarily through grant programs as described starting on page 90. The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund which included the (1) Elementary and Secondary School Emergency Relief Fund, (2) Higher Education Emergency Relief Fund, (3) Governor's Emergency Education Relief Fund, and (4) funds for outlying areas. The Education Stabilization Fund is being distributed to recipients through various grant programs.

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers by:

- Proposing broad-based debt relief to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at the highest risk of delinquencies or default once payments resume. Applications for this debt relief launched on October 17, 2022.
- Suspending nearly all federal student loan payments through December 31, 2022,<sup>10</sup> interest free.
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals. This reimbursement covers the share of what a guaranty agency might have reasonably collected during the pandemic, but for the suspension.
- Making temporary changes to the PSLF program through a Limited PSLF Waiver to allow student borrowers to get credit for payments made while working for a qualifying employer, regardless of loan type or repayment plan.

- Addressing issues with IDR payment counting by allowing any borrower who made IDR-qualifying payments to count toward IDR, regardless of repayment plan.

Funding for each of these actions was provided through indefinite appropriations, and the cost impacts were recorded as loan modifications. These COVID-19 loan modifications are a component of a subsidy expense that reduced the overall credit program loan receivable balances. (See Notes 5 and 10)

In addition, other COVID-19 relief provided to student loan borrowers included the following:

- The Department stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default.
- The Department provided relief for certain borrowers who received student loan discharges due to total and permanent disability. Unless it is through a process with the VA, borrowers receiving this discharge are, by regulation, subject to a three-year monitoring period during which they must provide the Department with information about their earnings from employment. Per regulation, borrowers whose earnings exceed certain thresholds and borrowers who do not meet certain other criteria will have their loans reinstated. The Department provided relief to ensure no borrowers are at risk of having their loans reinstated, meaning they would have to repay their debt—for failure to provide earnings information during the COVID-19 emergency. This change was made retroactive to March 13, 2020, the start of the COVID-19 national emergency.
- The Department requested a waiver from the Small Business Administration to immediately help nearly 30,000 small business owners in the Paycheck Protection program who faced difficulties because they were delinquent or in default on a federal student loan.

The following tables provide more detail on the Department's funded COVID-19 activity for FY 2022 and FY 2021. Unobligated CARES Act balances as of the end of FY 2021 totaling \$18,515 million were carried forward to FY 2022 and are reported in the FY 2022 COVID-19 schedule as Unobligated Balance from Prior Year Budget Authority (Net) together with \$104 million of downward adjustments recorded in FY 2022 to prior years' CARES Act obligations. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end of FY 2021 totaled \$222.0 billion. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end of FY 2022 totaled \$141.3 billion. (See Note 3)

<sup>10</sup> Subsequent to the end of FY 2022, the administration announced an additional extension of the student loan repayment deferrals. (See Note 16)

**COVID-19 Activity**  
(Dollars in Millions)

2022 (Unaudited)								
	Unobligated Balance from Prior Year Budget Authority (Net)	Appropriations	Appropriations Transferred	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
<b>COVID-19 Direct Appropriations</b>								
Education Stabilization Fund								
Elementary and Secondary School Emergency Relief Fund								
Allocations to States	\$ 14,937	\$ -	\$ -	\$ 14,936	\$ 1	\$ 46,889	\$ -	\$ 48,415
Assistance for Homeless Children and Youth	1	-	-	-	1	87	-	87
Higher Education Emergency Relief Fund								
Higher Education Funds to Students	252	(132)	-	38	82	12,900	-	9,629
Higher Education Funds to Institutions	362	(311)	-	44	7	14,015	-	13,994
Proprietary Institutions Grant Funds for Students	237	-	-	-	237	281	-	279
Schools Serving Low-Income Students, HBCUs, and Minority Serving Institutions (MSIs)								
MSIs	44	-	-	16	28	515	-	509
HBCUs	1	-	-	-	1	1,028	-	1,034
Tribally Controlled Colleges and Universities (TCCUs)	3	-	-	3	-	105	-	105
Strengthening Institutions Program	66	-	-	11	55	289	-	291
Fund for the Improvement of Postsecondary Education	112	-	-	-	112	21	-	21
Supplemental Assistance and Support	85	-	-	198	(113)	120	-	114
Governor's Emergency Education Relief Fund								
Emergency Education Relief Grants	-	-	-	-	-	1,493	-	1,488
Emergency Assistance to Non- Public Schools Program	2,173	-	-	2,173	-	1,168	-	1,166
Outlying Areas	-	-	-	-	-	257	-	257
Bureau of Indian Education	-	-	-	-	-	-	-	-
Discretionary Grants	-	-	-	-	-	55	-	55
<b>Total Education Stabilization Fund</b>	<b>18,273</b>	<b>(443)</b>	<b>-</b>	<b>17,419</b>	<b>411</b>	<b>79,223</b>	<b>-</b>	<b>77,444</b>
Individuals with Disabilities Education Act Grants	39	-	-	39	-	809	-	810
School Improvement Programs	57	-	-	30	27	29	-	29
American Indian Resilience in Education	20	-	-	7	13	2	-	2
Safe Schools & Citizenship Education	-	-	-	-	-	-	-	-
Gallaudet University	-	-	-	-	-	15	-	15
Howard University	-	-	-	-	-	-	-	-
National Technical Institute for the Deaf	-	-	-	-	-	9	-	9
HBCU Loan Deferment	30	-	-	-	30	-	-	-
Student Aid Administration	64	-	-	61	3	66	-	68
Program Administration	22	-	-	13	9	16	-	18
Inspector General	13	-	-	6	7	6	-	6
Institute of Education Sciences	101	-	-	37	64	14	-	13
<b>Total COVID-19 Direct Appropriations</b>	<b>18,619</b>	<b>(443)</b>	<b>-</b>	<b>17,612</b>	<b>564</b>	<b>80,189</b>	<b>-</b>	<b>78,414</b>
<b>COVID-19 Indirect Appropriations (See Note 5)</b>								
Loan Deferral Extension	-	55,343	-	55,343	-	55,343	916	54,427
Support for the Federal Student Loan Reserve Fund	-	1,091	-	1,091	-	1,091	24	1,067
PSLF Waiver	-	10,152	-	10,152	-	10,152	997	9,155
IDR Waiver	-	16,443	-	16,443	-	16,443	2,365	14,078
Broad-Based Debt Relief	-	379,596	-	379,596	-	379,596	26,117	353,479
<b>Total COVID-19 Indirect Appropriations</b>	<b>-</b>	<b>462,625</b>	<b>-</b>	<b>462,625</b>	<b>-</b>	<b>462,625</b>	<b>30,419</b>	<b>432,206</b>
<b>Total COVID-19 Activity</b>	<b>\$ 18,619</b>	<b>\$ 462,182</b>	<b>\$ -</b>	<b>\$ 480,237</b>	<b>\$ 564</b>	<b>\$ 542,814</b>	<b>\$ 30,419</b>	<b>\$ 510,620</b>

**COVID-19 Activity**  
(Dollars in Millions)

	2021							
	Unobligated Balance from Prior Year Budget Authority (Net)	Appropriations	Appropriations Transferred	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
<b>COVID-19 Direct Appropriations</b>								
Education Stabilization Fund								
Elementary and Secondary School Emergency Relief Fund								
Allocations to States	\$ -	\$ 176,286	\$ -	\$ 161,349	\$ 14,937	\$ 19,021	\$ -	\$ 20,035
Assistance for Homeless Children and Youth	-	800	-	799	1	1	-	1
Higher Education Emergency Relief Fund								
Higher Education Funds to Students	113	24,066	-	23,982	197	10,838	-	14,097
Higher Education Funds to Institutions	155	32,157	100	32,084	328	15,225	-	15,226
Proprietary Institutions Grant Funds for Students	-	1,077	-	843	234	473	-	475
HBCUs, and Minority Serving Institutions (MSIs)								
MSIs	5	1,207	-	1,169	43	391	-	397
HBCUs	-	2,576	-	2,575	1	791	-	793
Tribally Controlled Colleges and Universities (TCCUs)	-	225	-	223	2	36	-	36
Strengthening Institutions Program	9	663	-	606	66	231	-	231
Fund for the Improvement of Postsecondary Education	203	-	-	91	112	140	-	140
Supplemental Assistance and Support	-	311	-	226	85	5	-	12
Governor's Emergency Education Relief Fund								
Emergency Education Relief Grants	48	1,303	-	1,351	-	1,055	-	1,061
Emergency Assistance to Non-Public Schools Program	-	5,500	-	3,327	2,173	277	-	280
Outlying Areas	-	1,259	-	1,259	-	114	-	114
Bureau of Indian Education	-	409	(409)	-	-	-	-	-
Discretionary Grants	-	-	-	-	-	16	-	16
<b>Total Education Stabilization Fund</b>	<b>533</b>	<b>247,839</b>	<b>(309)</b>	<b>229,884</b>	<b>18,179</b>	<b>48,614</b>	<b>-</b>	<b>52,914</b>
Individuals with Disabilities Education Act Grants	-	3,030	-	2,991	39	-	-	-
School Improvement Programs	-	170	-	113	57	-	-	-
American Indian Resilience in Education	-	20	-	-	20	-	-	-
Safe Schools & Citizenship Education	100	-	(100)	-	-	-	-	-
Gallaudet University	-	30	-	30	-	16	-	16
Howard University	-	55	-	55	-	44	-	44
National Technical Institute for the Deaf	-	30	-	30	-	6	-	6
HBCU Loan Deferment	30	-	-	-	30	-	-	-
Student Aid Administration	24	121	-	91	54	8	-	8
Program Administration	4	30	-	12	22	11	-	11
Inspector General	7	10	-	4	13	2	-	2
Institute of Education Sciences	-	128	-	27	101	20	-	20
<b>Total COVID-19 Direct Appropriations</b>	<b>698</b>	<b>251,463</b>	<b>(409)</b>	<b>233,237</b>	<b>18,515</b>	<b>48,721</b>	<b>-</b>	<b>53,021</b>
<b>COVID-19 Indirect Appropriations (See Note 5)</b>								
Student Loan Deferrals	-	56,209	-	56,209	-	56,209	3,066	53,143
<b>Total COVID-19 Indirect Appropriations</b>	<b>-</b>	<b>56,209</b>	<b>-</b>	<b>56,209</b>	<b>-</b>	<b>56,209</b>	<b>3,066</b>	<b>53,143</b>
<b>Total COVID-19 Activity</b>	<b>\$ 698</b>	<b>\$ 307,672</b>	<b>\$ (409)</b>	<b>\$ 289,446</b>	<b>\$ 18,515</b>	<b>\$ 104,930</b>	<b>\$ 3,066</b>	<b>\$ 106,164</b>

**Elementary and Secondary School Emergency Relief (ESSER) Fund**—Supports continued learning for K–12 students whose education has been disrupted by COVID-19.

- **Allocations to States**—Provides grants to states based on the same proportion that each state receives under the *Elementary and Secondary Education Act* (ESEA) Title I-A. States must distribute at least 90 percent of funds to local educational agencies based on their proportional share of ESEA Title I-A funds. States have the option to reserve 10 percent of the allocation for emergency needs as determined by the state to address issues responding to the COVID-19 pandemic.
- **Assistance for Homeless Children and Youth**—Provides grants to support the specific needs of homeless children and youth with wraparound services to address the challenges of COVID-19, and to enable homeless children and youth to attend school and fully participate in school activities.

**Higher Education Emergency Relief Fund (HEERF)**—Provides grants 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 childcare. The fund is distributed through the following grant programs.

- **Higher Education Funds to Students**—Provides grants to IHEs to give 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**—Provides grants to IHEs which 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.
- **Proprietary Institutions Grant Funds for Students**—Provides grants to proprietary IHEs to give emergency financial aid grants to students, which may be used for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19, such as tuition, food, housing, health care (including mental health care) or childcare.
- **Minority Serving Institutions (MSIs)**—Provides grants 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. MSIs 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 and Universities (HBCUs)**—Provides grants 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)**—Provides grants 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**—Provides grants 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)**—Provides grants that support 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.
- **Supplemental Assistance and Support**—Provides discretionary grants to institutions of higher education with unmet needs related to recovery from disruptions in the finances, day-to-day operations, instruction, and student support due to COVID-19.

### **Governor's Emergency Education Relief (GEER)**

**Fund**—Provides grants 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.

- **Emergency Education Relief Grants**—Provide grants to state governors for the purpose of providing local educational agencies (LEA), IHEs, and other education-related entities with emergency assistance as a result of COVID-19.

- **Emergency Assistance to Non-Public Schools Program**—Provides grants to state governors to provide services or assistance to eligible non-public schools to address COVID-19 impacts.

### **Outlying Areas, Bureau of Indian Education, and**

**Discretionary Grants**—Provides funding for outlying areas and states with the highest COVID-19 burdens. These funds are distributed through the following grant programs.

- **Outlying Areas**—Provides grants 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 was 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**—Provides funding 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**—Provides grants to states to use to create adaptable, innovative learning opportunities for K–12 and postsecondary learners in response to the COVID-19 national emergency.

In addition to the Education Stabilization Fund, COVID-19 appropriations also included funding for the following.

### **Individuals with Disabilities Education Act Grants**—

Provides grants to states to help them recover from the impact of the COVID-19 and to safely reopen schools and sustain safe operations. These grants assist states 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 2 and their families.

**School Improvement Programs**—Provides additional 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 to substantially raise the achievement of students in their lowest-performing schools.

**American Indian Resilience in Education**—Provides grants to tribal education agencies for activities authorized under Section 6121(c) of the *Elementary and Secondary Education Act of 1965*. Those activities include a broad range of direct services to Indian children and youth, their teachers, and families.

**Safe Schools & Citizenship Education**—The CARES Act provided 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. The CRRSAA subsequently authorized these additional funds to be reallocated to the HEERF.

**Gallaudet University**—Provides funding to help address challenges associated with COVID-19.

**Howard University**—Provides funding to help address challenges associated with COVID-19.

**HBCU Loan Deferment**—Provides funding for 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 was 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**—Provides funding for the additional costs of administering the COVID-19 provisions affecting student financial aid programs.

**Program Administration**—Provides funding to the Department to fund costs of administering the COVID-19 appropriations.

**Inspector General**—Provides funding for salaries and expenses necessary for Office of Inspector General oversight and audit of COVID-19 programs, grants, and projects.

**Institute of Education Sciences**—Provides funding for research to address learning loss caused by the coronavirus and to disseminate findings to SEAs, LEAs, and others, and for carrying out the *National Assessment of Educational Progress Authorization Act*.

**NOTE 12. Statements of Budgetary Resources**

The SBR compares budgetary resources with the status of those resources. As of September 30, 2022, budgetary resources were \$902.0 billion, and net agency outlays were \$639.4 billion. As of September 30, 2021, budgetary resources were \$689.6 billion, and net agency outlays were \$260.5 billion.

**Net Adjustments to Unobligated Balances Brought Forward, October 1**

(Dollars in Millions)

	2022 (Unaudited)		2021	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Prior Year Unobligated Balance, End of Year (Total)</b>	\$ 39,858	\$ 22,252	\$ 19,904	\$ 22,726
Recoveries of Prior Year Unpaid Obligations	3,648	14,486	1,317	16,676
Borrowing Authority Withdrawn	-	(11,997)	-	(13,566)
Actual Repayments of Debt, Prior-Year Balances	-	(2,767)	-	(5,444)
Actual Capital Transfers to the Treasury General Fund	(81)	-	(97)	-
Canceled Authority	(587)	-	(354)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	280	241	3	257
Other Differences	13	1	(1)	1
<b>Unobligated Balance from Prior Year Budget Authority (Net)</b>	<b>\$ 43,131</b>	<b>\$ 22,216</b>	<b>\$ 20,772</b>	<b>\$ 20,650</b>

During the periods ended September 30, 2022, and September 30, 2021, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2021, and October 1, 2020. 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)

	2022 (Unaudited)	2021
<b>Beginning Balance - Unused Borrowing Authority</b>	<b>\$ 41,978</b>	<b>\$ 48,230</b>
Current Year Borrowing Authority	178,717	129,407
Funds Drawn from Treasury	(166,568)	(122,093)
Borrowing Authority Withdrawn	(11,997)	(13,566)
Decreases to Borrowing Authority	(21)	-
<b>Ending Balance - Unused Borrowing Authority</b>	<b>\$ 42,109</b>	<b>\$ 41,978</b>

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 at the End of the Period

(Dollars in Millions)

	2022 (Unaudited)		2021	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Unpaid	\$ 301	\$ 262,438	\$ 252	\$ 321,379
Paid	85	480	104	1,287
<b>Undelivered Orders</b>	<b>\$ 386</b>	<b>\$ 262,918</b>	<b>\$ 356</b>	<b>\$ 322,666</b>

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

## Distributed Offsetting Receipts

(Dollars in Millions)

	2022 (Unaudited)	2021
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	\$ 27,334	\$ 4,809
FFEL Program	546	589
HEAL Program	-	25
TEACH Program	5	3
Facilities Loan Programs	291	207
<b>Total Negative Subsidies and Downward Re-estimates of Subsidies</b>	<b>28,176</b>	<b>5,633</b>
Repayment of Perkins Loans and Capital Contributions	707	866
Other	203	126
<b>Distributed Offsetting Receipts</b>	<b>\$ 29,086</b>	<b>\$ 6,625</b>

Distributed offsetting receipts are amounts that the Department collects that are used to offset or reduce the Department's budget outlays. The Department's outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts.

Most 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.

## Explanation of Differences between the SBR and the Budget of the U.S. Government

(Dollars in Millions) (Unaudited)

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
<b>Combined Statements of Budgetary Resources</b>	<b>\$ 689,606</b>	<b>\$ 627,496</b>	<b>\$ 6,625</b>	<b>\$ 260,451</b>
Expired Funds	(2,494)	(383)	-	-
FFEL Guaranty Agency Amounts Included in the President's Budget	3,837	3,837	-	-
Distributed Offsetting Receipts	-	-	-	6,625
Other	(5)	(1)	(1)	(2)
<b>Budget of the United States Government<sup>1</sup></b>	<b>\$ 690,944</b>	<b>\$ 630,949</b>	<b>\$ 6,624</b>	<b>\$ 267,074</b>

<sup>1</sup> Amounts obtained from the Appendix, Budget of the United States Government, FY 2023

The FY 2024 President's Budget, which presents the actual amounts for the year ending September 30, 2022, has not been published as of the issue date of these financial statements. The FY 2024 President's Budget is scheduled for release in February 2023 and will be made available on OMB's website. The table above reconciles the FY 2021 SBR to the FY 2023 President's Budget (FY 2021 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)

	2022 (Unaudited)			2021		
	Intragovernmental	Other than Intragovernmental	Total	Intragovernmental	Other than Intragovernmental	Total
<b>Net Cost</b>	\$ 24,894	\$ 538,519	\$ 563,413	\$ 31,606	\$ 208,099	\$ 239,705
<b>Components of Net Cost Not Part of Budgetary Outlays:</b>						
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	16,954	16,954	-	(28,399)	(28,399)
Loan Modification Adjustment Transfers	-	27,665	27,665	-	2,837	2,837
Property and Equipment Depreciation Expense	-	-	-	-	(1)	(1)
Increase/(Decrease) in Assets:						
Loans Receivables, Net (Non-FCRA)	-	(255)	(255)	-	(62)	(62)
Other Assets	(19)	(65)	(84)	(13)	22	9
(Increase)/Decrease in Liabilities:						
Accounts Payable	-	397	397	(1)	(597)	(598)
Loan Guarantee Liabilities (Non-FCRA)	-	-	-	-	(2)	(2)
Other Liabilities	366	2,312	2,678	171	(5,728)	(5,557)
Financing Sources:						
Imputed Costs	(38)	-	(38)	(36)	-	(36)
<b>Total Components of Net Cost Not Part of Budgetary Outlays</b>	<b>309</b>	<b>47,008</b>	<b>47,317</b>	<b>121</b>	<b>(31,930)</b>	<b>(31,809)</b>
<b>Components of Budget Outlays Not Part of Net Cost:</b>						
Effect of Prior-Year Credit Reform Subsidy Re-estimates	-	28,399	28,399	-	52,571	52,571
Acquisition of Capital Assets	-	-	-	-	1	1
Financing Sources:						
Donated Revenue	-	(1)	(1)	-	(1)	(1)
<b>Total Components of Budget Outlays Not Part of Net Cost</b>	<b>-</b>	<b>28,398</b>	<b>28,398</b>	<b>-</b>	<b>52,571</b>	<b>52,571</b>
<b>Miscellaneous Items:</b>						
Other Loan Activities (Non-FCRA)	(76)	-	(76)	(89)	-	(89)
Non-Entity Activity	338	-	338	82	-	82
Non-Exchange Revenues	(21)	-	(21)	(9)	-	(9)
<b>Total Miscellaneous Items</b>	<b>241</b>	<b>-</b>	<b>241</b>	<b>(16)</b>	<b>-</b>	<b>(16)</b>
<b>Budgetary Agency Outlays, Net</b>			<b>\$ 639,369</b>			<b>\$ 260,451</b>

This reconciliation explains the relationship between the Department's net cost and its net outlays. Reconciling items result from transactions that 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 nonbudgetary 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 Year-End Credit Reform Subsidy Accrual Re-Estimates (current-year subsidy accrual costs) and Effect of Prior-Year Credit Reform Subsidy Re-Estimates (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)

2022 (Unaudited)		2021	
2023	\$ 65	2022	\$ 69
2024	58	2023	71
2025	48	2024	71
2026	45	2025	72
2027	45	2026	73
After 2027	46	After 2026	75
<b>Total</b>	<b>\$ 307</b>	<b>Total</b>	<b>\$ 431</b>

The Department leases from the GSA all or a portion of 15 privately owned and 11 publicly owned buildings in 21 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings. The decrease in the estimated future minimum lease payments is due to anticipated releases of building and floor rentals.

**GUARANTY AGENCIES**

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in FY 2022 or FY 2021 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, 2022. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2022, 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 Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process

To prepare the Financial Report (FR) of the U.S. government, 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 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 two schedules in this note show the Department's financial statements and the Department's reclassified statements before elimination of intragovernmental balances and before 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, nonprofit entities, and state, local, and foreign governments.

A copy of the September 30, 2021, FR can be found on Treasury's website, and a copy of the September 30, 2022, FR will be posted to this site as soon as it is released.

**Reclassification of Statement of Net Cost to Line Items Used for the Governmentwide Statement of Net Cost for the Period Ending September 30, 2022**

(Dollars in Millions)

FY 2022 Department Statement of Net Cost (Unaudited)		Line Items Used to Prepare FY 2022 Governmentwide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
<b>Total Gross Cost</b>	\$ 628,611	\$ 594,126	Non-Federal Gross Cost
		155	Benefit Program Costs
		38	Imputed Costs
		437	Buy/Sell Cost
		33,836	Borrowing and Other Interest Expense
		19	Other Expenses (Without Reciprocals)
<b>Total Gross Cost</b>	<b>\$ 628,611</b>	<b>\$ 628,611</b>	<b>Department Total Gross Cost</b>
<b>Total Earned Revenue</b>	\$ (65,198)	\$ (55,607)	Non-Federal Earned Revenue
		(3)	Buy/Sell Revenue (Exchange)
		(9,588)	Borrowing and Other Interest Revenue (Exchange)
<b>Total Earned Revenue</b>	<b>(65,198)</b>	<b>(65,198)</b>	<b>Department Total Earned Revenue</b>
<b>Net Cost</b>	<b>\$ 563,413</b>	<b>\$ 563,413</b>	<b>Net Cost</b>

**Reclassification of Statement of Changes in Net Position to Line Items Used for the Governmentwide Statement of Operations and Changes in Net Position for the Period Ending September 30, 2022**  
(Dollars in Millions)

FY 2022 Department Statement of Changes in Net Position (Unaudited)		Line Items Used to Prepare FY 2022 Governmentwide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	301,798	301,798	Net Position, Beginning of Period
Appropriations Received	599,069	596,657	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(2,412)		
Appropriations Transferred	15	15	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Appropriations Used	(667,252)	(667,252)	Appropriations Used
<b>Unexpended Appropriations, Ending Balance</b>	<b>231,218</b>	<b>231,218</b>	
Cumulative Results of Operations			
Beginning Balance	(28,703)	(28,703)	Net Position, Beginning of Period
Appropriations Used	667,252	667,252	Appropriations Expended
Nonexchange Revenue	21	21	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Donations and Forfeitures of Cash and Cash Equivalents	1	1	Other Taxes and Receipts
Imputed Financing from Costs Absorbed by Others	38	38	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(84,683)	(59,461)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		(24,603)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		(619)	Other Budgetary Financing Sources
Net Cost	(563,413)	(563,413)	Net Cost
<b>Cumulative Results of Operations, Ending Balance</b>	<b>\$ (9,487)</b>	<b>\$ (9,487)</b>	
<b>Net Position</b>	<b>\$ 221,731</b>	<b>\$ 221,731</b>	<b>Net Position, End of Period</b>

**NOTE 16. Subsequent Events**

On November 10, 2022, a U.S. District Court in Texas issued an order to vacate the program for Broad-Based Debt Relief that was previously adopted by the U.S. Secretary of Education and announced on August 24, 2022. On November 14, 2022, the U.S. Court of Appeals for the Eighth Circuit stayed the Department’s implementation of the same program pending an appeal by six states of their case challenging the relief, on which the Department had prevailed in a U.S. District Court. The U.S. Department of Education subsequently requested a stay of both decisions, and ultimately sought stays as well as a hearing on the merits from the Supreme Court of the United States. Those stay requests were denied, but the Supreme Court of the United States granted certiorari and has agreed to hear

both cases and to address both questions of standing and the Department’s authority to provide the debt relief. The Department is confident in its position in these matters before the Court.

On November 22, 2022, the Department announced that it would be extending the existing pause on student loan repayments through a period which would be largely determined by the court cases mentioned previously. The pause has been extended until 60 days after the Department is permitted to implement the program or the litigation is resolved. If the program has not been implemented and the litigation has not been resolved by June 30, 2023, payments will resume 60 days after that.

## Required Supplementary Information (Unaudited)

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**U.S Department of Education**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2022**  
(Dollars in Millions)  
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	\$ 20,921	\$ 21,923	\$ 2,096
Appropriations (Discretionary and Mandatory)	539,874	2,759	27,183
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	178,546	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	28	60,322	-
<b>Total Budgetary Resources</b>	<b>\$ 560,823</b>	<b>\$ 263,550</b>	<b>\$ 29,279</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total)	\$ 542,540	\$ 198,205	\$ 27,046
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	14,212	-	2,150
Unapportioned, Unexpired Accounts	733	65,345	13
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 14,945</b>	<b>\$ 65,345</b>	<b>\$ 2,163</b>
Expired Unobligated Balance, End of Year	3,338	-	70
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 18,283</b>	<b>\$ 65,345</b>	<b>\$ 2,233</b>
<b>Total Budgetary Resources</b>	<b>\$ 560,823</b>	<b>\$ 263,550</b>	<b>\$ 29,279</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Discretionary and Mandatory)	\$ 539,829		\$ 23,682
Distributed Offsetting Receipts (-) (Note 12)	(28,595)		(1)
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 and 13)</b>	<b>\$ 511,234</b>		<b>\$ 23,681</b>
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ (382,399)</b>	

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			
\$ 393	\$ 18,271	\$ 1,450	\$ 293	\$ 43,131	\$ 22,216	\$ 65,347		
18,445	(443)	9,416	-	594,475	2,759	597,234		
-	-	-	171	-	178,717	178,717		
-	-	77	271	105	60,593	60,698		
<b>\$ 18,838</b>	<b>\$ 17,828</b>	<b>\$ 10,943</b>	<b>\$ 735</b>	<b>\$ 637,711</b>	<b>\$ 264,285</b>	<b>\$ 901,996</b>		
<hr/>								
\$ 18,401	\$ 17,420	\$ 9,593	\$ 501	\$ 615,000	\$ 198,706	\$ 813,706		
262	385	823	-	17,832	-	17,832		
-	-	2	234	748	65,579	66,327		
<b>\$ 262</b>	<b>\$ 385</b>	<b>\$ 825</b>	<b>\$ 234</b>	<b>\$ 18,580</b>	<b>\$ 65,579</b>	<b>\$ 84,159</b>		
175	23	525	-	4,131	-	4,131		
<b>\$ 437</b>	<b>\$ 408</b>	<b>\$ 1,350</b>	<b>\$ 234</b>	<b>\$ 22,711</b>	<b>\$ 65,579</b>	<b>\$ 88,290</b>		
<b>\$ 18,838</b>	<b>\$ 17,828</b>	<b>\$ 10,943</b>	<b>\$ 735</b>	<b>\$ 637,711</b>	<b>\$ 264,285</b>	<b>\$ 901,996</b>		
<hr/>								
\$ 17,974	\$ 79,223	\$ 7,747		\$ 668,455		\$ 668,455		
-	-	(490)		(29,086)		(29,086)		
<b>\$ 17,974</b>	<b>\$ 79,223</b>	<b>\$ 7,257</b>		<b>\$ 639,369</b>		<b>\$ 639,369</b>		
			<b>\$ 111</b>			<b>\$ (382,288)</b>	<b>\$ (382,288)</b>	

**U.S. Department of Education**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2021**  
(Dollars in Millions)  
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	\$ 16,988	\$ 20,473	\$ 1,999
Appropriations (Discretionary and Mandatory)	172,332	239	24,760
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	128,739	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	142	42,050	-
<b>Total Budgetary Resources</b>	<b>\$ 189,462</b>	<b>\$ 191,501</b>	<b>\$ 26,759</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total)	\$ 171,476	\$ 169,693	\$ 24,910
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	14,397	-	1,778
Unapportioned, Unexpired Accounts	1,930	21,808	-
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 16,327</b>	<b>\$ 21,808</b>	<b>\$ 1,778</b>
Expired Unobligated Balance, End of Year	1,659	-	71
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 17,986</b>	<b>\$ 21,808</b>	<b>\$ 1,849</b>
<b>Total Budgetary Resources</b>	<b>\$ 189,462</b>	<b>\$ 191,501</b>	<b>\$ 26,759</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Discretionary and Mandatory)	\$ 170,470		\$ 23,027
Distributed Offsetting Receipts (-) (Note 12)	(6,296)		(1)
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 and 13)</b>	<b>\$ 164,174</b>		<b>\$ 23,026</b>
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ (38,680)</b>	



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			
\$ 346	\$ 633	\$ 806	\$ 177	\$ 20,772	\$ 20,650	\$ 41,422		
21,022	247,839	10,567	-	476,520	239	476,759		
-	-	-	668	-	129,407	129,407		
-	(409)	61	174	(206)	42,224	42,018		
<b>\$ 21,368</b>	<b>\$ 248,063</b>	<b>\$ 11,434</b>	<b>\$ 1,019</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>	<b>\$ 689,606</b>		
\$ 20,941	\$ 229,884	\$ 10,017	\$ 575	\$ 457,228	\$ 170,268	\$ 627,496		
220	18,179	1,241	-	35,815	-	35,815		
-	-	1	444	1,931	22,252	24,183		
<b>\$ 220</b>	<b>\$ 18,179</b>	<b>\$ 1,242</b>	<b>\$ 444</b>	<b>\$ 37,746</b>	<b>\$ 22,252</b>	<b>\$ 59,998</b>		
207	-	175	-	2,112	-	2,112		
<b>\$ 427</b>	<b>\$ 18,179</b>	<b>\$ 1,417</b>	<b>\$ 444</b>	<b>\$ 39,858</b>	<b>\$ 22,252</b>	<b>\$ 62,110</b>		
<b>\$ 21,368</b>	<b>\$ 248,063</b>	<b>\$ 11,434</b>	<b>\$ 1,019</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>	<b>\$ 689,606</b>		
\$ 15,939	\$ 48,614	\$ 9,026		\$ 267,076		\$ 267,076		
-	-	(328)		(6,625)		(6,625)		
<b>\$ 15,939</b>	<b>\$ 48,614</b>	<b>\$ 8,698</b>		<b>\$ 260,451</b>		<b>\$ 260,451</b>		
			\$ (1,201)		\$ (39,881)	\$ (39,881)		

# Report of the Independent Auditors

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**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL**

THE INSPECTOR GENERAL

January 23, 2023

The Honorable Miguel Cardona  
Secretary of Education  
Washington, D.C. 20202

Dear Secretary Cardona:

The enclosed Independent Auditors' Report (report) covers the U.S. Department of Education's (Department) consolidated financial statements for fiscal years 2022 and 2021 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 engaged the independent certified public accounting firm KPMG LLP (KPMG) to audit the consolidated financial statements of the Department as of September 30, 2022, and 2021, 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 Presented in the Independent Auditors' Report**

KPMG reports:

- A disclaimer of opinion on the fiscal year 2022 consolidated financial statements because KPMG has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- The fiscal year 2021 consolidated financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- One material weakness in internal control over financial reporting:
  - Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement.
- Two significant deficiencies in internal control over financial reporting:
  - Information Technology Controls Need Improvement, and
  - Entity Level Controls Need Improvement.

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

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

Page 2 – The Honorable Miguel Cardona

KPMG is responsible for the auditors' report dated January 23, 2023, and the conclusions expressed therein. We do not express opinions on the Department's consolidated financial statements or internal control over financial reporting, or on whether the Department's financial management systems complied substantially with the three requirements of FFMIA, or conclusions on compliance and other matters.

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

Sincerely,



Sandra D. Bruce  
Inspector General

Enclosure



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

## Independent Auditors' Report

Inspector General  
 United States Department of Education

Secretary  
 United States Department of Education:

### Report on the Audit of the Consolidated Financial Statements

#### *Disclaimer of Opinion on Fiscal Year 2022 Consolidated Financial Statements*

We were engaged to audit the consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheet as of September 30, 2022, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

We do not express an opinion on the accompanying consolidated financial statements of the Department as of and for the year ended September 30, 2022. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the fiscal year 2022 consolidated financial statements.

#### *Opinion on Fiscal Year 2021 Consolidated Financial Statements*

We have audited the consolidated financial statements of the Department, which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2021, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Disclaimer of Opinion on Fiscal Year 2022 Consolidated Financial Statements*

During fiscal year 2022, the Department announced broad-based debt relief for certain of its student loan borrowers under the Direct Loan and Federal Family Education Loan (FFEL) programs. Management estimated the subsidy costs stemming from the broad-based debt relief as of September 30, 2022. However, management was unable to provide adequate evidential matter to support certain key assumptions used to estimate the subsidy costs. As a result of this matter, we were unable to determine whether any adjustments to the balance sheet might have been necessary with respect to the fiscal year 2022 Loans Receivable, Net – Direct Loan Program; Loans Receivable, Net – FFEL Program; Subsidy Due to Treasury; Loan Guarantee Liabilities; the related balances in the consolidated statements of net cost and changes in net position; and related notes to the consolidated financial statements.

#### *Basis for Opinion on Fiscal Year 2021 Consolidated Financial Statements*

We conducted our audit of the fiscal year 2021 consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial

KPMG LLP a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fiscal year 2021 consolidated financial statements.

#### *Other Matter - Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the fiscal year 2022 Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the 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.

#### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 22-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

Except as explained in the Basis for Disclaimer of Opinion paragraph, in performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 22-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.



We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *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 is the responsibility of management and, 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 were unable to apply certain limited procedures to the required supplementary information as of and for the year ended September 30, 2022 in accordance with GAAS because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

We have applied certain limited procedures to the required supplementary information as of and for the year ended September 30, 2021 in accordance with GAAS, 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 audit of the fiscal year 2021 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.

#### **Report on Internal Control Over Financial Reporting**

In connection with our engagement to audit the Department's consolidated financial statements as of and for the year ended September 30, 2022, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an 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 were not identified. However, as described in the accompanying Exhibits, we identified 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 deficiencies described in the accompanying Exhibit A, *Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement*, to be a material weakness.

The Department management did not report the material weakness in its Statement of Assurance, included in the Management's Discussion and Analysis section of the accompanying Agency Financial Report.

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



### Report on Compliance and Other Matters

In connection with our engagement to audit the Department's consolidated financial statements as of and for the year ended September 30, 2022, 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01.

We also performed tests of the Department's 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 engagement, 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.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, instances of noncompliance or other matters may have been identified and reported herein.

### Department's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our engagement and described in Exhibit C. The Department's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the response.

Our response to the Department's response is included in Exhibit D.

### Purpose of the Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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.  
January 23, 2023

## Exhibit A

## Material Weakness

**Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement****Background:**

The material weakness under this section is related to the Department's Direct and FFEL student loan portfolios.

The Department is required to perform interest rate and technical re-estimates (commonly referred to as estimates) of the subsidy costs of its direct loan and guaranty programs as of September 30 every year.

During fiscal year 2022, the Department announced changes to its student loan programs, including broad-based debt relief for borrowers meeting certain criteria (eligible borrowers). Management estimated the subsidy costs stemming from the broad-based debt relief as of September 30, 2022. Management's estimate used data and assumptions related to a take-up rate, among other assumptions. The take-up rate assumption represents how many eligible borrowers are expected to apply for debt-relief, hence considered a key assumption for estimating the impact of broad-based debt relief on the financial statements. This assumption is used as an input in the Income Driven Repayment (IDR), Collections, and Death, Disability & Bankruptcy (DD&B) assumptions.

These assumptions are included in the estimates calculated using the Department's internally developed cash flow model, the Student Loan Model (SLM). The SLM utilizes assumptions based on internally sourced data elements from Information Technology systems to generate future cash flows. These future cash flows 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, to produce the subsidy cost estimate.

**Condition:**

Management's internal controls were not properly designed at an appropriate level of precision to address the relevance and reliability of the underlying data used to develop the take-up rate assumption used in the various loan program estimates. In addition, management did not design sufficiently precise controls over the relevance and reliability of certain data used in other key assumptions for the SLM cash flow model to develop the subsidy cost estimates.

**Cause/Effect:**

Management's risk assessment process was not sufficient to identify the relevance and reliability of the underlying data used in significant assumptions for the estimates, including the take-up rate assumption, as a risk that required additional controls. As a result, the documentation over the subsidy cost estimates in the financial statements was not supportive to evidence the estimate calculations. Inadequate controls over the relevance and reliability of the underlying data used to develop the estimate calculations 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. 6, *Management should define objectives clearly to enable the identification of risks and define risk tolerances*; Principle No. 10, *Design Control Activities*; Principle No. 13, *Use Quality Information*.
- FASAB Technical Release No. 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*, Paragraph 20.

**Recommendation:**

We recommend that management:

1. Design and implement controls that require the validation of the relevance and reliability of underlying data used in developing the assumptions related to the subsidy cost estimates. Such review should be documented and maintained.

## Exhibit B

## Significant Deficiencies

## A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of Information Technology (IT) logical access, security management, segregation of IT duties, application change management, and computer operations are related to both the Department and Federal Student Aid (FSA) systems.

**Conditions:**

In prior years, we reported a significant deficiency related to the Department and FSA's IT controls due to persistent unmitigated IT control deficiencies. During FY 2022, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies, such as oversight of service organization controls. However, the Department management and FSA management have not fully remediated prior-year deficiencies related to logical access administration, separated and transferred user access removal, user access reviews and recertification, and configuration management. New and existing IT control deficiencies related to security management, access controls, segregation of IT duties, application change management, and computer operations for the Department's core financial management system, three of FSA's financial and mixed systems, and two access management support systems are as follows:

## Department:

1. Weakness in IT logical access controls: New and separated contractors were not consistently and accurately tracked including inconsistent reporting of start and termination dates. Further, the account controls were not consistently followed for the Department's core financial management system. Specifically:
  - a. documentation supporting the completed security awareness training for new and modified users could not be provided;
  - b. evidence supporting complete and accurate access reviews and recertifications was not provided or retained;
  - c. password controls were not designed to meet the Department's requirements; and
  - d. the Department's requirement for the use and monitoring of generic and shared accounts was not met for all accounts.
2. Weakness in IT application change management and patch management controls: The application change management and patch management policies and processes were not consistently followed for the Department's core financial management system in accordance with Department policy. The Department was unable to provide sufficient evidence supporting tracking, security assessment, and approval for certain application changes and patches.
3. Weakness in IT computer operations controls: Changes to the job processing tool and schedules were not centrally tracked and were made directly in production. Finally, the use and monitoring of generic and shared accounts for the job scheduling tool did not follow the Department's requirements.

## FSA:

1. Weakness in IT security management controls: Plan of Action and Milestone (POA&M) closure documentation for FSA systems did not always address the root cause of the deficiencies, thereby increasing the potential of IT control deficiencies reoccurring in the future.

2. Weakness in IT logical access controls: The access control processes were not consistently followed for three FSA systems and two access control support systems. Evidence supporting complete and accurate access listings and evidence supporting new, modified, or separated users could not be provided or was provided with missing required information and/or approvals; evidence supporting complete and accurate access reviews and recertifications was not provided or retained; and the Department's requirement for two-factor authentication was not met for all internal system users.
3. Weaknesses in IT controls related to the segregation of IT duties: For one FSA system, users with developer access had access greater than read-only to the system's production environment or update access to the production and development environments.
4. Weakness in IT application change management controls: The application change management process was not consistently followed for one FSA system. FSA was unable to provide a complete and accurate population of application changes. Also, documentation for a selection of changes contained inaccuracies in recorded testing and migration dates.

**Cause/Effect:**

There was a lack of effective monitoring controls by the Department and 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 adequately documented supporting evidence.
2. Systems and support processes consistently adhered to documented agency-wide policies and procedures for the financial and mixed systems hosted and managed by FSA and the Department.
3. The established logical access control process is followed and requests and related evidence for new, modified, or separated users were retained, documented completely and accurately, and approved.
4. Complete and accurate access reviews are performed to detect and mitigate the risk of unauthorized accounts, access that is not commensurate with job responsibilities or least privilege, and access permissions not being revoked timely.
5. Password controls are designed to meet the Department's requirements.
6. The requirements for the use and monitoring of generic and shared accounts controls are followed and enforced.
7. Segregation of duties and least privilege principles are followed and enforced.
8. The established change process and patch management process are followed.
9. The established process for job processing changes is followed and the requirements for the use and monitoring of generic/shared accounts controls for the job scheduling tool are followed and enforced.
10. The established computer operations process detects and/or prevents unauthorized changes to the job processing tool and schedules within the core financial system environment.

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 Information Technology (IT) System Access Control Standard.
- EDCAPS System Security Plan (SSP) control requirements.
- EDCAPS Configuration Management Plan (CMP).
- Department Information Technology System and Information Integrity (SI) standard policy section 2.2 control SI-2, *Flaw Remediation*.
- EDCAPS Patch Management Plan, section 4.7 *Patch Maintenance*.
- Department Baseline Cybersecurity Standard, OCIO-STND-01, dated September 23, 2021, Section 3.15, *Acceptable Use*.
- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 3.08 *Assignment of Responsibility and Delegation of Authority*, Principle No. 4, *Demonstrate Commitment to Competence*, Principle No. 7, *Identify, Analyze, and Respond to Risks*, Principle No. 8.07 *Response to Fraud Risks*, Principle No.10.03, *Design of Appropriate Types of Control Activities*, Principle No.10.12 *Segregation of Duties*, Principle No. 10.3 *Design of Appropriate Types of Control Activities*, Principle No. 11, *Design Activities for the Information System*, Principle No. 13, *Use Quality Information*, Principle No.16, *Perform Monitoring Activities*.
- Federal Information Processing Standards (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*.
- National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 5, specifically security control requirements PM-4 *Plan of Action and Milestone*, AC-2 *Account Management*, AC-5 *Separation of Duties*, AC-6 *Least Privilege*, AT-3 *Role-based Training*, AT-4 *Training records*, CM-3 *Configuration Change Control*, and SI-2 *Flaw Remediation*.

**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 the Department's personnel with on/off-boarding responsibilities to help ensure new/separated contractors are properly tracked.
4. Update access review procedures to require the reviewers to verify the access lists received to be used in the performance of the access reviews is complete and accurate and not modified prior to commencing the access reviews.
5. Identify and implement a process for the reviewer to validate the population generated for review is complete and accurate.
6. Enforce established access authorization controls and ensure all requirements are met prior to granting system access.

7. Formally perform and document the periodic reviews of all database user accounts in accordance with Department policy to confirm access is current, authorized, and commensurate with job responsibilities.
8. Ensure the application and database server access reviews include the verification of access privileges assigned to the user accounts are commensurate with job responsibilities and follow the concept of least privilege.
9. Ensure the database and server layers comply with the disabling of inactive accounts and account lockout duration password setting requirements, as required by Department policy.
10. Adhere to the SSP control requirements and avoid the use of generic and shared accounts. If generic and shared accounts are required, obtain a formal risk acceptance and develop a policy and procedure to:
  - Authorize the use of these accounts by approved personnel,
  - Control who can access the generic/shared accounts and those sensitive actions performed by the accounts are logged and reviewed every time the accounts are used, and
  - Require that generic/shared accounts' passwords are changed each time approved personnel separate or transfer from the Department.

We recommend that FSA:

11. Implement a process to evaluate the magnitude of impact, likelihood of occurrence, and nature of the deficiency in order to 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.
12. Formally develop and implement a quality control review process to ensure that logical access control processes are followed completely and accurately to validate logical access requests, reviews, and recertifications.
13. Ensure segregation of duties and least privilege principles are adhered to when granting user access to prevent users from having the ability to develop and/or change application code and having update access to the environment where the final tested and approved changes are staged prior to migration to the production environment; and prevent users with access to develop code from having update access to the production environment.
14. Evaluate and update the access review control process based on risk and enforce segregation of duties.
15. Reconcile the list of users' roles and responsibilities per the identity and access software tools to the lists that reside in each system accessed by such users.
16. Update access review procedures to require the reviewer to verify the access list, received to be used in the performance of the access reviews, is complete and accurate and not modified prior to commencing the access reviews.
17. Enforce established access authorization controls and ensure all requirements are met prior to granting access to systems.
18. Ensure a complete and accurate population of application changes is provided. Formally develop and implement a quality control review process to ensure that the application change control process is followed and consistently and accurately documented.

**B. Entity Level Controls Need Improvement**

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, through our procedures, two entity-wide control environment conditions in the areas of risk assessment and monitoring activities that have a pervasive influence on the effectiveness of controls.

**Conditions:**

1. Risk Assessment- The Department and FSA's entity level controls were not designed and implemented appropriately in order to define objectives related to the financial reporting process 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 certain risks related to the financial reporting process at the Department and FSA, and from designing appropriate risk responses.
- 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.

The conditions noted above contributed to the control deficiencies described earlier in the report and could lead to other weaknesses in internal control over financial reporting.

**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. Improve the 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. 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

## Management's Response



UNITED STATES DEPARTMENT OF EDUCATION  
WASHINGTON, D.C. 20202

## MEMORANDUM

**DATE:** January 20, 2023

**TO:** Bryon S. Gordon  
Assistant Inspector General for Audit

**FROM:** Denise L. Carter Denise Carter Digitally signed by Denise Carter  
Date: 2023.01.20 10:10:44 -0500  
Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

Luis Lopez LUIS LOPEZ Digitally signed by LUIS LOPEZ  
Date: 2023.01.20 10:11:02 -0500  
Chief Information Officer

**SUBJECT:** DRAFT INDEPENDENT AUDITORS' REPORT  
Fiscal Years 2022 and 2021 Financial Statements  
U.S. Department of Education  
(ED-OIG/A22FS0064)

We appreciate the opportunity to provide input on the draft audit report and would like to thank the Office of Inspector General audit team for their partnership and support during the annual audit of the Department's financial statements.

The Department concurs with the two significant deficiencies and partially concurs with the material weakness and will take appropriate action to address the audit recommendations. The agency takes its fiscal responsibilities seriously and we continue to have a high degree of confidence in the integrity of our programs and financial operations.

At the end of the fiscal year, the Department took on the challenge of integrating a brand-new program into its financial portfolio. Notwithstanding the inherent risks and challenges that come with implementing a new program of this scope and magnitude, we believe we did so carefully and thoughtfully with strong and supported financial analysis. We will make it a priority to address the items raised in the audit feedback as we strive to return to an unmodified opinion in the future.

Please find attached management's response to the FY 2022 Independent Auditors' Draft Report of the Department of Education's Consolidated Financial Statements.

Please contact Gary Wood, Deputy Assistant Secretary, Office of Financial Management, Office of Finance and Operations, and Acting Deputy Chief Financial Officer, at (202) 453-7631 with any questions or comments.

[www.ed.gov](http://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.*

1

C-1

Material WeaknessControls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement

Sound financial management is an integral part of the Department's efforts to deliver services and administer programs. We are confident in the integrity of our programs and financial operations and their ability to ensure that taxpayer funds are spent appropriately and effectively. These efforts include ensuring that effective internal controls are in place for the underlying data that is relied upon in financial analyses.

The Department develops and maintains a Student Loan Model (SLM), which is used to produce the official estimates of the cost of federal student loan programs published in the President's Budget and the Department's Agency Financial Report. The model is revised at least two times per year using updated data and economic assumptions. It has been in use in its current form since 1998 and is based on two decades of rigorous analysis and independent validation by third party contractors as well as the Office of Management and Budget (OMB), and other parties. The model has been audited by multiple, independent financial statement auditors, undergone OMB Circular A-123 reviews, and been the focus of several GAO engagements.

For 20 consecutive years, the Department has earned an unmodified (i.e., clean) audit opinion, confirming that the Department's previous financial statements were presented fairly, in all material respects, and conform with generally accepted accounting principles. These reviews have fueled continuous improvement in the model's methodology to ensure the Department's cost estimates are as accurate as possible. Improvements to the underlying data, assumptions, and methodology are in line with best practices across the federal government, and all improvements and major assumptions are reviewed and approved by Department leadership, per its exhaustive and rigorous governance process.

Over the past three years, the Department has managed a series of vital steps to address challenges facing students and borrowers due to the Covid-19 pandemic and resulting national emergency. One of those was the new broad-based debt relief program, which required that the Department estimate the take-up of the benefit among eligible borrowers and integrate this variable into the agency loan estimates. The Department developed its estimate based upon relevant research literature, the Department's own extensive experience of take-up rates from a variety of benefit programs, take-up rates from means-tested programs operated by other federal agencies, and consultation with internal and external experts.

The Department's cost estimate was reviewed by both management at the Department and the Office of Management and Budget (OMB), consistent with existing policies and procedures for modifications. The cost estimate was approved, and appropriate budgetary resources were made available through the OMB apportionment process per OMB Circular A-11. The processes and controls used to validate assumptions were properly designed and consistent with estimates used in previous years, but the Department does acknowledge that controls may not have operated as intended due to the lack of strictly comparable other federal benefit programs.

The Department will leverage the audit feedback as input into its next round of SLM business process and internal control reviews and will implement appropriate actions to further improve the SLM process, including its methodology for assessing take-up rates. Specifically, it will assess the efficacy of controls in place and make appropriate changes as needed.

Significant DeficienciesA. Information Technology Controls Need Improvement

The security of our IT systems is critical and a high priority for the agency. The Department has taken the following actions to make improvements in this area and will leverage the audit feedback to make additional changes. The Department recently awarded our new Identity, Credential, and Access Management contract. The vendor has developed strategic solutions for our logical access control deficiencies and is responsible for optimizing our existing practices that include: single sign on capabilities, separation of duties, and privileged access management for newly



onboarded and departing users.

In fiscal year 2022 the Department achieved a cybersecurity level 4 maturity rating, managed and measurable, which is considered operating at an effective level of security by the Federal Information Security Modernization Act (FISMA) of 2014.

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The Department, through the American Rescue Plan and Technology Modernization Funds, was successfully awarded \$20 million dollars in fiscal year 2022. These funds allowed the Department to develop and incrementally implement a zero-trust architecture plan across all offices while modernizing cybersecurity technologies, ultimately helping the Department carry out its mission and provide a more secure and less burdensome user experience for employees and the public.

**B. Entity Level Controls Need Improvement**

The Department has taken the following actions to make improvements in this area and will leverage the audit feedback to continue in this direction.

FSA analyzed the business processes and transactions underlying material financial statement line items, performed a qualitative risk assessment of those processes including the results of the Department's risk assessment of ED's student loan model and subsidy estimation processes, and considered those results in testing internal controls. FSA also performed additional control testing over batch job processing in the system that provided key data for the loan subsidy model. In addition, FSA implemented additional monitoring and reporting processes to increase oversight and accountability for the resolution of audit and review findings, including escalation of extension requests to FSA executive management.

The Department will continue to review all processes impacting entity level controls and implement additional improvements accordingly.

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C-3

**Exhibit D****Auditors' Response to Management's Response**

We acknowledge the Department's response to our Independent Auditors' Report, presented in Exhibit C and noted that the Department partially concurred with the material weakness included in our report presented in Exhibit A. We evaluated management's response and have determined that the material weakness in internal control over financial reporting is appropriate. As noted in Exhibit A, management's controls were not designed at a sufficient level of precision to address the relevance and reliability of the aforementioned data used in the subsidy cost estimates.

D-1

OTHER  
INFORMATION  
(UNAUDITED)



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## About the Other Information Section

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The Other Information section includes:

### OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2023

The Management and Performance Challenges Report provides a summary of what the Office of Inspector General (OIG) believes are the Department's biggest challenges for FY 2023. The OIG identified the following five challenges: (1) Implementing Pandemic Relief Laws, (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 Department or through the audit process.

### PAYMENT INTEGRITY INFORMATION ACT REPORTING

This section summarizes the U.S. Department of Education's (the Department) 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*.

### CLIMATE ADAPTATION PLAN

This section summarizes the Department's FY 2021 Climate Adaptation Plan.

### THE GRANTS OVERSIGHT AND NEW EFFICIENCY ACT OF 2016 (GONE ACT) 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.




**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL**

THE INSPECTOR GENERAL

December 13, 2022

TO: The Honorable Miguel Cardona  
Secretary of Education

FROM: Sandra D. Bruce   
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2023

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 identify 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 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 pose significant challenges because of their breadth and complexity. Our assessment also considers the accomplishments reported by the Department.

Our FY 2023 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 five management challenges from our FY 2022 report. Although the Department made progress in addressing these challenges, our work continues to identify vulnerabilities within each of these areas. Additional challenges may exist in areas that we have not recently reviewed.

We provided our draft report to Department officials and considered their comments in developing the final report. This report will be posted to our website at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>. We look forward to working with the Department to address the FY 2023 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 2023

### MANAGEMENT CHALLENGE 1— IMPLEMENTING PANDEMIC RELIEF LAWS

The U.S. Department of Education (Department) was provided with more than \$280 billion under three major pandemic relief laws to assist States, schools, school districts, and institutions of higher education (IHE) in meeting their needs and the needs of students impacted by the pandemic. This included the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted in March 2020; the Coronavirus Response and Relief Supplemental Appropriations Act, 2021, enacted in December 2020; and the American Rescue Plan Act (ARP), enacted in March 2021. Collectively, these laws established and funded new emergency relief programs, allowed the 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

Implementation of the pandemic relief laws poses 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. In addition to the programs funded by the pandemic relief laws, the Department must oversee more than 100 other grant and loan programs, including a Federal student loan portfolio that now surpasses \$1.6 trillion.

### *New Grant Programs and Additional Federal Education Funds*

As shown in Table 4, the pandemic relief laws included funding for State and local agencies, higher education, nonpublic schools, and other education-related entities.

**Table 4**

### Education Stabilization Fund (ESF) Summary

Program	Funding	Overview
Elementary and Secondary School Emergency Relief Fund (ESSER)	\$190 billion	ESSER funds are awarded to SEAs to provide formula-based subgrants to LEAs. ESSER funds can be used to support a wide range of activities, including purchasing and using technology for online learning, coordinating efforts with public health departments, addressing the needs of underrepresented student subgroups, planning for both school closures and reopenings, purchasing cleaning supplies, providing mental health services, and implementing summer learning and supplemental after-school programs.
Higher Education Emergency Relief Fund (HEER)	\$76.2 billion	HEER funds are awarded to IHEs. HEER funds can be used to assist students with expenses related to the disruption of campus operations due to the pandemic, such as tuition, food, housing, healthcare, childcare, technology, and course materials; and to help IHEs, including Historically Black Colleges and Universities and Minority Serving Institutions, cover costs associated with significant changes to the delivery of instruction due to the pandemic, reimburse themselves for lost revenue resulting from the pandemic, and defray other expenses, such as those for faculty and staff trainings, payroll, campus safety measures and protocols, and student support activities.
Emergency Assistance to Nonpublic Schools (EANS)	\$5.5 billion	EANS funds are awarded to Governors, who are responsible for complying with grantee oversight requirements, but SEAs are responsible for administering the program. EANS funds can be used to provide services or assistance to nonpublic schools.
Governor's Emergency Education Relief Fund (GEER)	\$4.3 billion	GEER funds are awarded to Governors' offices to provide to LEAs, IHEs, or other education-related entities that each Governor determines to be most impacted by the pandemic or essential for carrying out emergency educational services, providing childcare and early childhood education, social and emotional support, and protecting education-related jobs. GEER funds can be used to support these entities' ongoing operations and efforts to provide educational services to students.

The pandemic relief laws also provided about \$2.8 billion in funds for the Outlying Areas, Tribal education agencies and programs operated or funded by the Bureau of Indian Education, and homeless children and youth. The ARP provided an additional \$3 billion to States to support infants, toddlers, children, and youth with disabilities served under the Individuals with Disabilities Education Act.

While the pandemic relief laws provided more than \$161 million to the Department for student aid administration and \$38 million for program administration, each of these 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 the pandemic. Because these 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 remain significant challenges 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 continue to 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 included student financial assistance provisions intended to provide emergency relief to borrowers and to allow institutions to meet student needs more easily. These provisions included borrower and teacher assistance provisions, waivers of student financial assistance refunds and loan cancellations, and adjustments to lifetime Federal Pell Grant (Pell) usage. The Department had 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 may be challenged to provide adequate oversight of existing student aid program participants while it continues to implement and oversee the student aid provisions in the CARES Act, resumes collections on Federal student loans in 2023, and implements plans to provide up to \$20,000 in debt relief to eligible borrowers. 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 pandemic relief laws included several reporting provisions that were intended to provide transparency regarding the use of funds to alleviate the impact of the Coronavirus Disease 2019 (COVID-19). The Department also established additional reporting requirements for programs authorized under these laws. Grantees must report monthly on subcontracts and subgrants exceeding a certain threshold and submit annual performance reports. Administering the programs and operations funded by the pandemic relief laws requires 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 the reported data are accurate and complete.

The Office of Inspector General's (OIG) recent audit work within this area is shown in Table 5.



Table 5

## OIG's Recent Reports Relating to Pandemic Relief Laws

Activities Reviewed	Review Results
GEER	<p>We issued three audits from a series of work on States' administration of GEER fund grants.</p> <p>We found that one State designed awarding processes that would ensure GEER funds supported entities that were most significantly impacted by the coronavirus. However, we also found that the State did not always implement the awarding process as it was designed and could strengthen its monitoring process over entities' use of the GEER grant.</p> <p>We found that another State did not award all GEER grant funds to entities in accordance with the CARES Act, Federal regulations, and grant conditions. We also found that the State should strengthen its monitoring process and did not comply with the GEER grant award Federal cash management terms and conditions. Additionally, our work identified more than \$650,000 in purchases that did not appear to be education-related.</p> <p>We found that an additional State did not maintain sufficient documentation to support its processes for awarding GEER funds to eligible entities. We also found that the State did not have a written plan to monitor its GEER grant subgrantees.</p>
HEER	<p>We have issued five reports relating to HEER funds.</p> <p>We issued a flash report that identified \$73 million in duplicate HEER grant awards made by the Department. We found that the Department's processes did not always prevent or timely identify and correct duplicate HEER grant awards, and that the Department did not consistently document activities taken to correct duplicate awards.</p> <p>In our work related to the Department's oversight of HEER fund grants, we found that the Office of Postsecondary Education (OPE) did not perform or document several key activities that are essential to effective program oversight. This included developing a framework to guide its monitoring practices, procedures, and controls and designing and implementing a risk-based monitoring plan to provide assurance that HEER grant funds are used appropriately and performance goals are being met. We also found that OPE did not establish performance goals for the HEER fund program or specific metrics that would provide a basis to monitor individual schools' performance or report on outcomes at the program level.</p> <p>In the first two audits from a series of work on postsecondary schools' use of HEER funds, we found that two schools generally used the Student Aid portion of their HEER funds for allowable and intended purposes but did not always use the Institutional portion of their funds in accordance with Federal requirements. We also found that both schools did not minimize the time between drawing down and disbursing HEER funds nor deposit excess funds in an interest-bearing account, contrary to Federal regulations.</p> <p>We issued a flash report on HEER-related risks that shared observations on closed schools that received or had access to HEER funds. We found that 17 schools that had closed on or before December 31, 2020, applied for and were awarded more than \$4.9 million in HEER funds. We also noted that eight of those schools had drawn about \$1.26 million from these grants after closure dates listed in a Department system.</p>
Flexibilities	<p>We found improvements were needed in Federal Student Aid's (FSA) implementation of Teacher Education Assistance for College and Higher Education (TEACH) Grant CARES Act flexibilities. We found weaknesses in FSA's processes that may have resulted in inappropriate denials of CARES Act flexibilities to some eligible recipients and may have provided benefits to recipients who were not entitled to them. We also found weaknesses in processes associated with a contract modification that may have impacted FSA's assurance that the contractor properly approved or rejected certifications of recipients impacted by COVID-19.</p>
Student Financial Assistance Program Requirements	<p>We found that FSA took quick action to implement processes that generally achieved positive results in suspending and refunding most involuntary collections on defaulted Department-held loans. We specifically determined that FSA suspended administrative wage garnishments and Treasury offsets for over 96 percent of the borrowers that FSA collected payments for within 90 days of the start of the suspension period. We also found that FSA refunded 99 percent of administrative wage garnishments and Treasury offsets that were collected from March 13, 2020, through September 30, 2020. Although FSA refunded most administrative wage garnishments and Treasury offsets collected for the period of our review, it did not reprocess all refunds that were subsequently returned to Treasury and did not refund all wage garnishments and Treasury offsets collected. In addition, FSA did not develop procedures to obtain and track the U.S. Department of Justice's progress on suspending and refunding involuntarily collections on defaulted Department-held loans.</p>
Data Quality and Reporting	<p>We issued a flash report on ESF reporting in the Federal Audit Clearinghouse regarding the inconsistent reporting of subprogram expenditures by grantees and subgrantees. This included instances where grantees and subgrantees did not identify subprograms or used variations of subprogram identifying information.</p> <p>In our work relating to HEER reporting requirements, we found that 81 of the 100 recipients included in our nonstatistical sample complied with HEER Institutional portion reporting requirements. However, we were unable to locate Institutional portion reports on the websites of the 19 other recipients. As of September 30, 2020, those 19 recipients had drawn down over \$5.5 million of the almost \$29 million awarded to them.</p> <p>Our work on postsecondary schools' use of HEER funds also reviewed the timeliness and quality of the data that two schools reported on their use of HEER funds. We found that the information in both schools' required HEER reports were generally accurate, complete, and timely.</p>

Activities Reviewed	Review Results
Department Operations	<p>Our assessment of the Department’s reconstitution plans following COVID-19 found that the Department generally incorporated available guidance, which was intended to provide for a safe and gradual return to Federal offices, in its Workplace Reconstitution Transition Plan. However, we noted that the Department did not address anti-retaliation, including practices for ensuring that no adverse or retaliatory action is taken against an employee who adheres to guidelines or raises workplace safety and health concerns, and did not periodically reassess and update self-screening questions as suggested by available guidance.</p> <p>We issued a Management Information Report that identified challenges that the Department may face as it implements and oversees the CARES Act. These included grantee oversight and monitoring, student financial assistance oversight and monitoring, and data quality and reporting. We noted that the Department should consider these persistent challenges and the lessons learned from its administration of the Recovery Act as it implements and administers the programs and provisions authorized under the CARES Act to reduce vulnerabilities to fraud, waste, abuse, noncompliance, and other issues that could impact a grantee’s or subgrantee’s ability to achieve intended programmatic results.</p>

The OIG recent investigative activity within this area is shown in Table 6.

*Investigations of Pandemic Relief Funding*

**Table 6**  
**OIG’s Recent Investigative Activity Relating to Pandemic Relief Funding**

Area	Example of Related Investigative Activity
Institutions	OIG investigations have identified institutions that drew down funds when not entitled to them, drew down funds when knowingly closing, or drew down funds with no intent to provide them to students.
Program Participants	<p>OIG investigations have identified students stealing the identity of others to fraudulently obtain HEER funds.</p> <p>OIG investigations have identified schemes associated with the HEER program where individuals target institutional accounts containing HEER funds or other individuals submitted applications in mass to multiple institutions to obtain funds.</p>
Employees	OIG investigations have identified employees applying for non-ED pandemic related funds such as Paycheck Protection Program (PPP) for which they were not entitled to.

*Ongoing and Planned Work*

Our ongoing work in this area includes reviews of two States’ oversight and use of ESSER funds; LEAs’ use of ESSER funds for technology; a third school’s use of HEER funds; FSA’s use of pandemic assistance program administration funds; and FSA’s processes for the return of Title IV of the Higher Education Act of 1965, as amended (Title IV) requirements, cancellation of borrower loans, and exclusion Pell lifetime usage.

Our planned projects relating to State and local programs within this area for fiscal year (FY) 2023 include reviews of additional States’ oversight and use of ESSER funds, the Department’s oversight of ESSER funds, the Department’s oversight of HEER funds to replace lost revenue, and States’ administration and oversight of EANS grant funds.

Our planned project relating to student financial assistance and higher education programs within this area for FY 2023 include a review of FSA’s transition of Federal student loan borrowers back into repayment after the relief measures implemented in response to the pandemic expire.

**Progress in Meeting the Challenge**

The Department stated that it took steps to ensure appropriate interpretation of the legislative requirements in multiple pandemic relief laws. This included collaboration with Congressional Appropriations Committee staff and the Office of Management and Budget to help ensure that statutory requirements and program implementation priorities were met. The Department added that multiple offices coordinated to expedite the award of pandemic relief grants while administering its portfolio of existing programs and responding to accountability engagements of the Government Accountability Office and the OIG.

The Department stated that it leveraged pandemic hiring authorities to help address its increased administrative and oversight responsibilities. This included specific activities to support monitoring efforts related to the HEER, ESSER, GEER, and EANS programs. The Department added that it implemented multiple strategies to provide support and help ensure the quality of data collected. According to the Department, this included providing technical assistance, using risk-based monitoring approaches, ensuring

relevant programs were included in guidance for non-Federal auditors, coordinating with the OIG, establishing processes for regular communication with grantees, and implementing structured data collection processes, with changes this year having been significantly informed by lessons learned from the initial ESF grantee data collection experience.

The Department added that it took steps to implement pandemic relief requirements related to the student financial assistance programs. This included suspending payments and interest accrual on Federal student loans, stopping wage garnishments for borrowers in default, and ensuring that flexibilities were applied to eligible TEACH Grant recipients. The Department also stated that it is making preparations to return all borrowers to a repayment status when the payment pause ends. According to the Department, its plan includes borrower outreach, servicer hiring, training and preparation, policy enhancements, and vendor and process oversight.

### **What the Department Needs to Do**

The Department identified several actions it had taken to address the challenges posed by the pandemic relief laws. Its activities to provide guidance and assistance to recipients, implement certain requirements, and expand its oversight capabilities are generally responsive to this challenge. However, our work continues to identify weaknesses in areas that include recipients' program administration, the Department's programmatic oversight, and related data quality and reporting. Overall, the Department should continue its efforts, improve its implementation of controls to better ensure effective monitoring and oversight processes, and use the information it receives to identify and address risks as they emerge. It is also important that the Department implement activities in ways that allow

it to assess their impact and whether they contribute to improved outcomes that demonstrate progress toward addressing this challenge.

Specifically, the Department should continue to employ strategies that effectively support its program staff and grantees. It should also assess the results of its monitoring efforts and other information collected from recipients to identify areas that could benefit from additional guidance or technical assistance. The Department should also continuously evaluate its oversight activities and refine them as necessary to enhance their effectiveness. Given the importance of spending these funds quickly and appropriately, it is important for the Department to obtain timely and accurate information and to respond quickly to emerging challenges identified by it or others, including Federal and non-Federal auditors. Continuing to use a lessons-learned approach, like the one cited above on changes to its data collection strategy, is a good way for the Department to continue to learn from and act on emerging issues.

To implement the student financial assistance related statutory provisions, waivers, and flexibilities, the Department needs to continue to provide guidance to and work with postsecondary institutions, contracted servicers, guaranty agencies, and accrediting agencies. The Department also needs to monitor and oversee these entities to ensure that the provisions are implemented effectively. Importantly, 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 access Federal financial aid so they can gain the benefits of education and training beyond high school. FSA is the nation’s largest provider of student financial aid and is responsible for implementing

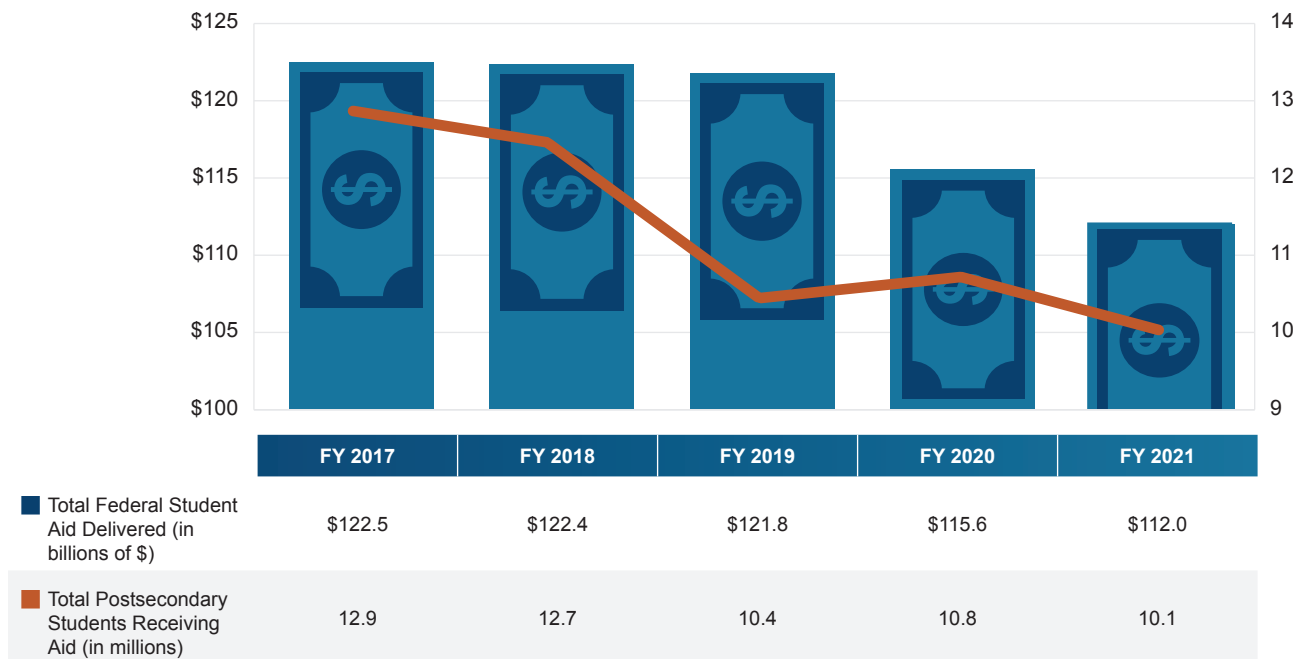
and managing the Federal student financial assistance programs authorized under Title IV. These programs provide grants, loans, and work-study funds to students attending colleges or career schools. FSA directly manages or oversees a loan portfolio of more than \$1.6 trillion, representing about 216.9 million student loans to more than 43 million borrowers. FSA oversees the disbursement of more than \$27 billion in grants to more than 6 million recipients.<sup>11</sup> FSA also oversees approximately 5,600 postsecondary institutions that participate in the Federal student aid programs.

In FY 2021, FSA performed these functions with an administrative budget of \$1.9 billion and about 1,400 employees, along with contractors that provide outsourced business operations. From FY 2017 to FY 2021, FSA delivered an average of \$118.9 billion in Federal student aid to an average of 11.4 million students.

<sup>11</sup> Information relating to the amount of the loan portfolio, number of loans and borrowers, amount of grants, and number of recipients are from the Federal Student Aid Annual Report FY 2021.

**Figure 14**

Student Aid Delivered and Postsecondary Students Receiving Aid FYs 2017–2021



Source: Federal Student Aid Annual Report FY 2021

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 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 postsecondary institutions, contracted servicers, collection agencies, accrediting agencies, guaranty agencies, and lenders.

### 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 OIG’s recent work within this area has covered a wide range of activities, as shown in Table 7.

Table 7

### OIG’s Recent Reports Relating to the Oversight and Monitoring of Student Financial Assistance Programs

Activities Reviewed	Review Results
Accreditation	<p>In an audit of the Department’s processes for accessing the Accrediting Council for Independent Colleges and School’s compliance with Federal regulatory criteria for recognition from 2016 through 2018, we determined that the Department did not comply with all regulatory requirements during its 2016 review of the Accrediting Council for Independent Colleges and School’s petition for recognition renewal because its process did not consider all available relevant information during its review as required. We also determined that the Department implemented a process for assessing the Accrediting Council for Independent Colleges and School’s compliance with recognition criteria following a court remand in 2018 that was permitted under applicable policies and regulations as well as the court’s remand order.</p>
Heightened Cash Management	<p>We found that FSA consistently administered its heightened cash monitoring payment methods when utilizing this process for the top five reasons FSA placed a school on heightened cash monitoring. 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.</p>
Professional Judgment	<p>In the first of a series of audit work in this area, we found that a school did not adequately document special circumstances for more than 90 percent of the students in our nonstatistical random sample for whom it applied professional judgment. Because the school did not adequately document special circumstances, its application of professional judgment was not in accordance with the Higher Education Act (HEA) of 1965, as amended.</p> <p>In our second audit in this area, we found that a school improperly applied professional judgment across three classes of students and based on wedding expenses or standard living expenses rather than applying professional judgment on a case-by-case basis for special circumstances, as required by the HEA. The school also did not adequately document special circumstances for 57 percent of the students for whom it applied professional judgment for one or both award years covered by our audit.</p>
Sales of Postsecondary Schools	<p>We found that the Department did not take actions sufficient to mitigate significant financial responsibility and administrative capability risks posed by a non-profit company and the 13 for-profit postsecondary schools that it purchased in transactions occurring in November 2017 and February 2018. We also found that the Department did not follow several of its procedures relating to subsequent activities involving those schools. For example, the Department retroactively approved temporary interim nonprofit statuses for 2 of the 13 schools, to avoid a lapse in their eligibility to participate in the Title IV programs, without following its own procedures for ensuring that schools meet the regulatory definition of a nonprofit school. Additionally, the Department did not follow FSA’s financial analysis procedures when it limited a letter of credit requirement despite lacking certain documentation for a transaction involving the resale of 4 of the 13 schools in 2019. We also found that the Department did not follow FSA policy when it extended the temporary provisional program participation agreements for the four schools without receiving evidence that the accrediting agencies and all State authorizing agencies had approved the changes in ownership. We also determined that the Department allowed the use of surety funds to pay the operating expenses of schools that were planned to close in December 2018. Allowing surety funds to be used for such purposes was unprecedented, and neither the Department nor FSA had policies or procedures for such a situation. Finally, we found that the Department’s standard procedures were not rigorous enough to ensure the purchaser’s compliance with requirements for drawing down and disbursing Title IV funds, including the payment of credit balances.</p>

Activities Reviewed	Review Results
Total and Permanent Disability (TPD) Discharges	We found that FSA appropriately approved and rejected TPD applications and that 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 Free Application for Federal Student Aid (FAFSA) Data	<p>We completed a series of eight audits within this area.</p> <p>In our review of FSA's controls over the school verification process, we found that FSA implemented five significant control activities over schools' processes for completing verification procedures and reporting verification results. However, we determined that FSA did not monitor four of those control activities on a regular basis and did not address all of the control issues identified in a separate internal evaluation of its processes to ensure schools performed verification. In a separate audit, we found that FSA did not evaluate its process for selecting Free Application for Federal Student Aid data elements that schools were required to verify and generally did not effectively evaluate and monitor its processes for selecting students for verification.</p> <p>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.</p>

*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 8.

**Table 8**

**OIG's Recent Investigative Activity Relating to the Student Financial Assistance Programs**

Area	Example of Related Investigative Activity
Institutions	An OIG investigation identified instances where a school concealed making payments on students' loans to prevent defaulting on their loans and being counted against the school's cohort default rate.
School Officials	OIG investigations identified improper activities of school officials that included falsifying student eligibility information, deceiving school applicants, students, and donors into believing it was a top-ranked program.
Program Participants	OIG investigations identified schemes where a student underreported income and assets to obtain student financial assistance they were not eligible to receive; a man targeted veterans and student loan borrowers and offered to help them obtain discharges for Federal student loans in exchange for a fee; and a woman deceived borrowers into believing they qualified for student loan relief and charged fees to facilitate their loan discharge process.
Distance Education Fraud Rings	Distance education 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) to fraudulently obtain Federal student aid.

*Ongoing and Planned Work*

Our ongoing work in this area includes reviews of an additional school's use of professional judgment, FSA's transition to the Next Generation Loan Servicing Environment, the Department's process for terminating private collection agency contracts, three schools' compliance with career pathways and ability to benefit provisions, and reviews of FSA's processes for overseeing proprietary school compliance with 90/10 revenue requirements.

Additional planned projects for FY 2023 include FSA oversight of career pathway programs, FSA oversight of its contractor's acceptability review process for proprietary

school annual audits, FSA's borrower defense to repayment loan discharge process, FSA's Student Aid and Borrower Eligibility Reform Initiative, and FSA's transition plans and oversight of Business Process Operations.

**Progress in Meeting the Challenge**

The Department stated that FSA established an Enforcement Office in October 2021 to strengthen its oversight of postsecondary schools participating in the Title IV programs. According to the Department, the Enforcement Office will proactively identify and address substantial misrepresentations and other misconduct by schools. The Department further stated that in FY 2023 the Enforcement Office plans to use a risk model to focus

resources on schools that pose the highest risk to students, their families, and taxpayers.

The Department identified several other efforts undertaken by FSA that were intended to improve oversight and monitoring activities relating to the student financial assistance programs, including

- working to improve the usefulness of single audits as an oversight and monitoring tool;
- employing an analytical model to identify at-risk schools and prioritize its oversight resources to provide support to schools;
- proposing regulations relating to change of school ownership approvals that could limit potentially harmful agreements;
- implementing the Fostering Undergraduate Talent by Unlocking Resources for Education Act, which will allow FSA to receive income tax data more easily from the Internal Revenue Service. The Department stated that this data will help strengthen the oversight of participants in the student financial assistance programs by ensuring the accuracy of income information used to determine student aid eligibility and monthly payment amounts;
- continuing use of a model for verification selection that reduces the number of filers selected without sacrificing the overall degree of confidence;
- using a data match with the Social Security Administration to automatically discharge student loans for certain individuals that qualify for total and permanent disability relief;
- planning a long-term servicing strategy (Unified Servicing and Data Solution) that is intended to improve borrower experiences and increase servicer accountability; and
- working to raise public awareness of consumer scams through communications via social media, direct emails, and its website.

### What the Department Needs to Do

The Department continued to report progress in improving its oversight and monitoring of student financial assistance programs. It specifically identified actions that were responsive to the subject areas of several recent OIG reports. This included activities intended to improve its processes relating to verification of FAFSA data, TPD discharges, and changes in postsecondary school ownership. While there has been progress, it is critical that

the Department continue its improvement efforts. This includes effectively designing and implementing systems of internal controls and developing processes that allow an assessment of their effectiveness and their contributions towards the achievement of established goals. Further, it is important that the Department develop measures to evaluate its progress and demonstrate the impact of its initiatives relating to this challenge.

We continue to recognize that the Next Gen initiative has significant potential to improve FSA's ability to oversee contractors that service Federal student aid. It remains important for FSA to ensure that this initiative is effectively implemented, and once in place that it follows through to hold its contractors accountable for effectively administering their responsibilities.

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 a wide range of eligible recipients, including LEAs, SEAs, IHEs, individuals, nonprofits, and other organizations, and monitoring their progress in meeting program objectives. The Department also ensures that programs are administered fairly and that grants are executed in conformance with both authorizing statutes and laws prohibiting discrimination in Federally funded activities, collects data and conducts research on education, and helps 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 administers more than 100 grant programs that annually serve about 56 million elementary and secondary students attending 98,000 public schools and 32,000 private schools, as well as about 9 million postsecondary students attending 5,600 colleges and universities. Many of these programs also serve other types of students, extending from early learning through adult education. The Department awards discretionary grants using competitive processes and priorities, and formula grants using formulas established by Congress. In all cases,

the Department's activities are governed by the program authorizing legislation and implementing regulations. One of the key programs that the Department administers is Title I, Part A, which provided about \$17.5 billion in FY 2022 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 Individuals with Disabilities Education Act, Part B Grants to States, which provided more than \$13.3 billion in FY 2022 to help States and school districts meet the special educational needs of an estimated 7.4 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 grantee level 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 9.

**Table 9**

### OIG's Recent Reports Relating to Grantee Implementation of Federal Education Grant Programs

Activities Reviewed	Review Results
Charter Schools	We have issued two audit reports relating to Charter School Program Grants for the Replication and Expansion of High-Quality Charter Schools. We found that two nonprofit charter management organizations did not fully comply with Federal grant reporting requirements and did not charge only adequately documented and allowable expenditures to their grants.
Disaster Recovery	<p>We have issued eleven reports relating to disaster recovery funding authorized under the Bipartisan Budget Act of 2018.</p> <p>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.</p> <p>Our work at three SEAs relating to Restart allocations and uses of funds found that one 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 another entity failing to obtain control and ownership of materials, funded by the Restart program, at nonpublic schools. 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. We found that the third SEA appropriately allocated program funds but could improve its processes for ensuring that LEAs use program funds for allowable and intended purposes by better adhering to its established procedures for reimbursement of expenditures.</p> <p>Our work at four SEAs relating to the Temporary Emergency Impact Aid for Displaced Students (EIA) program found that all four SEAs did not ensure that the displaced student count data provided to the Department were accurate and complete or that LEAs accounted for EIA program funds received for students reported as children with disabilities in accordance with Federal requirements. We also found that three SEAs did not ensure that LEAs used EIA program funds to pay salaries only for employees who supported schools with displaced students. Our most recent report in this area found that an SEA received an estimated \$6.5 million more in EIA program funds than it should have received because it incorrectly interpreted the Federal definition of a displaced student and lacked effective written procedures and system controls to ensure that accurate student enrollment and withdrawal data were entered in its student information system. We found that another SEA expensed more than \$300,000 in EIA program funds for employees who worked at schools that did not support displaced students because it did not monitor LEAs' EIA program expenditures.</p> <p>We issued a Flash Report on the risk of an SEA's unallowable use of EIA program funds. We found that the SEA may have charged up to \$1.3 million in payroll costs to the EIA program for employees who were not employed by the SEA during the accrual periods applicable to the payments.</p> <p>In our most recent work in this area, we found that a postsecondary school used approximately \$1.8 million in Emergency Assistance to Institutions of Higher Education program funds for lost tuition revenue and to purchase certain equipment that was not allowable in accordance with Federal requirements.</p>



Activities Reviewed	Review Results
Individuals with Disabilities Education Act	We have issued two audit reports relating to SEAs' and selected LEAs' development and implementation of individualized education programs (IEP) for children with disabilities who attend virtual charter schools. We found that both SEAs generally had sufficient internal controls to ensure that LEAs developed IEPs in accordance with Federal and State requirements for children with disabilities who attend virtual charter schools and that these students were provided with the services described in their IEPs. However, we identified weaknesses at selected LEAs that included insufficient written procedures for IEP development and documenting the delivery of services, not ensuring that they maintained IEPs that included all of the required information describing the services that students needed, and not maintaining sufficient documentation to support that all special education services that were outlined in IEPs were provided.

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 10, our work included audits within several areas.

Table 10

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

Area Reviewed	Review Results
Charter Schools	We found that the Department did not track and report on whether charter schools that grant recipients opened and expanded with Federal funds remained open after the grant performance period ended. We also found that grant recipients did not always open or expand the number of charter schools committed to in their approved grant applications.
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 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	<p>We found that the Department has provided inadequate oversight of grantee performance and funds awarded under the Student Support and Academic Enrichment program. Specifically, we found that the Department has conducted only limited formal monitoring activities; has not ensured that SEAs are meeting all reporting requirements; and did not always develop, finalize, and implement monitoring plans to monitor grantees' performance and use of funds. As a result, the Department has little assurance that grantees are making progress toward program goals and objectives and limited insight regarding how grantees and subgrantees are using, or potentially misusing, grant funds.</p> <p>Our work on State plans required under the Every Student Succeeds Act found that the Department designed processes that would provide reasonable assurance of identifying and resolving potential instances of State plans' noncompliance with applicable requirements and 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, could not ensure that the Department considered conflict of interest information it collected from peer reviewers before assigning them to panels, 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.</p>

*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 11.

**Table 11**

**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 they did not perform, fraudulently obtained contracts, committed bribery, and made kickback payments.
SEA Officials	An OIG investigation identified an SEA official receiving financial benefits in exchange for leasing school space to a private company.
LEA Officials	<p>OIG investigations identified instances where officials fraudulently enrolled private school students in virtual public schools and then falsely reported those students to the SEA.</p> <p>Another OIG investigation identified instances where LEA employees submitted false timecards for work not performed on Federally funded programs.</p>
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 an SEA’s use of Restart program funds, the Department’s oversight of Charter School Program Grants for Replication and Expansion of High-Quality Charter Schools, reviews of selected SEAs’ implementation of their Statewide accountability systems, and the Department’s implementation of its rule concerning equity in the Individuals with Disabilities Education Act.

Planned projects for FY 2023 include the Department’s oversight of the State Vocational Rehabilitation Services program, the Department’s approval of alternative assessment waivers, and selected SEAs’ oversight of spending and educational outcomes of Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At Risk.

**Progress in Meeting the Challenge**

The Department stated that it continues to employ a progressive improvement approach to addressing the longstanding management challenge on oversight and monitoring of grant recipients. The Department added that in FY 2022 this included focusing on the consistent application of risk-based and data-driven monitoring approaches to improve recipient and grant program outcomes. According to the Department, it implemented several initiatives to further these goals, to include

- implementing a grant monitoring solution (Virtual Monitoring Principles), intended to increase the

efficiency, collaboration, and consistency of risk-based monitoring and technical assistance protocols across Department offices;

- providing technical assistance to Department offices that focused on grantee and subrecipient responsibilities, adhering to internal controls, subrecipient monitoring, data quality, and reporting;
- facilitating information sharing through monthly and quarterly grant policy forums on oversight and monitoring practices, solutions, and resources;
- continually assessing the grant-making process to identify improvement opportunities using data and collaboration;
- utilizing Grantee Satisfaction Survey results to inform improvements in the areas of technical assistance and grant performance reporting across program offices; and
- coordinating the oversight and monitoring of pandemic relief programs to ensure that funds were used for the purposes intended and that goals and objectives are achieved.

**What the Department Needs to Do**

The Department continues to report progress in enhancing its grantee oversight processes. The Department identified several actions it had taken to address this challenge, including a focus on risk-based monitoring approaches to improve outcomes. While this, and several other actions

it identified, are responsive to this challenge, it remains critical that the Department develop and implement processes that allow it to assess the outcomes of these actions. This includes establishing measures against which it can assess the impact of its various initiatives and identify additional opportunities for improvement.

Given our ongoing findings under this challenge area, the Department should continue its efforts to implement innovative approaches to grantee oversight, offer common training to program staff, encourage collaboration and communication within and across program offices, and take steps to ensure that its technical assistance and monitoring activities are both risk-based and data-driven. The Department should especially focus on the actions taken by pass-through entities to provide oversight of their subrecipients. Importantly, concerning its actions in this area. 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 the Office of Management and Budget (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 17,000 public school districts and 98,000 public schools; about 5,600 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 12.

**Table 12**

### OIG's Recent Data Quality Related Reports

Area Reviewed	Review Results
Charter Schools	<p>We issued a report on the effectiveness of Charter School Programs in increasing the number of charter schools. We found that the Charter School Program office's processes did not result in grant recipients reporting clear, reliable, and timely information. Their processes also did not result in the Charter School Program office receiving all the information needed to assess grant recipients' performance or evaluate the overall effectiveness of the Charter School Program.</p> <p>We have issued two audit reports relating to Charter School Program Grants for the Replication and Expansion of High-Quality Charter Schools. We found that both grant recipients did not include complete and accurate information for all performance measures on which they were required to report in their annual performance reports. We also found that both grant recipients did not always retain records that supported the performance measures that they reported to the Department.</p>
Clery Act	<p>We found that two postsecondary institutions did not have effective controls to ensure they reported complete and accurate Clery Act crime statistics. We concluded that both schools' Clery Act crime statistics were not complete and accurate and as a result neither school provided reliable information to current and prospective students, their families, and other members of the campus community for making decisions about personal safety and security.</p>
Digital Accountability and Transparency (DATA) Act	<p>An independent public accountant, with OIG oversight, determined that the Department submitted data of excellent quality based on guidance provided by the Council of Inspectors General on Integrity and Efficiency. It also determined that the Department implemented and used the Government-wide financial data standards established under the DATA Act. However, it found that Department did not submit certain data completely, accurately, or timely, and identified internal control deficiencies over the Department's DATA Act submissions.</p>

Area Reviewed	Review Results
Disaster Recovery	We found that four SEAs did not ensure that the displaced student count data provided to the Department under the EIA program were accurate and complete. This included instances where students who did not change schools or not did not transfer from a disaster area were included in displaced student counts, students withdrew from the school prior to the disaster or enrolled after the reporting date, and displaced student counts were not supported by adequate documentation.
Pandemic Relief	<p>We found inconsistent reporting of subprogram expenditures by grantees and subgrantees in the Federal Audit Clearinghouse. This included instances where subprograms were not identified and variations in the information that was used to identify subprograms. As a result, Federal award expenditure data at the subprogram level cannot be reliably used by the Department and associated data on areas such as audit results, audit findings, and corrective action plans are not consistently reported at the subprogram level.</p> <p>In our work relating to HEER reporting requirements, we were unable to locate Institutional portion reports on the websites of the 19 percent of the recipients included in our nonstatistical sample. We also found that 22 percent of the recipients in our sample that reported expenditures in the 'Other Uses' category did not follow Department instructions or did not provide sufficient detail.</p>

### *Ongoing and Planned Work*

Ongoing work in this area includes FSA's processes for schools to report the return of Title IV waivers, the Department's reporting on experimental sites initiatives, and a school's use of professional judgment.

### **Progress in Meeting the Challenge**

The Department stated that it identified the root causes for persistent data quality challenges in FY 2020 and concentrated its data quality efforts to collections associated with the ESF in the wake of the pandemic. According to the Department, it expanded a support contract to supplement existing staff resources and expertise. The Department added that this allowed for the development system architecture to identify potential data quality issues, many of which required resolution prior to acceptance of reports.

The Department stated that it provided several resources to support ESF grantees in response to these challenges. According to the Department, this included technical assistance (such as live and recorded webinars), business rule guides, and an ESF Reporting Help Desk. The Department stated that it also provided ESF grantees with clear expectations for reporting quality data in its ESF Year 2 Annual Performance Reports by communicating minimum data quality expectations for performance reporting and potential consequences for failure to report. The Department stated that its actions contributed to improved reporting compliance, and that it continued to review and address data quality issues across all collections. The Department provided examples of actions taken in FY 2022, including one Department office that applied special payment conditions to 40 noncompliant recipients. The Department also stated that another of its offices had just three grantees that had not submitted Year 2 reports.

The Department further stated that multiple Department-wide initiatives were completed, continued, initiated, or planned during FY 2022, including

- creating a performance metric focused on tracking instances where data collections lack data quality plans and working to update Information Quality Act Guidelines;
- completing a Data Quality Playbook that provides easily deployable strategies for program offices, especially their grant staff;
- initiating development of data quality training tailored to different audiences;
- continuing to modernize the EDFacts system and implement data quality checks; and
- developing tools such as a data quality dashboard, data catalog, and query management resources.

### **What the Department Needs to Do**

The Department continued to report progress in addressing this challenge through its actions to improve the quality of education data. This included activities relating to pandemic relief programs and other Department-wide initiatives. While the Department completed multiple actions to advance data quality, several of our recent reports included findings within this area. As with the preceding challenges, it is important that the Department continue to build upon its improvement efforts. It is also critical that it develop processes to assess the effectiveness of these efforts. This includes implementing methods to assess the impact of its data quality initiatives against established goals and considering any lessons learned to refine existing processes or establish new ones.

## 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) repealed and replaced several improper payments statutes, including the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and consolidated those laws’ requirements. 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 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 is required to post those estimates to **PaymentAccuracy.gov**.

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 improper payment reduction targets, demonstrate improvements, and develop a plan to meet reduction targets; and (6) report improper payment rates of less than 10 percent.

### Why This Is a Challenge

The Department must ensure that the billions of dollars entrusted to it reach the intended recipients. In FY 2021, the Pell and the William D. Ford Federal Direct Loan (Direct Loan) programs continued to be susceptible to significant improper payments. In FY 2020, the Department also identified the EIA, Restart, and Emergency Assistance to Institutions of Higher Education programs as susceptible to improper payments because each of the programs met OMB criteria as disaster-related programs with \$10 million or more in outlays in a given fiscal year. For FY 2021, we found that the Department published unreliable improper payment estimates for the Title I, Part A; Pell; and Direct Loan programs. It is important for the Department to develop reliable estimates so that it can identify the root causes and take actions to prevent and reduce improper payments.

### *Audits and Inspections Involving Improper Payments*

The OIG’s review of the Department’s compliance with improper payment reporting requirements for FY 2021 found that the Department did not comply with PIIA because it did not meet one of the six compliance requirements. Specifically, the Department reported an improper payment estimate for the Title I, Part A program that exceeded 10 percent. As shown in Table 13, our recent improper payment audits identified opportunities for improvement in multiple areas.

Table 13

## Results of Recent OIG Statutorily Required Improper Payment Audits

FY of Department's Reporting	Complied with Reporting Requirements	Identified Concerns
2021	No	The Department published unreliable improper payment estimates for the Title I, Part A; Pell; and Direct Loan programs. We found that the Department's improper payment sampling and estimation plan for the Title I, Part A program was not adequate for SEAs that use certain advance payment processes. We also found that the Department's sampling and estimation plans for the Pell and Direct Loan programs were unreliable.
2020	No	The Department published improper payment estimates for all five required programs. However, its estimates were unreliable because they were not statistically valid. We found that the development of these estimates included the use of nonrandom samples, unsuitable sample weighting, or inaccurate and incomplete population sampling frames.  We also found that the Department's improper payment risk assessment process needs strengthening. Specifically, the risk assessment performed for one program did not adequately support the Department's conclusion regarding its level of improper payment risk and the risk assessment the Department conducted on its contracts management activity was incomplete.
2019	Yes	The Department published improper payment estimates for the Pell, Direct Loan, EIA, Restart, and Emergency Assistance to Institutions of Higher Education 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.

*Ongoing and Planned Work*

Planned projects include our annual review of the Department's compliance with the improper payment reporting requirements and its efforts to prevent and reduce improper payments.

**Progress in Meeting the Challenge**

The Department stated that it continued to prioritize efforts to ensure payment integrity and minimize improper and unknown payments across all programs in FY 2022, including programs considered "susceptible to significant improper payments" per OMB guidance. The Department specifically identified several activities that were intended to facilitate successful implementation of Payment Integrity Information Act of 2019 compliance activities including

- revising the sampling and estimation methodology and plan for the Title I, Part A program to address the root cause of reported improper payments and to ensure SEAs would be able to obtain supporting documentation from LEAs for sampled transactions;
- continuing to promote improper payment awareness and deliver payment integrity training for Department staff;
- continuing to employ the Payment Integrity Monitoring Application as a means of detecting anomalies in grants payment data; and
- continuing efforts to obtain OMB's approval of the sampling and estimation plans for the Pell Grant and Direct Loan programs.

**What the Department Needs to Do**

As the Department continues to work to improve its payment integrity initiatives, it is important that it ensures that its estimation methodologies for the programs deemed susceptible to significant improper payments produce reliable improper payment estimates. 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 2022 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 2022 PIIA audit. This is an annual focus of the OIG's work, and we will continue to monitor and report on the Department's progress on this Management Challenge Area.

## 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). According to information on ITDashboard.gov, the Department expects to spend more than \$1 billion in information technology (IT) for FY 2023.

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.

For FY 2022 FISMA reporting, we evaluated the Department's security program using the 20 core Inspector General Reporting Metrics that were published for FY 2022

and issued by OMB. The OIG's assessment for FY 2022 showed improvements but was significantly different from the FY 2021's audit. The 20 core metrics evaluated for FY 2022 represented less than one third of the 66 metrics used to assess the Department's effectiveness for FY 2021.

### Why This Is a Challenge

Considering 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 and 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 and Inspections 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 14, our recent FISMA audits and inspection included 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 security function's related metric domains. Our FY 2019 through FY 2021 FISMA audits concluded that the Department and FSA were not effective in any of the five security functions (Identify, Protect, Detect, Respond, and Recover) and we had findings in all eight metric domains for FYs 2019 through 2020, and all nine (supply chain risk management was added during FY 2021) for FY 2021. However, in FY 2022, based on the new metric scoring, the Department and FSA were found to be effective in four of the five security functions (Protect, Detect, Respond, and Recover), having findings in four of the nine metric domains.

Table 14

## Results of OIG FISMA Audits and Inspections—Cybersecurity Framework Security Functions and Metric Domains with New Findings

Domain	FY 2019	FY 2020	FY 2021	FY 2022
Identify: Risk Management	Audit Finding	Audit Finding	Audit Finding	-
Identify: Supply Chain Risk Management	NA	NA	Audit Finding	-
Protect: Configuration Management	Audit Finding	Audit Finding	Audit Finding	Inspection Finding
Protect: Identity and Access Management	Audit Finding	Audit Finding	Audit Finding	Inspection Finding
Protect: Data Protection and Privacy	Audit Finding	Audit Finding	Audit Finding	Inspection Finding
Protect: Security Training	Audit Finding	Audit Finding	Audit Finding	-
Detect: Information Security Continuous Monitoring	Audit Finding	Audit Finding	Audit Finding	-
Respond: Incident Response	Audit Finding	Audit Finding	Audit Finding	Inspection Finding
Recover: Contingency Planning	Audit Finding	Audit Finding	Audit Finding	-

In previous FISMA reports from FY 2019 through FY 2021, the OIG recommended ways the Department and FSA could increase the effectiveness of their information security program so that they could fully comply with all applicable requirements. In FY 2022, the Department and FSA improved its maturity rating for eight of nine metric domains. Although the Department's overall information security program was assessed to be effective in FY 2022 based on the 20 core FISMA metrics, the OIG made recommendations in several areas where the Department and FSA could strengthen their controls. We noted that until the Department improves in these areas, it cannot ensure that its overall information security program adequately protects its systems and resources from compromise and loss.

Although the Department's security program was assessed as effective based on the 20 core Inspector General Reporting Metrics for FY 2022, IT security will continue to remain a management challenge given that this was the first year under the new metrics and that there are significant areas with remaining recommendations. In addition, we note that the Department's technology environment is constantly evolving, bringing new threats and cybersecurity requirements. As technology environments evolve, it is important that the Department continues to ensure that it implements the respective security controls to protect its information and resources.

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 FY 2021 report, the independent public accountant noted that FSA management demonstrated progress in implementing corrective actions to remediate some prior-year deficiencies. However, they reported that management had not fully remediated prior-year deficiencies in areas such as logical access administration, separated or transferred user access removal, user access reviews and recertification, and configuration management. In addition, new and existing control deficiencies were reported for FY 2021 covering security management, access controls, segregation of IT duties, application change management, and logical access. The independent public accountant also reported that entity level controls were not designed and implemented appropriately to remediate identified internal control deficiencies in a timely manner. The independent public accountant concluded that 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.

Planned projects in this area will continue to 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. For



FY 2023, we have planned an inspection to determine whether the Department is effectively monitoring the oversight and approval of its IT contracts in accordance with applicable Federal requirements and guidelines.

### Progress in Meeting the Challenge

The Department stated that its advancements in the IT security program encompassed both technological capabilities as well as improvements in knowledge management and internal controls. The Department identified several specific actions taken to help address this management challenge, including

- implementing a new cybersecurity policy framework;
- implementing an ongoing security assessment and authorization program that is intended to result in more frequent system stakeholder engagement and timely risk visibility;
- maturing its risk management processes;
- enhancing its automated cybersecurity reporting;
- expanding the Vulnerability Disclosure Policy program to cover all internet accessible Department systems;
- onboarding a zero-trust architecture program manager and releasing a Department strategy and project schedule for full implementation by the end of FY 2024;
- developing analytics capability to assist FSA in identifying applicants that met criteria of potential fraud and grouping them for identity verification activities;
- completing the global password change for StudentAid.gov;
- completing Multifactor Authentication Phase 1, making multifactor authentication mandatory for all new users on StudentAid.gov; and
- planning for completion of Multifactor Authentication Phase 2 in FY 2023. This is expected to provide FSA with the capability to enforce multifactor authentication enablement for existing users on a rolling basis.

### What the Department Needs to Do

The Department continued to identify actions that were responsive to this challenge, addressed vulnerabilities, and improved its IT security program. However, we continue to identify significant weaknesses in our annual FISMA reviews. 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, data protection and privacy, and incident response. It is critical that the Department continue to focus on the timely and successful implementation of corrective actions in response to our audit work. In addition, the Department needs to remain on the forefront of emerging information security strategies and solutions, such as Zero Trust<sup>12</sup> Architecture, to ensure that controls are continually integrated into its security program.

Our FISMA and discretionary information security audit and inspection work will continue to assess the Department's efforts within this area, and IT security 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 deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct weaknesses.

<sup>12</sup> Zero trust focuses on resource protection and the premise that trust is never granted implicitly but must be continually evaluated. Zero trust architecture is an end-to-end approach to enterprise resource and data security that encompasses identity (person and nonperson entities), credentials, access management, operations, endpoints, hosting environments, and the interconnecting infrastructure. The initial focus should be on restricting resources to those with a need to access and grant only the minimum privileges (e.g., read, write, delete) needed to perform the mission.


## DEPARTMENT COMMENTS



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF FINANCE AND OPERATIONS

November 8, 2022

TO: Sandra D. Bruce  
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 2023 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) 2023 Management Challenges*.

The Department values the OIG's perspective on risks and vulnerabilities related to programs and operations. Similar to last year's report, the inclusion of five challenges in the following areas are well-aligned with the Department's own assessment of enterprise risks and respective targeted management efforts:

- Implementing Pandemic Relief Laws
- Oversight and Monitoring
- Data Quality and Reporting
- Improper Payments
- Information Technology Security

The Department is pleased to report several significant steps to address the identified challenges. This memo contains a summary of the Department's progress in meeting each of the five challenges, organized by challenge title.

Attached, you will also find a supplemental document that provides technical corrections to other sections of the draft report.

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

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## DEPARTMENT COMMENTS

**CHALLENGE 1: IMPLEMENTING PANDEMIC RELIEF LAWS****New Grant Programs and Additional Federal Education Funds; Data Quality**

Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021 (i.e., the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, 2021, and the American Rescue Plan Act of 2021) (collectively, Education Stabilization Fund (ESF)) that provided a total of \$282.3 billion in education-related assistance to prevent, prepare for, and respond to the COVID-19 emergency. The Department took comprehensive steps to ensure appropriate interpretation of the legislations' requirements and subsequent policy and operational implications.

The Office of Finance and Operations (OFO) and the Office of Planning, Evaluation, and Policy Development coordinated Department efforts – and worked with the Office of Postsecondary Education (OPE) and the Office of Elementary and Secondary Education (OESE) – to successfully award an extraordinary number and size of ESF grants on expedited timelines, on top of the ongoing administration of the agency's \$70+ billion annual portfolio of existing programs. Additional collaborations with Congressional Appropriations Committee staff and the Office of Management and Budget (OMB) helped ensure statutory requirements and program implementation priorities were met. The Department also responded to several accountability engagements with the Office of Inspector General (OIG) and the Government Accountability Office (GAO) regarding the implementation of these pandemic relief laws while simultaneously implementing the ESF programs themselves.

To address the additional administrative, monitoring, and oversight workload associated with administering the pandemic relief funding, the Department strategically leveraged the COVID-19 excepted service hiring authority, per the Office of Personnel Management, to augment staffing resources for OPE and OESE. The additional staff allowed OPE to create the Emergency Response Unit, which enabled OPE to have dedicated staff to monitor and support the Higher Education Emergency Relief Fund (HEERF) program, and OESE's Office of State and Grantee Relations to administer, monitor and support all the elementary and secondary ESF programs, including the

Elementary and Secondary School Emergency Relief Fund (ESSER), the Governor's Emergency Education Relief Fund (GEER), and the Emergency Assistance to Non-Public Schools (EANS).

To ensure effective and timely support to eligible applicants, grantees, and stakeholders while also balancing the need for high quality data collection and reporting processes, the Department implemented several strategies, including:

- Establishing structured processes for data collection and reporting, including both annual and quarterly reporting requirements.
- Implementing preventative funds control measures for accurate tracking and reporting of funds in real time.
- Adopting risk-based approaches to administering program funding, and targeted and comprehensive monitoring.
- Providing regulatory flexibilities, training, written guidance, webinars, and direct technical assistance to new grantees.
- Conducting thorough progress reviews and providing clear and transparent reporting (via the ESF Transparency Portal launched in November 2020). The Public Transparency Portal allows the Department to track performance, hold grantees accountable, and provide transparency to taxpayers and oversight bodies.
- Issuing early and comprehensive communications to grantees outlining clear data quality and timing expectations.
- Working with OMB to ensure relevant programs were included in the 2020, 2021, and 2022 Compliance Supplements, which issues guidance relied upon by independent third-party auditors who review or audit federal programs. Beginning with the FY 2021 supplement, the Department sought and received approval from OMB for a "higher risk" designation for ESF grant funds.
- Creating a HEERF proprietary institution auditing requirement and working with OIG to develop the HEERF Audit Guide for proprietary schools.
- Creating a Required Proprietary Institution Certification form to ensure appropriate accountability regarding

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proprietary institutions receiving ARP HEERF (a)(4) grant funding.

- Establishing procedures in OPE for quality control of grant obligations to institutions of higher education (IHEs), including application and award verification procedures, quality assurance reviews of obligated HEERF awards, and the correction and documentation of erroneous awards in a timely manner for potential use in future emergency programs.
- Taking various coordinated accountability actions (OPE) using enhanced processes, corrected any errors on expedited basis and identified compliance concerns when needed among 5,000+ HEERF grantees. Such actions include the de-obligation of funds, restricting access to funds, and/or requiring an IHE to return funds to the Department.
- Coordinating (OESE) with OIG on a monthly basis to address audits and investigations and ensure alignment to reduce burden on grantees and share information.
- Establishing processes (weekly workgroups) (OPE and OESE) to respond to grantee questions with consistency and in accordance with regulatory and statutory requirements.
- Establishing (OESE) routine touch points with grantees via monthly check-ins and quarterly reviews.
- Continuing to provide (OPE and OESE) comprehensive training to ensure employees possess the knowledge, tools, and resources to successfully perform the tasks and responsibilities of the grant-making processes, which includes quality controls for pre- and post-obligations, as well as for monitoring the ESF grants.
- Conducting (OPE) a complete post-award analysis of all HEERF grants awarded in concert with our G5 grant system and Budget Service and memorializing this process to ensure that OPE comprehensively identifies and corrects any errors in funding in the future.

Lessons learned from the initial ESF grantee data collection experience significantly informed the processes for the year two annual collection. Through these collections, the Department will be better able to assess the use of funds, providing visibility into the equitable recovery of schools and students as well as the capacity to promote learning.

### Student Financial Assistance Program Requirements

The COVID-19 relief legislation and administrative actions provided crucial support to student loan borrowers. Nearly all federal loan payments on Department-held loans were suspended and made interest free beginning in March 2020, and after many extensions, through December 31, 2022. FSA also acted quickly and effectively to stop all federal wage garnishments and collection, as well as interest accrual, for borrowers with federally held loans in default; FSA went even further by refunding over 99% of involuntary payments made during that period. FSA also continued to monitor the receipt of funds for an extended period to identify employers that did not comply with the Department's instructions to stop wage garnishments and to issue further refunds to borrowers.

Similarly, FSA was also highly effective in ensuring CARES Act flexibilities were applied to eligible TEACH Grant recipients, and when appropriate OESE and OPE also applied authorized flexibilities. To further improve its implementation of these flexibilities, FSA increased communications to eligible recipients and improved guidance to servicers about how to implement these flexibilities. FSA also will continue for more than two years to provide direct oversight and review of TEACH Grant recipients who are denied these flexibilities.

On August 24, 2022, the Biden-Harris administration announced that the Department will implement historic student debt relief, which includes targeted debt cancellation of up to \$20,000 for borrowers with certain federal loans earning income below specified thresholds. The details of this effort are complex and evolving, but the Department is working intensively to deliver on President Biden's promise.

As the payment pause nears its end on December 31, 2022, the Department is diligently preparing to meet the unprecedented challenge of returning all borrowers to a repayment status and helping them maintain their current repayment status. The goal is to achieve a smooth transition that minimizes the risk of borrower harm due to confusion, lack of awareness, or insufficient servicing capacity. The Department's comprehensive plan for returning borrowers to repayment combines elements of borrower outreach; servicer hiring, training and preparation; policy enhancements; and vendor and process oversight.

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In discussing ongoing challenges, it is important to acknowledge that resource limitations from working under a long-term Continuing Resolution rather than an approved FY 2023 budget may impact the Department and FSA as they seek to implement planned initiatives and achieve their stated objectives.

## CHALLENGE 2: OVERSIGHT AND MONITORING

### Student Financial Assistance Programs

FSA improved its oversight and monitoring of institutions of higher education (IHEs) participating in Title IV programs. On October 8, 2021, FSA established the Enforcement Office to strengthen oversight of postsecondary schools that participate in the federal student loan, grant, and work-study programs. This includes initiating enforcement actions against schools as appropriate. The Enforcement Office will proactively identify and address substantial misrepresentations and other misconduct by schools that are shown to impose outsized costs on borrowers and taxpayers. During FY 2023, the Enforcement Office plans to continue refining and implementing the use of a risk model aimed at identifying schools and service providers that may be engaged in those costly misrepresentations or other misconduct. It will seek to use the model to focus its investigatory resources on a limited number of those schools deemed to pose the highest risk to students, their families, and taxpayers. Where warranted, the Enforcement Office will initiate enforcement actions, which could include fines, limitation actions, or termination from the Title IV program. Finally, the office will continue to administer the Borrower Defense program, through which borrowers who were defrauded by their schools can receive a discharge of their federal student loans.

FSA has worked on addressing weaknesses in the single audit process to improve the single audit's use as an oversight and monitoring tool for IHEs' disbursements of Pell Grants and Direct Loans. On September 30, 2022, FSA submitted a report to OMB supporting changes in reporting under the single audit to improve its usefulness as an oversight and monitoring tool. FSA continues to use and improve its analytical model to continually monitor partner data and performance, thus improving the ability to identify IHEs most at-risk and allow more effective use of oversight resources by informing and prioritizing support for IHEs.

On July 28, 2022, the Department issued proposed regulations that will require IHEs to provide information about a change of ownership 90 days prior to that change; will significantly modify the definition of a nonprofit institution; and strengthen FSA's ability to place conditions on any approvals to limit potentially harmful agreements between entities or when an institution wishes to convert from for profit to nonprofit. FSA has also informed schools that it may require additional signatures on a school's Program Participation Agreement when a school seeks initial certification or recertification or when it undergoes a change of ownership. This requirement will provide more accountability and better protect taxpayers in the event of a school closure, approved borrower defense claims, or when other liabilities are owed to the Department.

Implementation of the *Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act* began in FY 2020 and will continue through FY 2024. This Act will allow FSA to receive income tax data more easily from the Internal Revenue Service (IRS) to administer the *Free Application for Federal Student Aid (FAFSA®)* and income driven repayment plans. Using the IRS tax data will help strengthen the oversight of participants in the Title IV programs by ensuring the accuracy of income information used to determine student aid eligibility and monthly payment amounts.

To provide better borrower outcomes, improve cybersecurity, and address pending contract expirations, the Department has established a long-term servicing strategy named the Unified Servicing and Data Solution (USDS). The USDS contract award is anticipated by early in calendar year 2023. By leveraging multiple system and process improvements made since the Next Gen initiative launched in 2017, among other benefits, the implementation of USDS will improve borrower experiences in both interactions with servicers and accessing their loan information as well as increasing servicer accountability.

For borrowers participating in income driven repayment (IDR) plans, FSA has taken steps to improve the accuracy of IDR payment counts, borrower information, and communications to improve the overall customer experience and accurately provide forgiveness. Additional phased improvements will include changes to ensure accurate payment counts, borrower self-service options

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to view payment counts, and standardized guidance to servicers on administering IDR plans.

In 2019, FSA implemented an improved model for verification selection and evaluation of data elements from the FAFSA. The model provides the Department with a better way to choose filers for verification and to reduce improper payments by targeting fewer filers without sacrificing the overall degree of confidence. In recent years, the verification rate of FAFSA filers has dropped from a high of 30% during the 2016-17 FAFSA cycle to 10% today. For the 2023-24 FAFSA cycle, the Department anticipates that just 7.5% of FAFSA filers will be selected for verification.

FSA appropriately administered the total and permanent disability (TPD) discharge application process and its contractor generally serviced TPD accounts in accordance with Federal program requirements. Nonetheless, FSA further enhanced its oversight and monitoring of the contractor by updating its sampling methodology and documenting improved processes. To continue those improvements, in 2021, the Department established a data match with the Social Security Administration to grant discharges more easily to over 350,000 borrowers with total and permanent disabilities. This data match enables the Department to automatically discharge student loans more efficiently and effectively as individuals meet the standards to qualify for relief.

For some time, FSA has been actively combating a growing number of consumer scams that target borrower interest in student loan forgiveness programs. Congress passed the Stop Student Debt Relief Scams Act in 2019, and FSA has been implementing its requirements. Most recently, FSA's efforts to raise public awareness of scams have included communications via social media, direct emails, and the website. FSA has also produced a brief video to alert and inform borrowers about how to identify and avoid these scams.

Oversight of an accrediting agency or state approval agency happens through the Department's recognition process and/or through follow up on issues brought to the Accreditation Group's attention. These are complex processes that take time to gather information and require detailed staff reviews. An entity seeking recognition from the Secretary of Education (Secretary) must meet the Department's regulatory criteria for the recognition of accrediting agencies and state approval agencies and must have a

Federal Link (Higher Education Act (HEA) or non-HEA). Only agencies recognized by the Secretary can provide the gate-keeping function to allow institutions they accredit to participate in the federal student aid programs under the HEA. Accrediting agencies that accredit only educational programs located in institutions of higher education apply for recognition for non-HEA purposes. The recognition process involves reviews by the Department's Accreditation Group (AG) staff and the National Advisory Committee on Institutional Quality and Integrity (NACIQI). Both the (AG staff and NACIQI) recommendations are submitted to the Senior Department Official designated by the Secretary who makes the decision regarding recognition. State agencies for the approval of public postsecondary vocational education and for the approval of nursing education must meet separate sets of recognition criteria and their applications for recognition also undergo review by the AG staff and the NACIQI.

The recognition process is outlined in Section 496 of the HEA and in regulation at 34 CFR 602. There are limitations on the Secretary's authority on review of accrediting agencies. The Secretary may only establish criteria for accrediting agencies or associations that are required by the statute. The HEA specifically notes that the Secretary may not establish any criteria that specifies, defines, or prescribes the standards that accrediting agencies or associations use to assess any institution's success with respect to student achievement. The Department of Education Organization Act also prohibits us from "exercis[ing] any direction, supervision, or control over the curriculum, program of instruction, administration, or personnel of any educational institution, school, or school system, over any accrediting agency or association, or over the selection or content of library resources, textbooks, or other instructional materials by any educational institution or school system, except to the extent authorized by law."

### Grantees

The Department continues to employ a progressive improvement approach to addressing the longstanding management challenge on oversight and monitoring of grant recipients. In FY 2021, the Department prioritized the enhancement of its grantmaking processes through capacity building and collaboration across the Department's grantmaking Principal Office Components (POCs) to ensure effective programmatic and financial stewardship of taxpayer funded investments. In FY 2022, the Department

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expanded its focus to include the consistent application of risk-based, and data-driven approaches to monitoring to improve recipient and grant program outcomes through the following initiatives:

- Improved effectiveness and efficiency of grants trainings by categorizing oversight and monitoring courses according to the level of experience and expertise of both internal and external stakeholders and expanded the number of asynchronous trainings for grantees and subrecipients, i.e., Subrecipient Monitoring for the Grantee Community.
- Implemented Virtual Monitoring Principles, a grant monitoring solution intended to enhance the user's experience, while increasing efficiency, collaboration, and consistency of risk-based monitoring and technical assistance protocols across POCs, and grantee cohorts.
- Provided technical assistance to POCs focused on grantee and subrecipient responsibilities, adhering to internal controls, subrecipient monitoring, data quality, and reporting.
- Used innovative monitoring approaches to learn with and from grantees, promoting effective implementation and timely policy feedback.
- Facilitated program staff information sharing and collaborative resolution through sharing challenges in monthly and quarterly grant policy forums on oversight and monitoring practices, solutions, and resources.
- Continually assessed the grant-making process to identify opportunities for improvements through the use of data and collaboration.
- Targeted the utilization of Grantee Satisfaction Survey data results to better define challenges, successes, and inform improvements in the areas of technical assistance and grant performance reporting across program offices.
- Leveraged inter-agency coordination to POCs in their effective oversight and monitoring of 2020 CARES Act and 2021 American Rescue Plan Act programs and operations to ensure that funds were used for the purposes intended and that goals and objectives are achieved.
- Utilized the annual Grantee Satisfaction Survey to obtain from the Department's grant community their

experiences with the FSRS.gov (Federal Funding Accountability and Transparency Act Subaward Reporting System) system and reporting process. Documented and identified grantees' successes and challenges with FSRS.gov and provided to GSA.gov a list that included resolutions to challenges identified along with overall recommendations for improvements.

### CHALLENGE 3: DATA QUALITY AND REPORTING

While the Department's grantees—states, institutions of higher education, and others—serve as important intermediaries and partners, our programmatic funds ultimately serve our nation's students and teachers. The Department requires quality data from its grantees to ensure students and teachers are benefiting from these funds in expected ways. These data are also used to build evidence, determining whether these funds could have been used in more efficient or effective ways. Failure to address the root cause of poor-quality data, therefore, may harm our ultimate beneficiaries.

Thematically aligned with the findings identified by the OIG, the Department identified in FY 2020 the root causes for its persistent data quality challenges. In the wake of the COVID-19 pandemic, the Department reported to the OIG that it would concentrate these data quality efforts and apply its strategy to key data collections associated with the Education Stabilization Fund (ESF). The Department renegotiated and expanded a support contract to supplement existing staff resources and expertise. This allowed for the development system architecture to identify potential data quality issues, many of which required resolution prior to acceptance of reports.

The Department recognizes the challenge that limited grantee resources presents to quality reporting. This manifests itself not only in the grantee's reporting to the agency, but also in evaluating the quality of data it received from any applicable subgrantees. To address capacity challenges for grantees, the Department launched an array of resources to support ESF grantees, many of which are conveniently located on the ESF **Grantee Help Portal** for asynchronous access. Covering each of the major ESF programs—specifically, HEER, EANS, GEER, ESSER, and outlying area equivalent Funds—resources included a variety of technical assistance mediums from live and

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recorded webinars to business rule guides to the provision of an ESF Reporting Help Desk.

The Department has acknowledged that it historically has not conveyed to its grantees a credible expectation for reporting quality data. To address challenges associated with credible communication, the agency reaffirmed with the Department's Office of General Counsel (OGC), Office of the Secretary (OS), and program office leadership its strategy in 2021, recognizing that poor-quality data can harm the ultimate beneficiaries of Department grants—that is, may harm our nation's teachers and students. To support collection of ESF Year 2 Annual Performance Reports (APRs), the Department made clear to grantees minimum data quality expectations for performance reporting, as well as the potential consequences for failure to report.

Due in part to these efforts, the Department experienced improved reporting compliance, especially considering the scope and recency of the programs and collections, as well as the prolonged challenges associated with the pandemic. The Department, of course, continues to review and address isolated data quality issues across all collections, especially in areas where known gaps in controls exist. However, more serious deficiencies—that is, those where data is not of sufficient quality to publish—are rarer. The Office of Postsecondary Education (OPE) placed noncompliant institutions of higher education (IHEs) that had a remaining balance on route payment. In FY 2022, this was a total of 40 IHEs that were placed on route payment or that were already on route or stop payment for other compliance concerns. The Office of Elementary and Secondary Education (OESE) works to ensure timely, accurate reporting and accountability through the provision of robust technical assistance, direct communication with senior leadership in state educational agencies, and gradual escalation of compliance measures. By the close of FY 2022, three grantees have outstanding Year 2 reports: two for the outlying area equivalent of the GEER fund and one for the outlying area equivalent of the ESSER Fund. In an effort to improve the quality of the data in the ESF Transparency Portal, OESE continues to: 1. track reporting issues and FSRS (GSA's system) Helpdesk tickets to ensure States submit accurate Federal Funding Accountability and Transparency Act (FFATA) and subaward data; 2. collaborate with OFO to provide direct assistance to grantees; and 3. escalate grantees' system challenges to GSA and OMB to resolve systematic problems with the FSRS that are outside of the Department's control.

In addition, a number of other agency-wide initiatives were completed, continued, initiated, or planned during FY 2022. As a part of the agency's FY 2022–26 Strategic Plan, the agency created a performance metric focused on tracking instances where data collections lack data quality plans and worked to update the Department's Information Quality Act (IQA) Guidelines, expected to be finalized in the first quarter of FY 2023. The Department also completed development of a Data Quality Playbook to provide easily deployable strategies for program offices, especially their grant staff. The Department also began developing data quality training tailored to different audiences.

In FY 2022, work also continued to modernize the ED Facts system and related processes, including data quality checks that states can use to supplement their own downstream data quality work and disseminating a more standardized and complete set of data validation rules applied to the data collected via ED Facts. The National Center for Education Statistics completed a successful pilot of the new process with the Common Core of Data survey, which led to more complete and accurate data, better data quality notes where data needed to be explained, and earlier publication of the data. Federal Student Aid (FSA) developed an internal dashboard to track the quality of the data it receives from its servicers and ingested into the National Student Loan Data System (NSLDS) and Enterprise Data Warehouse & Analytics (EDWA), allowing stakeholders to monitor data processing and identify specific or systemic problem areas by servicer and record type. FSA also deployed the Alation data catalog and query management tool to consolidate metadata, business rules, and edit processing into one enterprise tool that, in addition to becoming the complete data catalog, will also provide an effective knowledge management tool for FSA.

#### CHALLENGE 4: IMPROPER PAYMENTS

The Department continued to prioritize efforts to ensure payment integrity and minimize improper and unknown payments across all programs in FY 2022, including programs considered “susceptible to significant improper payments” per OMB guidance (OMB Circular A-123, Appendix C, implemented by OMB Memorandum **M-21-19**). Collaboration between financial management and grants administration staff aimed to facilitate successful implementation of Payment Integrity Information Act of 2019 (PIIA) compliance activities (e.g., improper payment



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risk assessment or estimation of programs and activities in scope). Improvement action items included:

- Revising the Sampling & Estimation Methodology and Plan (S&EMP) for the Title I, Part A program in FY 2022 to address the root cause of reported improper payments. Additionally, the Department further coordinated with its State Educational Agencies (SEAs) to ensure they would be able to obtain requested financial documentation from their Local Educational Agencies (LEAs) to support sampled payment transactions;
- Reviewing the completed payment test plans for the Title I, Part A program to ensure they accurately represent the data used by statistician to develop the estimated improper payment rate, as quality control improvement responding to OIG's review of the Department's FY 2021 compliance with improper payment reporting requirements;
- Continuing to promote improper payment awareness and deliver payment integrity training for Department staff through, for example, webinars and dialogue regarding improper payment sampling and testing with dozens of grantees and the Department's grant monitoring and grants policy communities; and
- Continuing to employ the Payment Integrity Monitoring Application (PIMA) as a means of detecting anomalies in grants payment data (i.e., 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).

As reflected in its report for 2021, the OIG determined that the payment integrity reporting for the Pell Grant and Direct Loan programs complied with all PIIA reporting requirements. However, the OIG asserted its opinion that FSA's use of non-random student-level sampling in some compliance audits conducted under the Single Audit Act to calculate the estimates affected the appropriateness and accuracy of the confidence intervals. As noted in the report, FSA believes that compliance audits, which do not always require random sampling, provide quality data necessary to calculate statistically valid improper payment estimates and confidence intervals. The OIG determined that FSA's proposed actions of requesting and obtaining OMB's approval of FSA's sampling and estimation plan or requiring random student-level samples to be used in Single

Audit compliance audits, if successfully implemented, were responsive to the OIG's recommendations.

FSA completed the following corrective actions this year:

- FSA continued efforts to obtain OMB's approval that its sampling and estimation plan is acceptable considering program resources and characteristics. FSA continued to engage OMB Office of Federal Financial Management staff in discussions regarding OMB approval of FSA's improper payment sampling and estimation methodology plan (S&EMP) pursuant to the provisions in PIIA section 3352(c)(1)(A). During FY 2022 and as of FY 2022 year end, these discussions were ongoing to address FSA's formal request for approval.
- FSA continued to collaborate with OMB, the OIG, Departmental components, and the independent audit community to include requirements for random sampling in compliance audits conducted under the Single Audit Act. However, the OIG and the independent audit community strongly opposed inclusion of the random sampling requirement, stating that it would compromise auditor independence. Consequently, FSA agreed to retract its recommendation of random sampling. However, FSA successfully advocated to retain language in the FY 2022 OMB Compliance Supplement of prior updates to clarify the procedures auditors must perform and information auditors should provide to the Department. These updates better align the requirements for compliance auditors in the Compliance Supplement with the payment integrity requirements for Federal agencies in OMB Circular A-123, Appendix C.

## CHALLENGE 5: INFORMATION TECHNOLOGY SECURITY

FY 2022 advancements in the information technology security program encompass both technological capabilities as well as improvements in knowledge management and internal controls. The Department took a comprehensive approach to addressing this management challenge, including:

- Implemented a new cybersecurity policy framework aligned with Executive Order (EO) 14028 Improving the Nation's Cybersecurity and National Institute of

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Standards and Technology (NIST) Special Publication 800-53, Revision 5.

- Implemented the Ongoing Security Assessment & Authorization (OSA) program, which will reduce steps and modify artifacts to improve efficiency. The overall outcome is more frequent system stakeholder engagement and timely risk visibility.
- Continued to mature its risk management processes through enhancements to the Cybersecurity Framework (CSF) Risk Scorecard to monitor status of program-level business continuity planning and testing activities.
- Enhanced its automated cybersecurity reporting to track and report compliance to ED 14028 mandates including, but not limited to, Multifactor Authentication (MFA), encryption, and resiliency.
- Expanded the Vulnerability Disclosure Policy (VDP) program to cover all internet accessible Department systems.
- Updated our internal vulnerability management procedures in accordance with Binding Operational Directive (BOD) 22-01 Reducing the Significant Risk of Known Exploited Vulnerabilities.
- Took action to address M-22-09 Moving the U.S. Government Toward Zero Trust Cybersecurity Principles by creating, funding, and onboarding a GS-15 zero-trust architecture (ZTA) program manager and released a Department Strategy and project schedule for full implementation by the end of FY 2024.
- Received the initial transfer of Technology Modernization Fund (TMF) funds to establish a ZTA Program Management Office (PMO) and completed the recompute of Enterprise Identity, Credential, and Access Management (ICAM) program, and obtained Secure Access Service Edge (SASE) & Security Orchestration Automation & Response (SOAR) capabilities.
- FSA Enterprise Cybersecurity Group and FSA Enterprise Data Directorate worked together to develop a fraud detection analytics capability in partnership to identify occurrences of potential fraud. This initial model permits FSA to identify applicants that met criteria of potential fraud and put them into the Suspect Identify File (SIF) so that they would be selected for identity verification. This model is being fine-tuned for

accuracy with the goal to become part of the FSA data science toolkit on fraud detection.

- FSA Enterprise Cybersecurity Group implemented a formal quality assurance process to ensure account recertifications are conducted in accordance with Department requirements.
- FSA Identity and Access Management (IAM) team in the Technology Directorate recently completed the Global Password Change for StudentAid.gov, FSA ID user accounts in the Person Authentication Service (PAS) system. Over 22.7 million of our 83 million users have already logged in and changed their passwords.
- In July 2022, MFA Phase 1 was successfully deployed, making MFA mandatory to all new users as part of the Create Account process on StudentAid.gov. MFA Phase 2 will be deployed, allowing FSA the capability to enforce MFA enablement for existing users on a rolling basis. Due to the timing of the MFA rollout coinciding with other high priority FSA initiatives, it is being recommended the MFA Phase 2 rollout start February 2023, to be completed July 2023.

These enhancements contributed to the OIG's FY 2022 Federal Information Security Modernization Act of 2014 (FISMA) assessment of the Department's cybersecurity capabilities as "Effective," or a Level 4 Cybersecurity Maturity Level for FY 2022, which marks a significant improvement from FY 2021 and the first time the Department has achieved this level with seven of nine FISMA domains increasing in score.

## 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 104 and the Department's management assurances on page 25.

### SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Disclaimer of Opinion

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	1	1	0	1	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 of 1996 (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. U.S. Standard General Ledger at Transaction Level	No lack of compliance noted	No lack of compliance noted

## Payment Integrity Information Act Reporting

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All program outlays can be categorized into one of three payment type categories: proper payments, improper payments, and unknown payments. OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, defines an improper payment as a payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; any payment that is not authorized by law; and any payment that does not account for credit for applicable discounts. OMB Circular A-123, Appendix C, also defines an unknown payment as a payment that could either be proper or improper, but it cannot be determined whether the payment was proper or improper because of insufficient or lack of documentation.

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 and unknown 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 and unknown 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 received from the Department to subordinate organizations and individuals. Due to these third-party controls being outside of the Department's operational management, they present a higher risk to the Department, as evidenced by its 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 (PIMA), 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 2022, the Federal Pell Grant, William D. Ford Federal Direct Loan, and Title I, Part A programs continued to be designated as programs that are "susceptible to significant improper payments" (referred to as Phase 2 per OMB Circular A-123, Appendix C guidance). The Federal Pell Grant program remained an OMB-designated high-priority program. Additionally, at the conclusion of the FY 2021 improper payment risk assessment, the Department identified the Education Stabilization Fund (ESF) and the Special Education Grants to States, Individuals with Disabilities Education Act (IDEA) programs as being susceptible to significant improper payments.

The Department continues to place additional emphasis to ensure payment integrity and minimize improper and unknown payments in these important programs as

required by OMB guidance. Readers can obtain a detailed breakdown of information on improper and unknown payment estimates, root causes, and corrective actions for the programs at <https://paymentaccuracy.gov>.

## FEDERAL 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.

## WILLIAM D. FORD FEDERAL 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.

## SPECIAL EDUCATION GRANTS TO STATES

The Special Education Grants to States, Individuals with Disabilities Education Act (IDEA) program provides formula grants to assist the 50 states, the District of Columbia, Puerto Rico, the Department of the Interior, Outlying Areas, and the Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. To be eligible for funding, states must serve all children with disabilities between the ages of 3 through 21, except that they are not required to serve children aged 3 through 5 or 18 through 21 years if services are inconsistent with State law or practice or the order of any court. A state that does not provide a free appropriate public education (FAPE) to children with disabilities aged 3 through 5 cannot receive base payment funds attributable to this age group or any funds under the Preschool Grants program. Funds are allocated among states in accordance with a variety of factors, as outlined in the funding formula under section 611(d) of the Individuals with Disabilities Education Act (IDEA).

## EDUCATION STABILIZATION FUND

On Friday, March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. It was a \$2 trillion package of assistance measures, including \$30.75 billion for an Education Stabilization Fund. The Coronavirus Response and Relief Supplemental

Appropriations Act, 2021 (CRRSA Act), was signed into law on December 27, 2020, and provided an additional \$81.9 billion to the Education Stabilization Fund. Additionally, on March 11, 2021, the American Rescue Plan (ARP) was signed into law and provided an additional \$169.5 billion. To date, eight grant programs were created: Education Stabilization Fund Discretionary Grants, Governor's Emergency Education Relief Fund, Elementary and Secondary School Emergency Relief Fund, Homeless Children and Youth, Emergency Assistance to Non-Public School, Outlying Areas, Bureau of Indian Education, and Higher Education Emergency Relief Fund.

## TITLE I, PART A

Title I, Part A (Title I) of the *Elementary and Secondary Education Act*, as amended by *Every Student Succeeds Act* (ESEA) provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards. Federal funds are currently allocated through four statutory formulas that are based primarily on census poverty estimates and the cost of education in each state

In FY 2022, the Department used statistically valid sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, IDEA, ESF and Title I 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, IDEA, ESF and Title I improper payment estimates in FY 2022 and prior years, please visit <https://paymentaccuracy.gov>.

## IDENTIFIED AND RECAPTURED IMPROPER PAYMENTS

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 has 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 collection. 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 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 2022, readers can visit <https://paymentaccuracy.gov>.

## 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/2022/04/20/2022-08222/adjustment-of-civil-monetary-penalties-for-inflation>

Table 15

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)	02-03-21	04-20-22	\$ 42,163
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	02-03-21	04-20-22	35,119
Violation of Title IV of the HEA	20 USC 1082(g)	02-03-21	04-20-22	62,689
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	02-03-21	04-20-22	62,689
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	02-03-21	04-20-22	1,850
Improper lobbying for government grants and contracts	31 USC 1352(c)(1) and c(2)(A)	02-03-21	04-20-22	22,021 to 220,213
False claims and statements	31 USC 3802(a)(1) and (a)(2)	02-03-21	04-20-22	12,537

## Climate Adaptation Plan

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**C**limate change impacts on students, families, schools, and communities across the country are present, severe, and worsening. Pathways through which climate change affects student achievement include school closures due to extreme weather or unsafe conditions, poor environmental conditions within schools that impede learning, students' own personal health and safety, increased social and emotional anxiety related to climate change and extreme weather events, and increased migration and economic disruption for households and communities.

In September 2021, the Department released a new **FY 2021 Climate Adaptation Plan**. With this new plan, the Department acknowledges that climate change is affecting the Department's mission and the need for comprehensive and urgent action to promote adaptation and resilience through the Department's programs and operations. This plan builds on the lessons learned from the Department's past sustainability action plans, climate change adaptation plans, and environmental justice plans to offer new actions that the Department can undertake to better adapt to climate change and develop agency resilience and resilience across the nation's schools.



## The Grants Oversight and New Efficiency Act of 2016 (GONE Act) and Education's Grant Closeout Process

The goal of the *Grants Oversight and New Efficiency Act of 2016* (GONE) (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. Although the Grants Oversight and New Efficiency Act reporting requirements have expired, the Office of Management and Budget Circular A-136, Section II.4.9, Grants Programs (August 10, 2021) requires similar information to be reported in the Other Information section. See Table 16 below.

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, 2022, the Department had 239 grants and cooperative agreements totaling approximately \$131.1 million in various statuses of the closeout process.

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 requirements that align with the OIG recommendations. (6.16.1) (A) (3)

Each year the Office of Acquisition, Grants, and Risk Management (OAGRM) offers 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.

**Table 16**

Category	2–3 Years	3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	108	5	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	119	7	-
Total Amount of Undisbursed Balances	\$49,336,249	\$14,523,161	-

Source: G5, grants management system linked to the Department's general ledger system. Data is based on the performance end date of September 30, 2021.

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# APPENDICES

(UNAUDITED)



## Appendix A: Selected Department Web Links and Education Resources

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### 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 FINANCING PLAN

The College Financing Plan is a consumer tool that participating institutions use to notify students about their financial aid packages. 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>

### 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 Department 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.gov>

These additional resources within the checklist assist students in finding scholarships and grants:

<https://studentaid.gov/resources/prepare-for-college/checklists>

<https://studentaid.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/>

### EDUCATION RESOURCES INFORMATION CENTER

The Department offers Education Resources Information Center (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>

## FEDERAL PROGRAM INVENTORY

The *GPRA Modernization Act of 2010, P.L. 111-352*, requires that the Office of Management and Budget (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 duplicate efforts. In December 2020 OMB launched an exploratory pilot as the next step towards creating a coherent and comprehensive inventory. This site provides the history of the Federal government's efforts to create an inventory as well as key insights, data from the pilot, and planned next steps. <https://fpi.omb.gov/>

## GOVERNMENT ACCOUNTABILITY OFFICE

The Government Accountability Office (GAO) 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. <https://www.gao.gov/agencies/department-education>

## 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 grant competitions 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 (NAEP) assesses samples of students in grades 4, 8, and 12 and at ages 9, 13 and 17 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

The Office of Inspector General (OIG) 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 where students can manage their loans. <http://studentaid.gov/>

## PERFORMANCE DATA

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

## PROJECTIONS OF EDUCATION STATISTICS TO 2028

For the 50 states, jurisdictions, 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>

## REGIONAL EDUCATIONAL LABORATORY PROGRAM

The Department administers the Regional Education Laboratory (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 policy makers to identify “high-leverage” problems of practice and to 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>

## RESOURCES FOR ADULT, CAREER, AND TECHNICAL EDUCATION

The Department continues to support state and local efforts to implement high-quality secondary and postsecondary career and technical education programs under the nation’s \$1.3 billion investment in funding under the *Carl D. Perkins Career and Technical Education Act* (Perkins V). Among the Department’s efforts is hosting the Perkins Collaborative Resource Network (PCRN) website that provides a one-stop shop for information, resources, and data pertaining to Perkins V CTE programs. The PCRN Website provides individual state profiles containing Perkins V State Plans, fiscal information, and accountability data; tools and resources from Department-sponsored national activities investments; and a Perkins V data explorer where users can run reports on trends in student participation and outcomes in CTE programs. <http://cte.ed.gov>

To support the *Workforce Innovation and Opportunity Act* (WIOA), the Department offers professional development resources through the Literacy Information and Communication System (LINCS). This initiative

seeks to expand evidence-based practice in the field of adult education and literacy. LINCS serves as Office of Career, Technical, and Adult Education’s (OCTAE) primary outreach and dissemination mechanism to adult educators and provides high-quality, on-demand educational opportunities to practitioners of adult education and literacy, so those practitioners can help adult learners successfully transition to postsecondary education and 21st-century jobs. 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. <http://lincs.ed.gov/>

## 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 and strategies for overcoming potential roadblocks. The practice guides also provide 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>

## Appendix B: Glossary of Acronyms and Abbreviations

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<b>ABCP</b>	Asset-Backed Commercial Paper	<b>DHS</b>	U.S. Department of Homeland Security
<b>AFR</b>	<i>Agency Financial Report</i>	<b>Direct Loan</b>	William D. Ford Federal Direct Loan
<b>AGA</b>	Association of Government Accountants	<b>DL</b>	Direct Loan
<b>AP</b>	Acquisition Plan	<b>DLP</b>	Data Loss Prevention
<b>APGs</b>	Agency Priority Goals	<b>DMA</b>	Data Maturity Assessment
<b>APR</b>	Annual Performance Reports	<b>DOL</b>	U.S. Department of Labor
<b>ARP</b>	<i>American Rescue Plan Act of 2021</i>	<b>DQP</b>	Data Quality Plan
<b>ARP ESSER</b>	American Rescue Plan Elementary and Secondary School Emergency Relief	<b>EAI</b>	Emergency Assistance to Institutions of Higher Education
<b>BIE</b>	Bureau of Indian Education	<b>EANS</b>	Emergency Assistance to Non-Public Schools
<b>BOD</b>	Binding Operational Directive	<b>ECASLA</b>	<i>Ensuring Continued Access to Student Loans Act of 2008</i>
<b>BPO</b>	Business Process Operations	<b>EDARM</b>	Division of Enterprise Data Analytics and Risk Management
<b>CARES</b>	<i>Coronavirus Aid, Relief, and Economic Security Act of 2020</i>	<b>EDCAPS</b>	Education Central Automated Processing System
<b>CEAR</b>	Certificate of Excellence in Accountability Reporting	<b>EGP</b>	Education Grants Platform
<b>CISA</b>	Cybersecurity and Infrastructure Security Agency	<b>EIA</b>	Emergency Impact Aid
<b>COVID-19</b>	Coronavirus Disease 2019	<b>ELG</b>	Evidence Leadership Group
<b>CPSS</b>	Contracts and Purchasing Support System	<b>Emergency Impact Aid</b>	Temporary Emergency Impact Aid for Displaced Students
<b>CRRSAA</b>	<i>Coronavirus Response and Relief Supplemental Appropriations Act of 2021</i>	<b>EO</b>	Executive Order
<b>CSF</b>	Cyber Security Framework	<b>ERIC</b>	Education Resources Information Center
<b>CSRS</b>	Civil Service Retirement System	<b>ERM</b>	Enterprise Risk Management
<b>CTE</b>	Career and Technical Education	<b>ERMWG</b>	Enterprise Risk Management Working Group
<b>DATA Act</b>	<i>Digital Accountability and Transparency Act of 2014</i>	<b>ESEA</b>	<i>Elementary and Secondary Education Act</i>
<b>DCC</b>	Digital and Customer Care	<b>ESF</b>	Education Stabilization Fund
<b>DCIA</b>	<i>Debt Collection Improvement Act of 1996</i>	<b>ESSA</b>	<i>Every Student Succeeds Act</i>
<b>DDB</b>	Death, Disability, and Bankruptcy	<b>ESSER</b>	Elementary and Secondary School Emergency Relief
<b>Department</b>	U.S. Department of Education	<b>FAFSA®</b>	Free Application for Federal Student Aid
<b>DGB</b>	Data Governance Board	<b>FASAB</b>	Federal Accounting Standards

	Advisory Board		Human Services
<b>FCRA</b>	<i>Federal Credit Reform Act of 1990</i>	<b>HTTPS</b>	Hypertext Transfer Protocol Secure
<b>FECA</b>	<i>Federal Employees' Compensation Act</i>	<b>IDEA</b>	<i>Individuals with Disabilities Education Act</i>
<b>FERS</b>	Federal Employees Retirement System	<b>IDR</b>	Income-Driven Repayment
<b>FFB</b>	Federal Financing Bank	<b>IEP</b>	Individualized Education Program
<b>FFEL</b>	Federal Family Education Loan	<b>IES</b>	Institute of Education Sciences
<b>FFMIA</b>	<i>Federal Financial Management Improvement Act of 1996</i>	<b>IHE</b>	Institutions of Higher Education
<b>FIPSE</b>	Fund for the Improvement of Postsecondary Education	<b>IPP</b>	Invoice Processing Platform
<b>FISMA 2014</b>	<i>Federal Information Security Modernization Act of 2014</i>	<b>IPERA</b>	<i>Improper Payments Elimination and Recovery Act of 2010</i>
<b>FMFIA</b>	<i>Federal Managers' Financial Integrity Act of 1982</i>	<b>IPERIA</b>	<i>Improper Payments Elimination and Recovery Improvement Act of 2012</i>
<b>FMSS</b>	Financial Management Support System	<b>IQA</b>	Information Quality Act
<b>FR</b>	Financial Report of the U.S. Government	<b>IRS</b>	Internal Revenue Service
<b>FSA</b>	Federal Student Aid	<b>IT</b>	Information Technology
<b>FUTURE Act</b>	<i>Fostering Undergraduate Talent by Unlocking Resources for Education Act</i>	<b>LEAs</b>	Local Educational Agencies
<b>FY</b>	Fiscal Year	<b>LINCS</b>	Literacy Information and Communication System
<b>G5</b>	Grants Management System	<b>MSIs</b>	Minority Serving Institutions
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>NAEP</b>	National Assessment of Educational Progress
<b>GAO</b>	Government Accountability Office	<b>NCES</b>	National Center for Education Statistics
<b>GEER</b>	Governor's Emergency Education Relief	<b>Next Gen FSA</b>	Next Generation Federal Student Aid
<b>GONE Act</b>	<i>Grants Oversight and New Efficiency Act of 2016</i>	<b>NIST</b>	National Institute of Standards and Technology
<b>GPO</b>	Grants Policy Office	<b>NSLDS®</b>	National Student Loan Data System
<b>GPRA</b>	<i>Government Performance and Results Act of 1993</i>	<b>OAGRM</b>	Office of Acquisition, Grants, and Risk Management
<b>GSA</b>	General Services Administration	<b>OCDO</b>	Office of the Chief Data Officer
<b>HBCUs</b>	Historically Black Colleges and Universities	<b>OCIO</b>	Office of the Chief Information Officer
<b>HEA</b>	<i>Higher Education Act of 1965</i>	<b>OCR</b>	Office for Civil Rights
<b>HEAL</b>	Health Education Assistance Loan	<b>OCTAE</b>	Office of Career, Technical, and Adult Education
<b>HEERF</b>	Higher Education Emergency Relief Fund	<b>ODP</b>	Open Data Platform
<b>HHS</b>	U.S. Department of Health and	<b>OELA</b>	Office of English Language Acquisition
		<b>OESE</b>	Office of Elementary and Secondary Education
		<b>OFM</b>	Office of Financial Management
		<b>OFO</b>	Office of Finance and Operations
		<b>OGC</b>	Office of the General Counsel



<b>OHR</b>	Office of Human Resources	<b>and Plan</b>	Annual Performance Plan
<b>OIG</b>	Office of Inspector General	<b>RESTART</b>	Immediate Aid to Restart School Operations
<b>OMB</b>	Office of Management and Budget	<b>SBR</b>	Statement of Budgetary Resources
<b>OPE</b>	Office of Postsecondary Education	<b>SEAs</b>	State Educational Agencies
<b>OPEN</b>	Open, Public, Electronic and Necessary	<b>SSA</b>	Social Security Administration
<b>OPEPD</b>	Office of Planning, Evaluation, and Policy Development	<b>STEM</b>	Science, Technology, Engineering, and Mathematics
<b>OPM</b>	Office of Personnel Management	<b>TCUs</b>	Tribal Colleges and Universities
<b>OS</b>	Office of the Secretary	<b>TCCUs</b>	Tribally Controlled Colleges and Universities
<b>OSERS</b>	Office of Special Education and Rehabilitative Services	<b>TEACH</b>	Teacher Education Assistance for College and Higher Education Grant
<b>P-12</b>	Prekindergarten Through 12th Grade	<b>TEPSLF</b>	Temporary Expanded Public Service Loan Forgiveness
<b>Pell</b>	Federal Pell Grant	<b>Title I</b>	Title I, Part A
<b>PEPS</b>	Postsecondary Education Participants System	<b>Title IV-A</b>	Title IV, Part A
<b>PIIA</b>	<i>Payment Integrity Information Act of 2019</i>	<b>TOP</b>	Treasury Offset Program
<b>PIMA</b>	Payment Integrity Monitoring Application	<b>TPD</b>	Total and Permanent Disability
<b>PIV</b>	Personal Identity Verification	<b>Treasury</b>	U.S. Department of Treasury
<b>PLUS</b>	Parent Loan for Undergraduate Students	<b>USDS</b>	Unified Servicing and Data Solution
<b>POC</b>	Principal Office Component	<b>VDP</b>	Vulnerability Disclosure Policy
<b>POA&amp;M</b>	Plan of Actions & Milestones	<b>VM</b>	Vulnerability Management
<b>President's Budget</b>	<i>Budget of the United States Government</i>	<b>WIOA</b>	<i>Workforce Innovation and Opportunity Act</i>
<b>PSLF</b>	Public Service Loan Forgiveness		
<b>REL</b>	Regional Educational Laboratory		
<b>Report</b>	Annual Performance Report and		

## Acknowledgments

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This *Agency Financial Report* was produced with the energies and talents of our employees and contract partners.

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.

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We offer our sincerest thanks and acknowledgment to staff of all participating principal offices. In particular, we recognize the following organizations for their contribution:

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 Office of Planning, Evaluation, and Policy Development  
 Office of the Chief Information Officer  
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OmniStudio Inc.

### FOR ACCOUNTING SERVICES

Cotton & Company Assurance and Advisory LLC  
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*The FY 2022 Agency Financial Report*

U.S. Department of Education  
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U.S. Department of Education, January 2023

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