

FY 2023

AGENCY  
FINANCIAL  
REPORT

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U.S. DEPARTMENT OF EDUCATION



**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*

November 16, 2023

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For fiscal year 2023, 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 2025 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

The purpose of the U.S. Department of Education's (Department's) fiscal year (FY) 2023 *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).

## How This Report Is Organized

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 (UNAUDITED)

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 (UNAUDITED)

This section provides a message from the chief financial officer, the Consolidated Balance Sheet and related notes, and the report from the independent auditors.



### OTHER INFORMATION (UNAUDITED)

This section provides the unaudited financial statements and related notes, required supplementary information, the Office of Inspector General's Management and Performance Challenges for FY 2024, a summary of financial statement audit and management assurances, *Payment Integrity Information Act* reporting details, civil monetary penalty adjustment for inflation, Climate Related Financial Risk, and the *Grants Oversight and New Efficiency Act of 2016* and grant closeout process reporting.



### APPENDICES (UNAUDITED)

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

November 16, 2023



The civil rights leader Benjamin Mays once said, “The tragedy of life is often not in our failure, but rather in our complacency; not in our doing too much, but rather in our doing too little.”

While we had much to celebrate over fiscal year 2023, including unprecedented federal resources for education and important gains in recovering academic losses following the pandemic, there is room for even more progress and growth in fiscal year 2024. I have said that in our nation’s effort to move from pandemic recovery to thriving, the biggest barrier to our progress is complacency. Across America, we need the collective will to raise the bar for our students and our schools and the ambition to realize our nation’s full potential to lead the world.

At the U.S. Department of Education, we know there is work to do to expand equity and excellence throughout our nation’s education system and for every learner.

That’s why we are laser-focused on our visionary initiative, “Raise the Bar: Lead the World.” This plan represents a once-in-a-generation opportunity to revolutionize our nation’s education system, from preschool through college and preparation for careers and lifelong learning. It is a bold agenda with an even bolder purpose: to reverse decades of neglect and underinvestment in critical support for our nation’s public school classrooms, colleges, students, and educators so America can continue leading the world in education and propel learners of every age and all walks of life to never-before-seen levels of success.

This work has never been more urgent.

Our plan consists of four key areas: achieving academic excellence, improving learning conditions, and preparing students for global competitiveness, and increasing college affordability and completion.

We believe that if we invest in these building blocks of success, we will elevate our nation’s educational system and student outcomes to levels not seen in decades. For too long, we saw chronic underinvestment in education, much to the detriment of students, families, teachers, communities, and our nation’s future. When compared to other developed countries, students in the United States continue to underperform academically. What’s more, teachers remain underpaid, and in far too many instances, overworked and underappreciated with current system-wide conditions failing to attract a new generation of talented educators to the profession. We have an opportunity and an obligation—with a sense of urgency—to invest in what we know works to improve teaching and learning across the country.

As a former teacher and school principal, I have always believed and *seen with my own eyes* the transformative power of education to change lives. Raise the Bar has the power to do that and more. We owe it to the students, families, and educators of today and the leaders of tomorrow to see this work through.

The following pages of this report highlight accomplishments from this past year, examine how the Department of Education is executing our ambitious plan, and outline the ways President Biden's fiscal year 2024 budget proposal supports the advancement of educational equity and progress.

Through the first pillar of Raise the Bar, *achieving academic excellence*, the Department is supporting state and local leaders to accelerate students' learning and deliver a comprehensive, rigorous educational experience for every student. We're working to ensure states and districts continue to deploy pandemic relief funds to improve student learning. These efforts build upon Congress' appropriation of more than \$190 billion (including funding provided through the American Rescue Plan) to help schools reopen and address learning loss.

The ARP investments allowed states and districts to hire additional teachers, school counselors, and other vital school professionals, offer tutoring and one-on-one support to students, and extend learning time through high-quality afterschool and summer learning programs.

I'm encouraged that these historic investments and resources are showing positive results. Several states have returned to pre-pandemic achievement levels on state and literacy assessments, and we're seeing promising results for the United States on international reading assessments. To date, schools have committed nearly 60 percent of their ARP funds to address lost learning time and accelerate academic recovery.

At the Department, we also are continuing to offer technical assistance, issue guidance, and hold convenings with educators, parents and families, communities, and other stakeholders to ensure they have the necessary tools and resources to improve students' academic outcomes and tackle disparities in educational opportunity.

To reverse decades of underperformance fueled by educational underinvestment and neglect, and to Raise the Bar for all students, we'll need continued, collaborative action at every level.

That's why President Biden's fiscal year 2024 budget calls for \$20.5 billion for the federal Title I program to help states and districts close opportunity gaps and support academic recovery. The budget also includes \$500 million to expand high-quality preschool for children eligible to attend Title I schools and an investment of an additional \$2.7 billion for the Individuals with Disabilities Education Act (IDEA), including increasing funding for preschool programs, early intervention services, and recruiting special education personnel.

Raise the Bar's second pillar focuses on *improving learning conditions for every student*. Part of that effort includes ensuring that all children have the opportunity to be taught by excellent educators. And one of our most urgent priorities to fulfill that goal is to ensure our nation's teachers receive equitable pay and ample opportunities for professional development.

Toward that end, in February of this year, the Department of Education announced \$18 million for the inaugural Augustus F. Hawkins Centers of Excellence Program to address educator shortages, increase high-quality teacher preparation programs, and strengthen the pipeline for educators of color. The program provides funding to Historically Black Colleges and Universities (HBCUs), Tribal Colleges and Universities (TCUs), and Minority-Serving Institutions (MSIs) to recruit and prepare a new generation of diverse and talented individuals for the teaching profession.

In a spirit of intentional collaboration, the U.S. Departments of Education and Labor have joined efforts to invest in teacher preparation programs and expand Registered Apprenticeships for educators. The Department of Education allocated more than \$27 million to support educator preparation programs with \$65 million from the Department of Labor to develop and scale apprenticeship programs across 45 states. Both departments have worked tirelessly to plan, launch, promote, and expand apprenticeship programs and support teacher recruitment, preparation, and retention. Thanks to these efforts, our nation went from just two states with registered apprenticeship programs for teachers to 25 in two years.

In addition to accelerating learning and supporting our educators, the mental health and well-being of our students remains a top priority. I'm proud that the Bipartisan Safer Communities Act allocates \$2 billion to state educational agencies for Stronger Connections Grants that help schools provide all students with safe and supportive environments for learning that are critical for their success, School-Based Mental Health Services grants to increase the capacity of school-based mental health service providers, and Mental Health Services Professional Development Grants to help states, school districts, and institutions of higher education train school-based mental health services providers for employment in schools and districts.

At the Department, we believe that the best way to achieve academic excellence and advance educational equity across the country is to ensure students from all backgrounds and in every community have access to robust academic resources, programs, and opportunities. That's why I'm proud that the fiscal year 2024 budget also allocates \$38 million to significantly strengthen our Office for Civil Rights and recruit additional personnel to safeguard the civil rights of students in schools and on college campuses. I am heartened that funding is expected to create more than 150 new, critical positions for this work.

Additionally, the Department is continuing our robust support for school communities. Under the Full-Service Community Schools program, we are providing \$150 million to coordinate services for students and families, such as mental health supports, early learning programs and robust parent engagement strategies, nutrition services, and high-quality tutoring. In fact, in January 2023, the Department funded the largest cohort of grantees in the history of this program. And through \$89 million in the Promise Neighborhoods program, we are supporting learners from cradle to career in underserved communities.

Through our third Raise the Bar pillar, *creating pathways for global engagement*, we are focused on reimagining college and career pathways and providing more and better opportunities for our students to become multilingual.

For example, through our Unlocking Career Success initiative, we are working with states and districts to develop more accessible, flexible, and innovative pathways for students to contribute to the global workforce by increasing access to dual enrollment, work-based learning, workforce credentials, and career advising and navigation in high school.

The Department has created a suite of tools and resources to complement our pathways work. We've launched a new website and organized multiple forums to gather input directly from stakeholders across the country, and we are catalyzing and mobilizing cross-sector collaboration that transforms our nation's high schools to become more student-centered, community-engaged, and career-connected.



This spring, the Department also helped launch the Career Z Challenge, awarding \$2.5 million for work-based learning innovation and opportunities. We also unveiled the Your Place in Space Challenge, which invites high school students to submit designs for a product or service to contribute to space missions and exploration—opening students’ minds up to the career possibilities that exist in the science, technology, engineering, and math fields.

Importantly, in August, the Department launched the Career Connected High School Grant program, which will award \$25 million to local educational agencies, institutions of higher education, and employers to pilot strategies that improve postsecondary education and career outcomes for students.

At the Department, we also recognize that multilingualism is a superpower that provides students with advantages in our global society and economy—and that unless we act with urgency to provide pathways to multilingualism for every student and to support the 5 million English learners in our public schools, we will miss an opportunity to set our students up for success. That’s why, through our pathways work, we are proud to support states to develop and improve English Development Programs and Multilingual Language Programs.

Furthering our commitment to multilingual education, we’ve also invested \$890 million in Title III grants to all 50 states, Washington, D.C., and Puerto Rico to support Language Instructional Educational Programs that empower our English learners and immigrant youth. That’s a \$93 million increase since the Biden-Harris Administration took office.

We are also continuing robust oversight of school’s obligations to serve English learners under Title VI of the Civil Rights Act of 1964 and taking affirmative steps to address language barriers and improve meaningful participation for every student in every school.

Additionally, we are proactively highlighting states and districts that are implementing evidence-based dual language programs and seals of biliteracy. Similarly, our support of grow-your-own initiatives, teacher residencies, graduate fellowships, and Augustus F. Hawkins grants will continue to promote a more multilingual educator workforce. Importantly, we also are making significant investments—including \$8 million in grants this summer—to promote and preserve Native languages and support Native teachers.

Through our final Raise the Bar pillar, we are working to make college more affordable and inclusive, and investing in student success.

We continue to increase funds for the Pell Grant program. The fiscal year 2024 budget proposes increasing the Pell Grant to \$8,215, with a commitment to doubling the maximum award by 2029.

The fiscal year 2024 budget also recognizes that more resources are urgently needed to enhance and sustain institutional capacity at community colleges, HBCUs, TCUs, and MSIs and calls for free community colleges, requesting \$90 billion over 10 years. To jumpstart these efforts, the Biden-Harris administration is requesting \$500 million in discretionary funding to partner with states where free community college can lead to good jobs in high-demand industries.

The fiscal year 2024 budget also makes significant investments in the Department’s Office of Federal Student Aid, providing \$2.7 billion to support student loan borrowers, including critical improvements to financial aid program administration and student loan servicing.

Importantly, the Department has been relentlessly focused on fixing the nation's broken student loan system. Due to fixes to income-driven repayment, the Public Service Loan Forgiveness Program, and other actions the Department has taken, \$127 billion in debt relief has been provided for nearly 3.6 million borrowers. This represents more student loan forgiveness than has been granted under any other presidential administration in history.

Working to make college more affordable puts social mobility and the American Dream within reach—which benefits not only individuals, but also communities, our economy, and our entire country.

In addition to funding, resources, and our work on student debt, we're convening changemakers to recognize and promote institutions of higher education with demonstrated success, share promising practices for improving student outcomes, and support leaders who are raising the bar on college excellence and equity.

For example, over this last year, the Department convened a second Raise the Bar: College Excellence and Equity Summit, which featured higher education leaders sharing their data-driven strategies to reduce equity gaps and bolster graduation rates with the longer-term goal of systematizing and scaling programs that help deliver equitable outcomes for every student who wants a college education.

We know what works in education. If we marshal the collective will, our nation's 65 million students will realize their full potential to lead the world. Through our Raise the Bar efforts and investments, we recognize that our nation already has what it takes to get there.

For more on our plan and how we can continue to advance our shared priorities, visit: <https://www.ed.gov/raisethebar/>.

The Department continues to make stewardship of taxpayer funds and financial integrity top priorities. The 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.

The internal control report identified one material weakness, "Controls Over the Relevance and Reliability of Underlying Data Used in Credit Reform Re-Estimates Need Improvement." This year, the independent auditor issued a disclaimer of opinion on the Department's FY 2023 balance sheet. The Department will develop and implement additional corrective action strategies to address the issues highlighted in the FY 2023 report. We remain committed to continually evaluating our programs, current business processes, and our internal controls for improvement opportunities in FY 2024 and beyond.

As we did in fiscal year 2023, we will keep working to ensure the future for our students, and our nation, is bright.



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

*U.S. Secretary of Education*

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MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS  
(UNAUDITED)



## About the Management's Discussion and Analysis

*The U.S. Department of Education (Department) continued to enhance the content quality, report layout, and public accessibility of the fiscal year (FY) 2023 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 utility 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 specific 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 2023. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2023 will be provided in the Department's *FY 2023 Annual Performance Report and FY 2025 Annual Performance Plan* to be released online at the same time as the President's *FY 2025 Budget of the United States Government* (President's Budget) in February 2024. 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 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 is 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

### *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.

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.

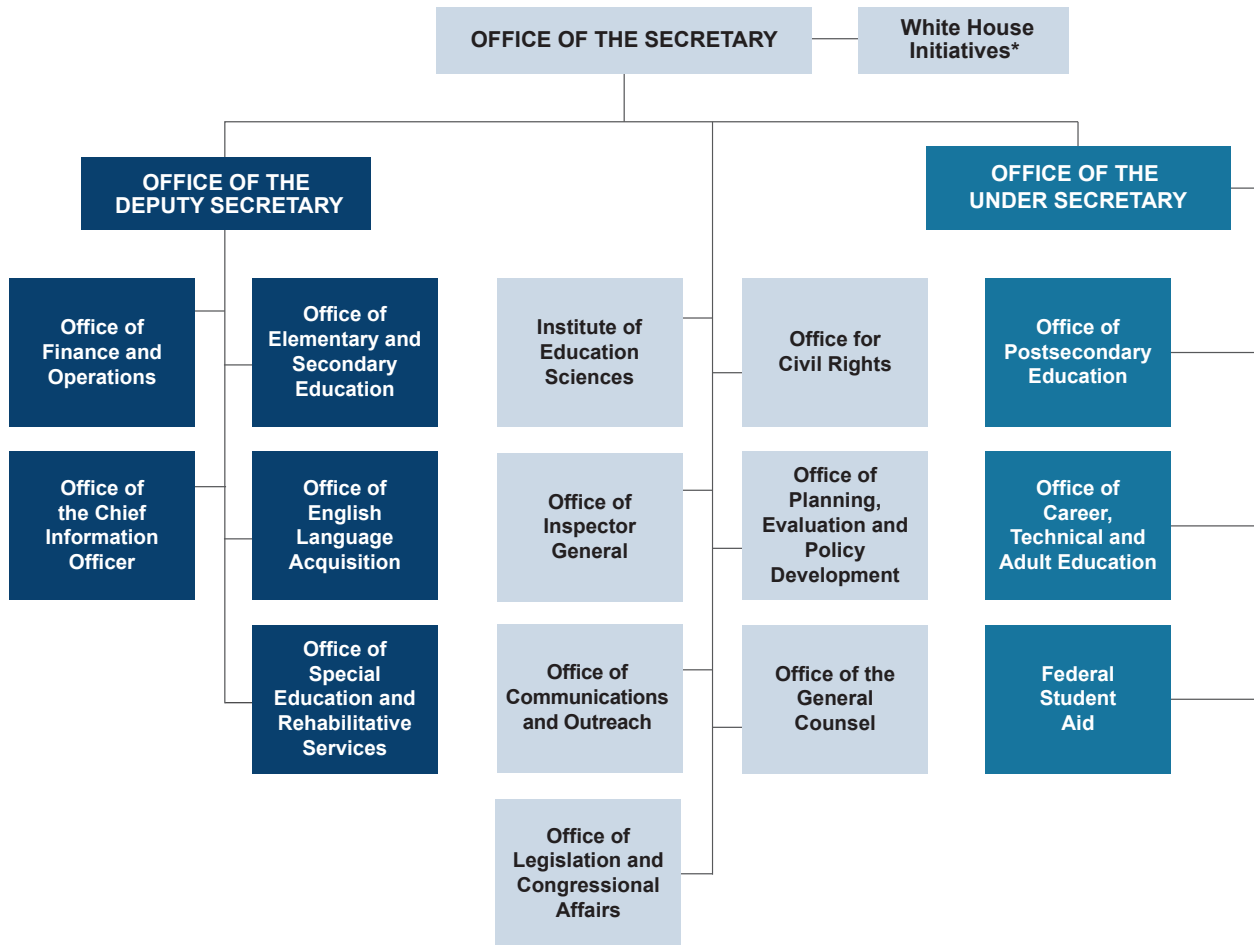
*Our Public Benefit.* The Department executes the laws passed by Congress to promote student academic achievement and preparation for global competitiveness. The Department works with students, parents, educational institutions, school districts, and states to foster educational excellence and ensure 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 2023

This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2023 coordinating structure of the Department is available.



\* The White House Initiatives are: Office of Faith-Based and Neighborhood Partnerships; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Native Americans and Strengthening Tribal Colleges and Universities; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Hispanics; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Black Americans; and 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 underserved ones. 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 2023, \$54.1 billion was appropriated to the Department in support of Strategic Goal 1.

To thrive academically and be globally competitive, students require access to a broad and challenging education that provides equal opportunities to build deep knowledge and useful life skills across many disciplines. However, access to a comprehensive and rigorous

<sup>1</sup> *GPRA Modernization Act of 2010* amends the *Government Performance and Results Act of 1993* (GPRA).  
<sup>2</sup> The FY 2023 Statement of Net Cost and related notes align with the FY 2022–26 Strategic Plan.

education is not equitable across all students and communities. Research shows that when students have access to rich learning experiences across the spectrum of education, they are more likely to be engaged in school, get better grades, attend school more, and graduate on time.

In support of Strategic Goal 1, the Department continued to work with state and local leaders to expand access to high-quality early learning, rigorous science, technology, engineering, and mathematics (STEM) education and arts programming; protect students’ civil rights in schools; support students’ financial literacy; and emphasize the importance of focusing teaching and learning on the instructional core. In FY 2023, the Department hosted “YOU Belong in STEM” National Coordinating Conference in Washington, D.C. as a key initiative. The Raise the Bar: STEM Excellence for All Students initiative is designed to strengthen STEM education nationwide. This new initiative helps implement and scale equitable, high-quality STEM education for all students from PreK to higher education—regardless of background—to ensure their 21st century career readiness and global competitiveness.

The devastating and adverse impacts of the COVID-19 pandemic exacerbated previously documented gaps in educational opportunity. Supporting urgent and wise investing has been a major focus of the Office of Elementary and Secondary Education (OESE) State and Grantee Relations team’s work on the COVID-relief programs. Additionally, ensuring compliance with major fiscal equity provisions further supports student recovery from the impacts of the pandemic. In FY 2023, OESE monitored states’ compliance with the Maintenance of Effort and Maintenance of Equity provisions of the COVID-relief acts. The Department is committed to bring student learning beyond pre-pandemic levels and to help close underlying opportunity and achievement gaps by ensuring states and districts deploy federal pandemic relief funds in evidence-based ways, promoting promising practices, and providing technical assistance and opportunities for new or continued grant funding.

<b>Strategic Goal 2: Support a diverse and talented educator workforce and professional growth to strengthen student learning.</b>	
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. Every student should have access to outstanding, well-prepared, well-supported educators who reflect the diversity of the students they serve. In FY 2023, \$20.4 billion was appropriated to the Department in support of Strategic Goal 2.

Due to the pandemic, from February to May 2020, the economy lost an estimated 730,000 local public education jobs. As of March 2023, public education recovered 600,000 of those jobs (82 percent). However, there are still 130,000 fewer people working in local public education than before the pandemic, and schools were already experiencing shortages before the pandemic began, with disproportionate impacts on students of

color, students with disabilities, and English learners. The Department is committed to working with state and local leaders to elevate the teaching profession by investing in and scaling up high-quality and affordable pathways to teaching. The Department also is supporting efforts to better prepare, develop, and retain talented and diverse educators in America’s schools.

In support of Strategic Goal 2, the Department launched a partnership with Department of Labor to expand the number of registered apprenticeship programs for teachers. The registered apprenticeship programs allow teachers to gain robust experience in the classroom and make becoming a teacher more affordable. States with Teacher Registered Apprenticeship Programs have increased from 2 to 25 since the launch, and enrollees in these programs total more than 1,000.

In FY 2023, the Department announced first-ever awards, totaling over \$15 million, for the Augustus F. Hawkins Centers of Excellence Program (Hawkins Program) grants to increase high-quality teacher preparation programs for teachers of color, strengthen the diversity of our teacher pipeline, and address teacher shortages. The Hawkins Program, named for Augustus F. Hawkins, the first Black politician elected to the U.S. House of Representatives from west of the Mississippi River, supports comprehensive, high-quality teacher preparation programs at Historically Black Colleges and Universities, Tribally Controlled Colleges and Universities, and Minority Serving Institutions.

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 2023, \$26.0 billion was appropriated to the Department in support of Strategic Goal 3.

When students feel connected to school, their mental health and academic performance improve; however, the consequences of the pandemic—social isolation, illness, and family hardship among them—have led to decreased feelings of connectedness for students. For example, approximately 1 in 3 high school students have experienced poor mental health amid the pandemic, and rates of poor mental health have been higher for historically marginalized groups of students. For students to thrive in school, they need a strong foundation of overall wellness. The Department is committed to working with parents, families, educators, and others to meet students’ mental health needs.

In support of Strategic Goal 3, the Department announced awards of more than \$188 million across 170 grantees in over 30 states to increase access to school-based mental health services and to strengthen the pipeline of mental health professionals in high-needs districts. With funding provided by the *Bipartisan Safer Communities Act* (BSCA), these investments help advance the President’s Mental Health Strategy, which

directly implements his Unity Agenda priority to tackle the mental health crisis in our school communities. These grants enable communities to hire approximately 5,400 school-based mental health professionals and train an estimated 5,500 more to build a diverse pipeline of mental health providers in schools.

To support multilingualism, in FY 2023, the Office of English Language Acquisition announced awards of nearly \$120 million over five years under the National Professional Development Program (NPD) to support educators of English learner students. The NPD program provides grants to eligible Institutions of Higher Education and public or private entities with relevant experience and capacity, in consortia with states or districts, to implement professional development activities that will improve instruction for English Learners.

<b>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.</b>	
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. This includes aligning our education and workforce systems to create college and career pathways that lead to industry-recognized credentials and opportunities to secure in-demand jobs. In FY 2023, \$104.6 billion was appropriated to support Goal 4.

In support of Goal 4, the Department provided over \$30 million to colleges and universities from five competitive grant programs of the Fund for the Improvement of Postsecondary Education (FIPSE), which aims to improve higher education opportunities and outcomes for students from underrepresented communities. The five grant programs that target critical needs in our higher education system include: Postsecondary Student Success Program, Basic Needs for Postsecondary Students Program, Open Textbooks Program, Centers of Excellence for Veteran Student Success Program, and the Transitioning Gang-Involved Youth to Higher Education Program.

The Department has made a concerted effort to fix persistent problems in the student loan forgiveness and discharge process through regulatory changes and making investments in system and customer service upgrades. As of the end of FY 2023, 730,000 student loan borrowers were approved for Public Service Loan Forgiveness, compared to only 7,000 applications that had been approved in total prior to 2021. As of July 2023, more than 3.4 million borrowers qualified for automatic discharges, Public Service Loan Forgiveness benefits, total and permanent disability discharges, and closed school court settlements.

The Department is committed to supporting efforts to dramatically increase the number of Americans who possess postsecondary industry-recognized credentials. Education programs that incorporate the opportunity to earn an industry-sought credential can give students a successful onramp to the workforce when they graduate from high school. The Department aims to expand access to work-based learning programs and initiatives by helping states and districts identify workforce credentials that have value in the labor market, expand opportunities for students to earn these credentials, and eliminate barriers to credential attainment. In FY 2023, \$1.46 billion was appropriated for Career, Technical, and Adult Education.

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 2023, \$72 million was appropriated to support Goal 5.

Information technology security was identified as a top management challenge in 2023, and the Department has made great strides in strengthening cybersecurity, reliability, and privacy protections. In 2023, the Department received an overall *Federal Information Security Modernization Act of 2014* (FISMA) assessment of “Effective,” or a Level 4 Cybersecurity Maturity Level. This score was the highest achieved by the Department since the scoring metrics were established in 2014.

The Department was the first cabinet-level Department to receive funding from the Technology Modernization Fund (TMF) and successfully adopted a secure access service edge (SASE) solution in support of advancing its Zero Trust Architecture (ZTA) capabilities in support of federal requirements as outlined in OMB Memorandum M-22-09.

In April 2023, the Office of Chief Data Officer staff received the Federal 2023 Chief Data Officers Council Award for Distinguished Achievement for improving data skills and culture at the Department and pioneering work in the federal space through the advancements of the Data Strategy Goal 2: Building Human Capacity to Leverage Data.

Strategic Goal 5 also prioritizes reducing potential procurement barriers and increasing procurement opportunities for small, underserved, and disadvantaged businesses. The Department established Creating and Leveraging Acquisition Small Business Strategies to elevate the Department’s small business achievement, which resulted in identifying 124 small business set asides totaling \$131 million. The Department also received an “A” on the U.S. Small Business Administration’s Federal Scorecard released in July 2023.

The Office of Business Support Services developed a robotic process automation tool or “bot” to automatically close out more than 50 percent of expired but open contracts in the Contracts and Purchasing Support System (CPSS). To date, the bot has closed 57 percent of expired but open contracts, providing approximately \$1.15 million in savings to the Department.

### The Department’s Agency Priority Goals

The Department identified three Agency Priority Goals (APGs) for FY 2022 and FY 2023 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. These current APGs concluded in September 2023, and the status reports are **available online**. The Department will focus on three new APGs in FY 2024 and FY 2025.

#### 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 Objectives

**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. A summary of significant changes in financial statement line-item balances is provided in Table 1.

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*. An independent accounting firm with oversight provided by the OIG was engaged to audit the consolidated balance sheet, related notes, and underlying business processes, systems and controls. The Consolidated Balance Sheet and related notes for FY 2023 are presented in the Financial Section. The Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and related notes for FY 2023 are presented in the Other Information section.

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

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2023	FY 2022	Amount	Percentage	Amount	Percentage
<b>Balance Sheets</b>						
Fund Balance with Treasury	\$ 244.0	\$ 317.0	\$ (73.0)	-23.0%	\$ (66.1)	-20.9%
Loan Receivables, Net – Direct Loan Program	1,030.9	816.5	214.4	26.3%	294.4	36.1%
Debt Associated with Loans – Direct Loan Program	1,127.0	837.4	289.6	34.6%	325.3	38.8%
Debt Associated with Loans – FFEL Program	60.9	67.0	(6.1)	-9.1%	13.9	20.7%
Subsidy Due to Treasury	1.6	27.0	(25.4)	-94.1%	-	0.0%
<b>Statements of Net Cost (Net Program Costs)</b>						
Promote Equity for Prekindergarten through Grade 12 Students with Access to Educational Resources, Opportunities, and Inclusive Environments	100.0	90.8	9.2	10.1%	(14.0)	-15.4%
Increase Postsecondary Value by Focusing on Equity Strategies to Address Access to Affordability, Completion, and Post-Enrollment Success	(58.6)	472.6	(531.2)	-112.4%	(733.3)	-155.2%
<b>Statements of Budgetary Resources</b>						
Unobligated Balance from Prior Year Budget Authority (Net)	52.3	65.3	(13.0)	-19.9%	(18.0)	-27.6%
Appropriations (Discretionary and Mandatory)	254.7	597.2	(342.5)	-57.4%	(424.1)	-71.0%
Borrowing Authority (Discretionary and Mandatory)	472.7	178.7	294.0	164.5%	339.3	189.9%
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	70.5	60.7	9.8	16.1%	-	0.0%
New Obligations and Upward Adjustments (Total)	776.9	813.7	(36.8)	-4.5%	(442.0)	-54.3%
Unobligated Balance, End of Year (Total)	73.3	88.3	(15.0)	-17.0%	(0.1)	-0.1%
Outlays, Net	306.5	668.5	(362.0)	-54.2%	(438.6)	-65.6%
Distributed Offsetting Receipts	(347.6)	(29.1)	(318.5)	1,094.5%	(333.1)	1,144.7%



The Consolidated Balance Sheet and related notes for FY 2023 are on pages 80–99, the Independent Auditors' Report begins on page 100, and the Other Information section begins on page 115.

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 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 and FY 2023, the Department announced significant actions to provide relief to federal student loan borrowers, including extensions to the student loan repayment pause through August 31, 2023, and several additional debt relief actions. Targeted debt relief actions announced or taken during FY 2023 include:

- Fixing historical inaccuracies in the Income Driven Repayment (IDR) count system for borrowers who earned forgiveness. These fixes, which were first announced by the Biden-Harris Administration in April 2022, are part of the Department's commitment to address historical failures in the federal student loan program. Borrowers are eligible for forgiveness if they have accumulated the equivalent of either 20 or 25 years of qualifying months.
- Creating the most affordable payment plan ever—the Saving on a Valuable Education (SAVE) plan. The SAVE plan cuts payments on undergraduate loans in half compared to other IDR plans, ensures that borrowers never see their balance grow as long as they keep up with their required payments, and protects more of a borrower's income for basic needs. A single borrower who makes less than \$15 an hour will not have to make any payments. Borrowers earning above that amount will save more than \$1,000 a year on their payments compared to other IDR plans.
- Making improvements to the Public Service Loan Forgiveness (PSLF) program, including helping borrowers earn progress toward PSLF, simplifying criteria to help borrowers certify qualifying employment, and providing opportunities for borrowers to get help correcting PSLF account problems. Borrowers with Direct Loans who work in public service are also likely to benefit from the one-time account adjustment announced by the Department last year, allowing borrowers to get credit for past periods of repayment on loans that would not otherwise qualify for PSLF.

Of the debt relief actions announced by the Biden-Harris Administration, as of September 29, 2023, **3.4 million borrowers** have already had their debt relief approved, including:

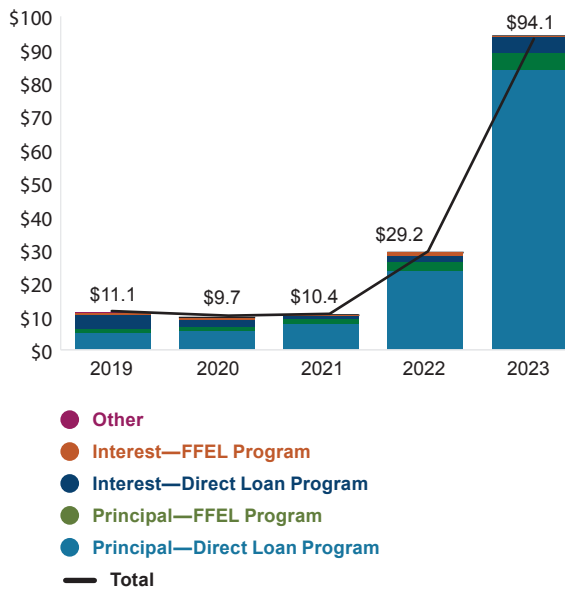
- **1.3 million borrowers** who were taken advantage of by their school, saw their school precipitously close, or are covered by related court settlements.
- More than **800,000 borrowers** who qualified for relief because of fixes to IDR plans implemented by the Biden-Harris Administration.
- More than **650,000 borrowers** through improvements to the PSLF program.
- Almost **500,000 borrowers** who have a total and permanent disability.

- Approving borrower defense and school closure discharges for borrowers whose institutions took advantage of them, including borrowers who attended Colorado-based locations of CollegeAmerica, Ashford University, and the University of Phoenix.
- Instituting a 12-month “on-ramp” to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies.
- Providing additional pathways for borrowers who have a total and permanent disability to receive a discharge. This includes allowing borrowers who receive additional types of disability review codes from the Social Security Administration (SSA) to qualify for a discharge. This also includes borrowers who later aged into retirement benefits and are no longer classified by one of these codes. Borrowers who have an established onset date of their disability determined by SSA to be at least 5 years in the past can also establish eligibility.

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.

As shown in Figure 1, cancellations of loan principal and interest increased 222.3 percent during FY 2023, primarily for the Direct Loan Program. A large portion of cancellations of loan principal and interest during FY 2023 were associated with the PSLF and IDR programs, as they made up 39.7 percent and 41.6 percent 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 for total and permanent disability.

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



**FY 2023 Loan Cancellations**  
(Dollars in Millions)

Loan Cancellation Type	FY 2023						Total
	Direct Loan Program		FFEL Program		Fees	Other	
	Principal	Interest	Principal	Interest			
Discharges for closed schools	\$ 36	\$ 2	\$ 6	\$ 1	\$ -	\$ -	\$ 45
Discharges due to death of the borrower	619	47	41	5	-	-	712
Discharges for total and permanent disability	2,799	228	458	99	-	1	3,585
Public service loan forgiveness	35,789	1,563	4	-	-	1	37,357
Borrower defense discharges	7,210	1	2,362	66	-	-	9,639
Discharges for income driven repayment plans	34,601	3,066	1,478	49	-	-	39,194
Cancellation of defaulted loans held by guaranty agencies or the defaulted loan servicer	2,525	76	618	73	41	48	3,381
Other	210	7	3	-	-	10	230
<b>Total Loan Cancellations</b>	<b>\$ 83,789</b>	<b>\$ 4,990</b>	<b>\$ 4,970</b>	<b>\$ 293</b>	<b>\$ 41</b>	<b>\$ 60</b>	<b>\$ 94,143</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 during FY 2023 for student loan borrowers by suspending nearly all federal student loan payments through August 31, 2023, interest free. Additionally, support for student loan borrowers was provided in previous fiscal years by the following COVID-19 relief legislative and administrative actions.

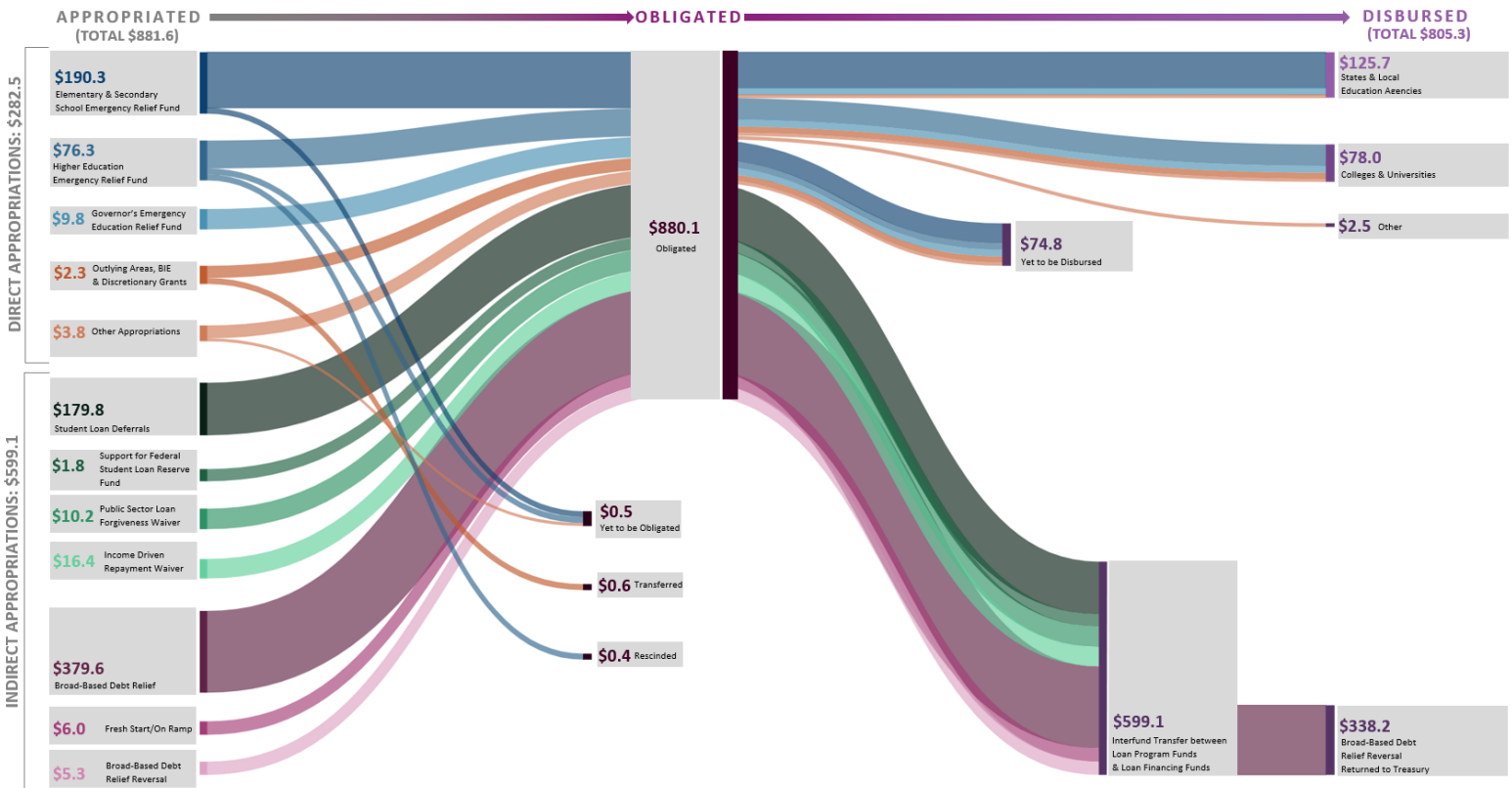
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals. This reimbursement covers the share of what a guaranty agency might have reasonably collected during the pandemic, but for the suspension.
- 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. 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 36 and in Note 13 in the Other Information section beginning on page 127.

The direct and indirect funding stemming from the combined COVID-19 relief legislative and administrative actions is summarized in Figure 2. Obligated and unobligated COVID-19 funds remaining to be disbursed as of September 30, 2023, totaled \$75.3 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 draw down 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 childcare.

**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.

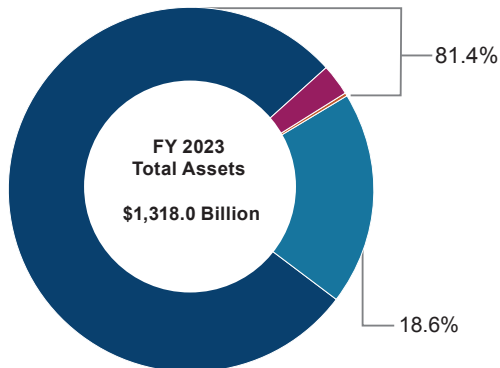
## Balance Sheet

The consolidated balance sheet presents, 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 \$1,318.0 billion as of September 30, 2023. As shown in Figure 3, most assets relate to loans receivables, \$1,073.0 billion, which comprised 81.4 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 30. All other assets totaled \$245.0 billion, most of which was Fund Balance with Treasury, \$244.0 billion, which decreased by \$73.0 billion during FY 2023, largely due to a decrease in undisbursed COVID-19 funds as of September 30, 2023.

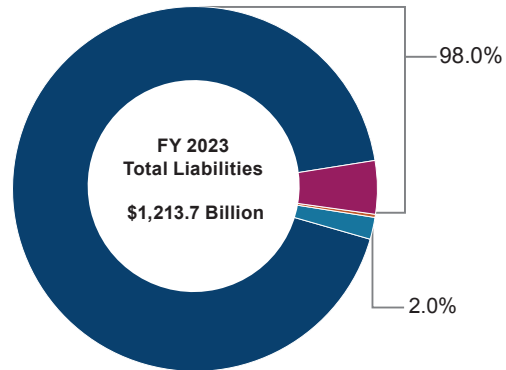
The Department’s liabilities totaled \$1,213.7 billion as of September 30, 2023. As shown in Figure 4, most of the Department’s liabilities are also associated with loan programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with the Direct Loan Program totaled \$1,127.0 billion as of September 30, 2023. Analysis of debt associated with the Direct Loan Program begins on page 33.

Figure 3. Assets by Type



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

Figure 4. Liabilities by Type

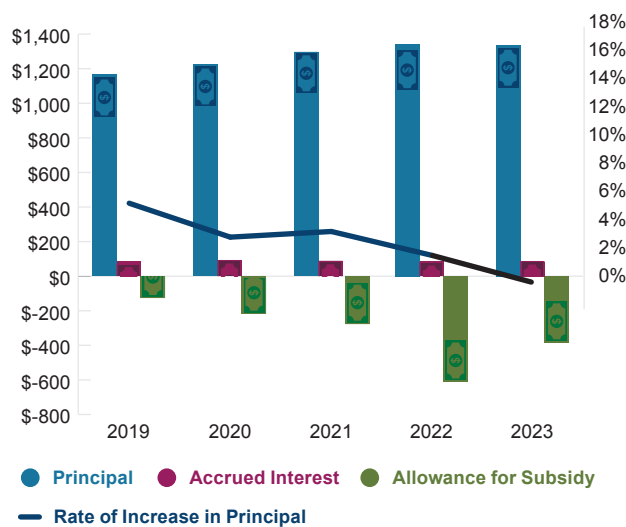


- Debt Associated with Loans**
- Direct Loans
  - FFEL Loans
  - Other Loans
  - All Other Liabilities

### 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 grew each year since 2019, except 2023, which saw a slight decrease. Although total principal has increased during these years, the rate of increase in principal slowed as enrollment stagnated and sometimes declined. Even so, new loan disbursements continued to exceed overall loan principal repayments—student loan borrowers have many options to stretch out their repayment terms and reduce their monthly payments, and student loan repayment deferrals were implemented in response to COVID-19. Accrued interest amounts have decreased in recent years due to COVID-19 relief actions to temporarily set borrower interest rates to zero percent until August 31, 2023.

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



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2019	2020	2021	2022	2023
Principal	\$1,164.9	\$1,224.8	\$1,292.2	\$1,341.8	\$1,336.2
Rate of Increase in Principal	7.5%	5.1%	5.5%	3.8%	-0.4%
Accrued Interest	\$ 83.3	\$ 92.1	\$ 86.5	\$ 86.7	\$ 83.4
Allowance for Subsidy	\$ (124.4)	\$ (216.4)	\$ (273.9)	\$ (611.9)	\$ (388.7)
Total No. of Direct Loan Recipients (in Millions)	35.1	35.9	37.0	37.1	38.1

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 2019 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 debt relief actions announced during the FY. The decrease in the negative allowance for subsidy during FY 2023 was largely due to a downward modification to reverse the inclusion of student loan debt relief from the baseline subsidy cost as a result of the Supreme Court’s ruling on *Biden v. Nebraska* on June 30, 2023 (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 36).

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

Loan Status	FY 2019	FY 2020**	FY 2021**	FY 2022**	FY 2023**
Total No. of Direct Loan Recipients (in Millions)	35.1	35.9	37.0	37.1	38.1
<b>Total Dollar Amount of Direct Loans Outstanding</b>	\$ 1,248.1	\$ 1,316.9	\$ 1,378.7	\$ 1,428.5	\$ 1,419.6
Current Repayment <sup>1</sup>	\$ 594.7	\$ 14.2	\$ 16.2	\$ 11.8	\$ 999.4
% Current Repayment	47.6%	1.1%	1.2%	0.8%	70.4%
In School, Grace Period, and Education Deferments	\$ 294.8	\$ 282.8	\$ 271.9	\$ 259.5	\$ 255.4
% In School, Grace Period, and Education Deferments	23.6%	21.5%	19.7%	18.2%	18.0%
Forbearance and Noneducation Deferments	\$ 133.2	\$ 887.5	\$ 967.8	\$ 1,039.7	\$ 57.4
% Forbearance and Noneducation Deferments	10.7%	67.4%	70.2%	72.8%	4.0%
Delinquent (Past Due 31–360 Days)	\$ 90.8	\$ 0.5	\$ 0.0	\$ 0.0	\$ 0.0
% Delinquent (Past Due 31–360 Days)	7.3%	0.0%	0.0%	0.0%	0.0%
Default/Bankruptcy/Other*	\$ 134.6	\$ 131.9	\$ 122.8	\$ 117.5	\$ 107.4
% Default/Bankruptcy/Other*	10.8%	10.0%	8.9%	8.2%	7.6%

<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 through August 2023.

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.

COVID-19 student loan repayment deferrals were in effect from March 2020 through August 2023, resulting in significantly lower reported balances for Current Repayment and Delinquent in FY 2020–2022. The COVID-19 student loan repayment deferrals placed loans in forbearance and subsequently cured delinquencies. As a result of the COVID-19 student loan repayment deferrals, the delinquent balances have been zero for FY 2021–2023.

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 \$1,127.0 billion as of September 30, 2023, which was a \$289.6 billion increase from FY 2022. Total debt increased largely because of new borrowings from Treasury during FY 2023 to fund the disbursement of new loans and downward modifications.

**Figure 6.** Direct Loan Program Cumulative Financing Activity (Dollars in Billions)

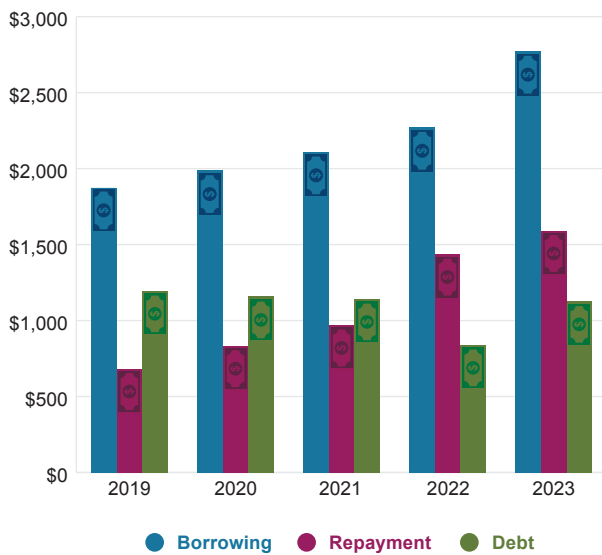
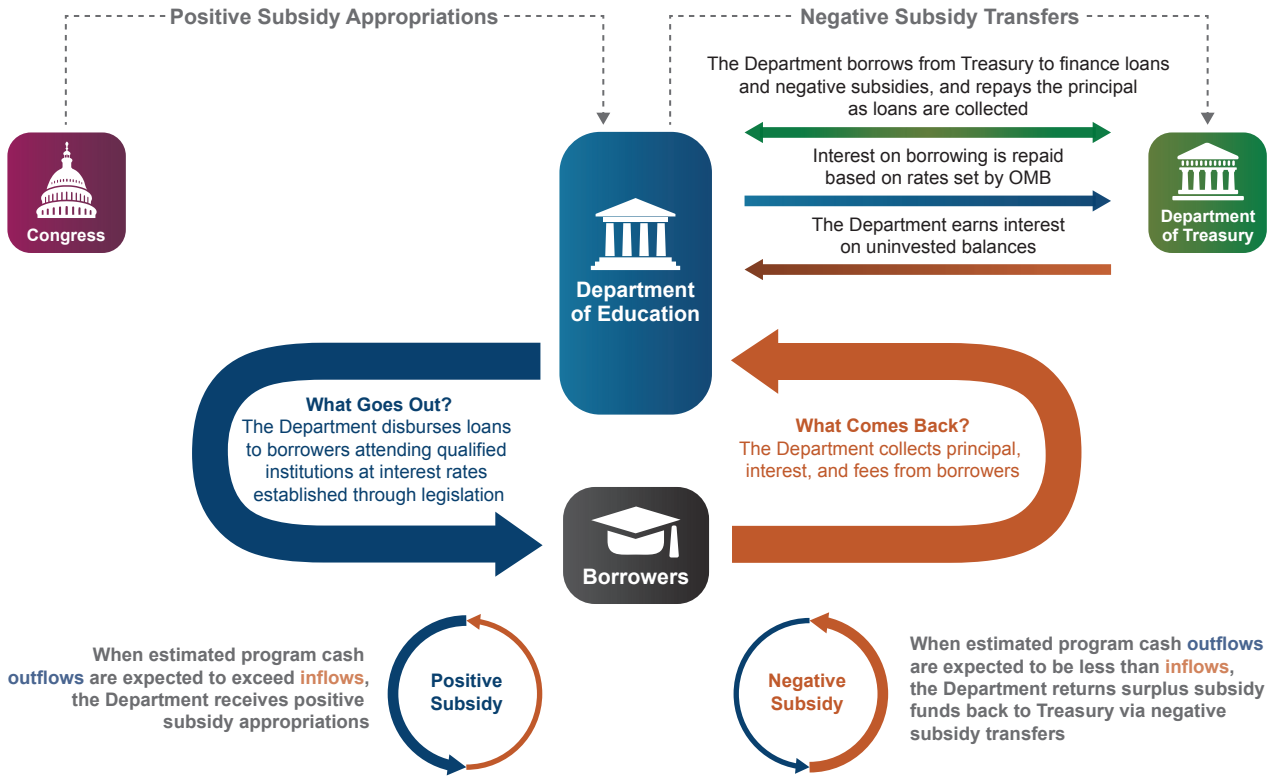


Figure 6 shows the Direct Loan Program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan Program financing process is displayed with related trend data as Figure 7 on page 34 of this report.

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



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	2019	2020	2021	2022	2023
<b>Net Borrowing</b>	\$ 41.5	\$ (32.0)	\$ (17.9)	\$ (304.8)	\$ 289.5
Borrowing from Treasury	137.6	116.9	120.0	162.8	445.0
Debt Repayments to Treasury	(96.1)	(148.9)	(137.9)	(467.6)	(155.5)
Interest Expense to Treasury	(33.8)	(34.7)	(33.0)	(30.6)	(28.2)
Interest Earned from Treasury	4.1	4.8	4.2	7.6	6.3
Cumulative Taxpayer Cost / (Savings)	124.4	216.4	273.9	611.9	388.7
Current Subsidy Expense / (Revenue)	61.5	100.9	93.9	385.4	(116.5)

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2019	2020**	2021**	2022**	2023**
<b>Loan Disbursements</b>	\$ 130.7	\$ 117.4	\$ 104.8	\$ 120.4	\$ 122.3
Stafford Subsidized	20.0	19.1	18.3	15.7	15.7
Stafford Unsubsidized	48.1	46.1	44.1	45.5	44.9
Parent Loan for Undergraduate Students (PLUS)	22.7	21.7	20.8	22.2	23.9
Consolidation <sup>1</sup>	39.8	30.4	21.5	36.9	37.8
<b>Loan Collections<sup>2</sup></b>	<b>91.3</b>	<b>69.9</b>	<b>37.2</b>	<b>45.5</b>	<b>45.9</b>
Principal	67.0	55.3	33.3	41.3	42.1
Interest	22.4	12.9	2.3	2.6	2.1
Fees	1.9	1.7	1.6	1.6	1.7

\* Numbers may not add due to rounding.

\*\* Student loan payment pause in effect from March 2020 through August 2023.

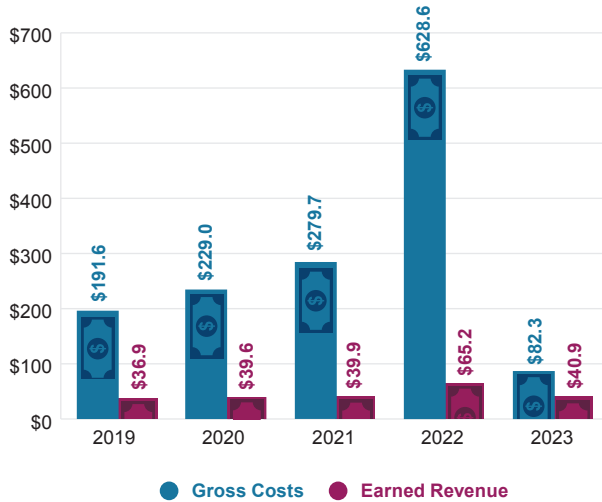
<sup>1</sup> Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

<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 discussed in more detail below, significant changes in the Department's net costs for FY 2023 were primarily due to loan modifications and re-estimates (subsidy expense) and grant expenses related to COVID-19 activities.

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



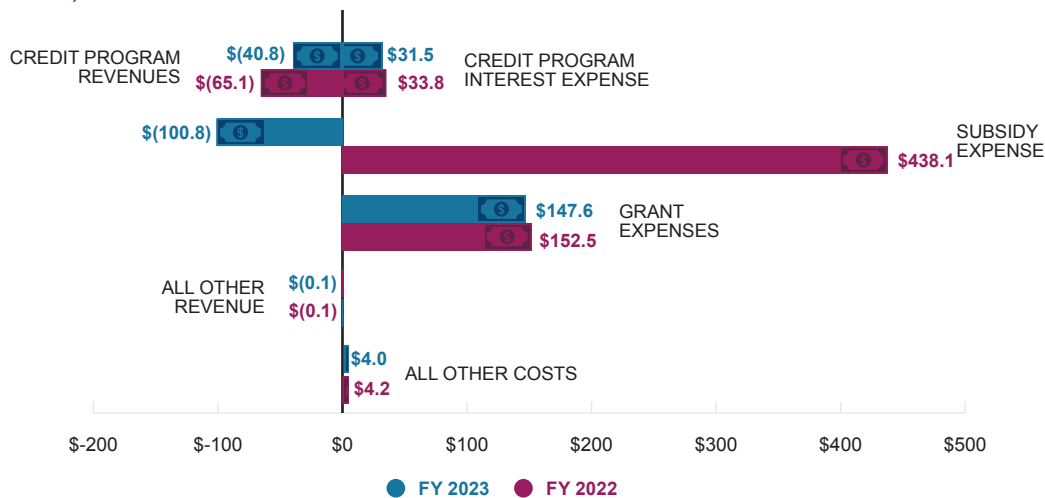
As discussed in more detail below, significant changes in the Department's net costs for FY 2023 were primarily due to loan modifications and re-estimates (subsidy expense) and grant expenses related to COVID-19 activities.

### 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.

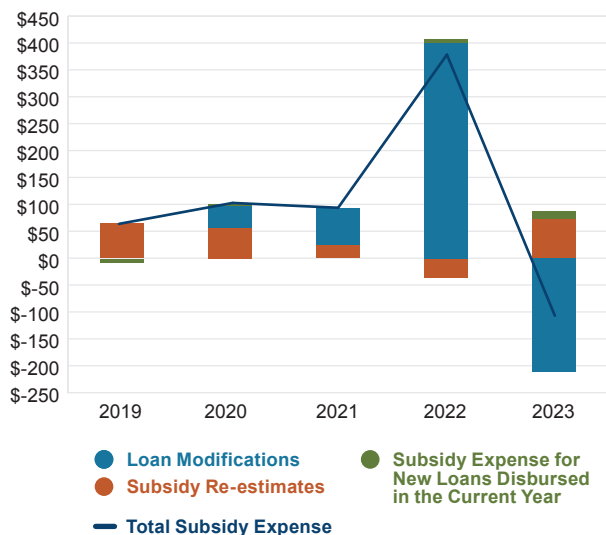
The Direct Loan Program subsidy expense for new loans disbursed was negative in FY 2019 primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or 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 in large part to rising enrollment in IDR plans, which contributes 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 2023 was a net \$71.4 billion upward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Figure 10.

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 2023, the Department recorded a total of \$204.2 billion net downward modifications. The modifications that were recorded in FY 2023 are summarized in Figure 10. 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 122.

The FY 2023 year-end subsidy re-estimates also resulted in a \$25.4 billion decrease in the Subsidy Due to Treasury shown in Table 1 on page 24 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 Consolidated Balance Sheet beginning on page 81.

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



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Subsidy Expense for New Loans Disbursed in the Current Year	\$ (3.0)	\$ 5.1	\$ 1.6	\$ 7.3	\$ 16.3
Subsidy Re-Estimates	64.5	56.1	24.0	(21.9)	71.4
Loan Modifications	-	39.7	68.3	400.0	(204.2)
<b>Total Subsidy Expense</b>	<b>\$ 61.5</b>	<b>\$100.9</b>	<b>\$ 93.9</b>	<b>\$385.4</b>	<b>\$(116.5)</b>

Subsidy Re-estimate Components	FY 2023	FY 2022
Income-Driven Repayment (IDR) Model Changes	\$ 26.5	\$ (24.0)
Prior Year's Cohort Assumption Changes	0.2	7.7
Interest on the Re-Estimate	16.8	(0.4)
Default	(0.6)	3.0
Repayment Plan Selection	4.2	(3.0)
Discount Rates	0.8	(16.6)
Non-IDR Discharges	29.9	2.9
Deferment and Forbearance	(2.3)	2.6
Collections	16.4	(1.7)
Interactive Effects	(18.2)	7.4
Other Assumptions	(2.3)	0.2
<b>Total Direct Loan Program Subsidy Re-Estimates</b>	<b>\$ 71.4</b>	<b>\$ (21.9)</b>

Loan Modification Components	Modification Costs	
	FY 2023	FY 2022
Student Loan Repayment Deferrals	\$ 23.3	\$ 48.6
Broad-Based Debt Relief	-	337.3
Shift to Business Process Operations	-	(9.1)
PSLF Waiver	4.1	9.1
IDR Waiver	-	14.1
Total and Permanent Disability Discharges	4.4	-
Interest Capitalization	3.5	-
Closed School Discharges	3.7	-
Borrower Defense to Repayment & Arbitration	4.1	-
IDR SAVE Regulation	70.4	-
Broad-Based Debt Relief Reversal	(319.9)	-
Fresh Start/On Ramp	2.2	-
<b>Total Direct Loan Program Loan Modifications</b>	<b>\$(204.2)</b>	<b>\$400.0</b>

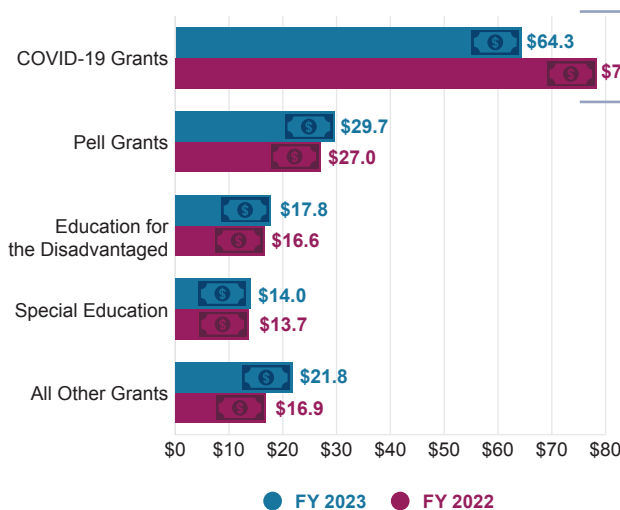
## Grant Expenses

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 16 in the Other Information section beginning on page 142. In addition to COVID-19 funded grants, the Department has more than 100 other grant 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, or 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 assist 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.

The Department also 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 2023	FY 2022
<b>Education Stabilization Fund:</b>		
Elementary and Secondary School Emergency Relief Fund	\$ 52,832	\$ 48,502
Higher Education Emergency Relief Fund	7,238	25,976
Governor’s Emergency Education Relief Fund	2,354	2,654
Outlying Areas & Discretionary Grants	406	312
<b>Total Education Stabilization Fund</b>	<b>62,830</b>	<b>77,444</b>
Other COVID-19 Grants	1,451	865
<b>Total COVID-19 Grants</b>	<b>\$ 64,281</b>	<b>\$ 78,309</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.

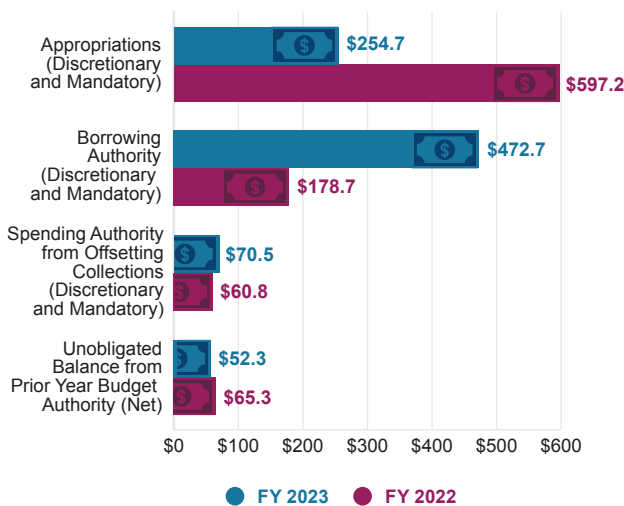
### Statements of Budgetary Resources

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 \$850.2 billion for FY 2023, decreasing from \$902.0 billion, or 5.7 percent, from the prior year. This decrease was primarily due to a net \$342.5 billion decrease in appropriations received, of which \$337.7 billion was for a decrease in Direct Loan Program appropriations for subsidy re-estimates and modifications. The decrease in appropriations was offset by a new \$293.9 billion increase in borrowing authority, primarily for the Direct Loan Program, which increased by \$281.4 billion.

Other significant changes to the Department’s combined statement of budgetary resources compared to the prior year include the following:

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



- Unobligated Balances from Prior Year Budget Authority (Net) decreased by \$13.0 billion, or 19.9 percent. Of this decrease, (\$18.0) billion was due to COVID-19 funded balances.
- New Obligations and Upward Adjustments (Total) decreased by \$36.8 billion, or 4.5 percent, primarily due to a net \$20.1 billion decrease for the Direct Loan program. The change in the Direct Loan program includes the combined effect of differences in subsidy cost re-estimates and modifications that were executed during the two fiscal years.
- Unobligated Balance, End of Year decreased by \$15.0 billion, or 17.0 percent. This decrease was largely due to a \$13.6 billion decrease in unobligated balances for the FFEL guaranteed loan program financing account.

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

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

	FY 2023	FY 2022
<b>Outlays, Net</b>		
Credit Programs	\$ 155.6	\$ 510.0
Grants	147.6	155.3
Contractual Services	2.5	2.5
Personnel Compensation and Benefits	0.8	0.7
<b>Total Outlays, Net</b>	<b>\$ 306.5</b>	<b>\$ 668.5</b>
<b>Distributed Offsetting Receipts</b>		
Negative Subsidies and Downward Re-Estimates of Subsidies	(346.7)	(28.2)
Repayment of Perkins Loans and Capital Contributions	(0.5)	(0.7)
Other	(0.4)	(0.2)
<b>Total Distributed Offsetting Receipts</b>	<b>\$ (347.6)</b>	<b>\$ (29.1)</b>
<b>Disbursements, Net</b>		
Direct Loan Program		
Gross Disbursements	\$ 483.0	\$ 177.6
Offsetting Collections	(195.5)	(526.6)
Total Direct Loan Program Disbursements, Net	287.5	(349.0)
FFEL Program		
Gross Disbursements	26.0	10.3
Offsetting Collections	(16.9)	(43.6)
Total FFEL Program Disbursements, Net	9.1	(33.3)
Other Loan Programs		
Gross Disbursements	0.3	0.5
Offsetting Collections	(0.2)	(0.5)
Total Other Loan Program Disbursements, Net	0.1	-
<b>Total Disbursements, Net</b>	<b>\$ 296.7</b>	<b>\$ (382.3)</b>

Outlays, Net is comprised of gross outlays and offsetting collections in the Department's budgetary funds. Outlays, Net decreased \$362.0 billion (54.2 percent) due primarily to a decrease of \$330.1 billion in Direct Loan Program outlays, including upward loan modifications and re-estimates.

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. Of the \$318.5 billion net decrease in FY 2023 versus FY 2022, \$304.7 billion 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 \$679.0 billion net increase in FY 2023 versus FY 2022, \$636.5 billion was attributed to the Direct Loan Program and primarily attributed to changes in the subsidy re-estimates and modifications during the fiscal years.



# Analysis of Systems, Controls, and Legal Compliance

## Management Assurances

### Management Control Program

The Department's system of internal control is comprehensive and requires all Department managers to establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible for ensuring adequate controls over all Department operations. As such, the Department's management is responsible for managing risks and maintaining effective internal control.

The *Federal Managers' Financial Integrity Act* (FMFIA) requires the head of each agency to conduct an annual evaluation in accordance with prescribed guidelines and provide a Statement of Assurance (SOA) to the President and Congress. The Secretary of the Department of Education's Fiscal Year 2023 SOA provided below is the final report produced by the Department's annual assurance process.

### **SECRETARY'S STATEMENT OF ASSURANCE FISCAL YEAR 2023 November 16, 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 FMFIA. 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 modified assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2023, due to the following material weakness:

The material weakness is related to the subsidy estimate for the Department's Direct Loan (DL) and Federal Family Education Loan (FFEL) student loan portfolios. The Department is required to perform interest rate and technical re-estimates of the subsidy costs (commonly referred to as subsidy re-estimates) of its direct loan and loan guaranty programs as of September 30th every year. These subsidy re-estimates

are calculated using an internally developed cash flow model, the Student Loan Model (SLM). In FY 2023, the external financial statement auditor and FSA separately identified errors in the data in the system that was used in key assumptions for the SLM. FSA has corrected some of the identified errors and is continuing to research other known issues to identify and implement corrective actions.



Miguel A. Cardona, Ed.D.

## Introduction

The FMFIA requires the Government Accountability Office (GAO) to prescribe standards of internal control in the Federal Government, which is titled *GAO's Standards for Internal Control in the Federal Government* commonly known as the Green Book. These standards provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

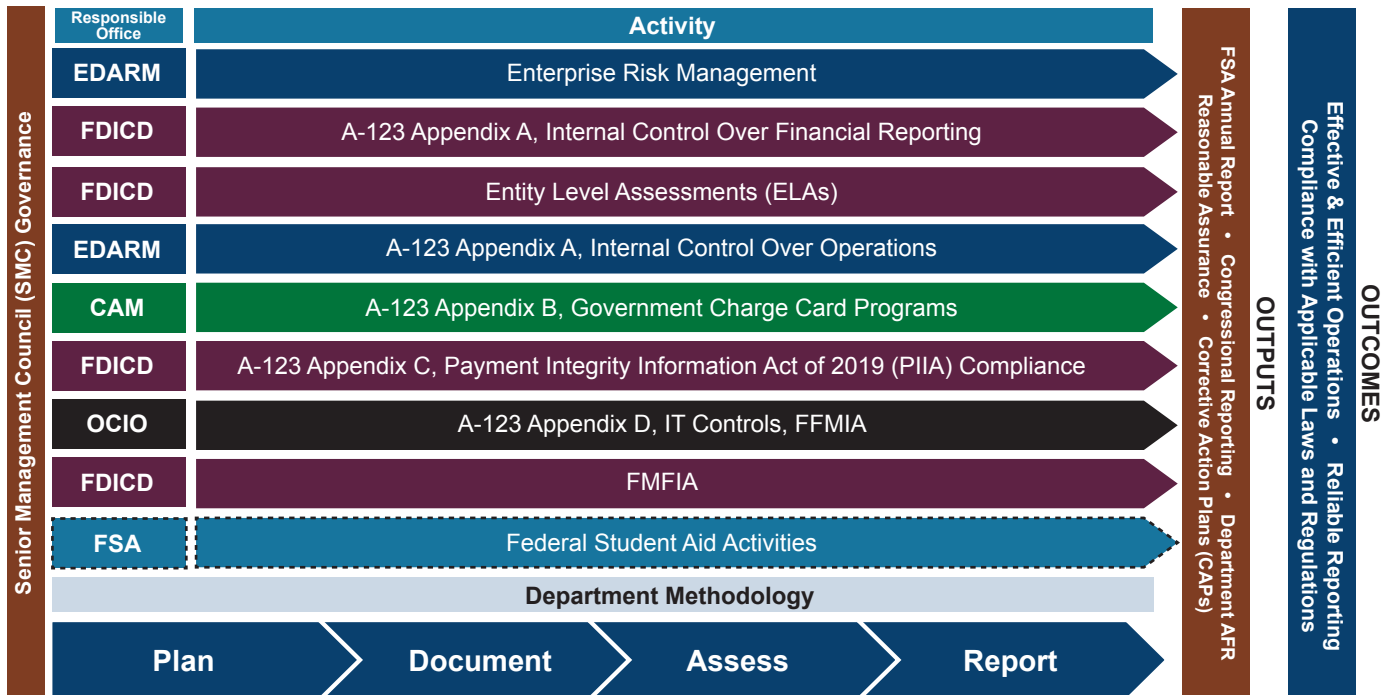
- *Operations*—Effectiveness and efficiency of operations.
- *Reporting*—Reliability of reporting for internal and external use.
- *Compliance*—Compliance with applicable laws and regulations.

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. This section describes the Department's internal control framework and explains assurances provided by the Department's leadership.

## Internal Control Framework

The Department's internal control framework helps 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's comprehensive internal control framework and assurance process is depicted in the following diagram in Figure 13.

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 worked to evolve its existing internal control framework to be more value-added and provide for stronger risk management for the purpose of improving mission delivery. The Department’s Senior Management Council (SMC) oversees the Department’s management control program. Individual SOAs from Assistant Secretaries in Principal Office Components (POCs) serve as the primary basis for the Department’s FMFIA SOA issued by the Secretary. The SOAs are based on information gathered from various sources including managers’ personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of Inspector General and the GAO conduct reviews, audits, inspections, and investigations that are considered by management.

The Department’s Office of Finance and Operations (OFO) employs an integrated process to perform the work necessary to meet the requirements of OMB Circular A-123’s Appendix A and Appendix C (regarding Payment Integrity), the FMFIA, and GAO’s Green Book. Green Book requirements directly relate to testing entity-level controls, which is a primary step in operating an effective system of internal control. Entity-level controls reside in the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control in the Green Book, which are further analyzed by 17 underlying principles of internal control. For the Department, all five internal control components and 17 principles were assessed in support of the Department’s FY 2023 SOA.

The Department employs a risk-based approach in evaluating internal controls over reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the divisions who assess key controls, the Department was able to evaluate issues on a detailed level. The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. Numerous Department organizational entities provided oversight during FY 2023 for the internal controls over reporting program in place to meet the requirements of OMB Circular A-123, Appendix A. These entities include the Division of Enterprise Data Analytics and Risk Management (EDARM), Financial Data Integrity and Controls Division (FDICD), Contracts and Acquisitions Management (CAM), Office of the Chief Information Officer (OCIO), and Federal Student Aid (FSA). To that end, the Department has dedicated considerable resources to administer a successful management control program. As noted in the Secretary's Statement of Assurance, the Department identified one material weakness in control operation and design.

The Department also places emphasis on the importance of continuous monitoring. It is the Department's policy that any organization with a material weakness or significant deficiency must prepare and implement a corrective action plan to correct the weakness. The plan, combined with the individual SOAs and Appendix A assessments, provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct and focus efforts to resolve any deficiencies in internal control identified by management and auditors.

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.

Additionally, during FY 2023, the Department continued taking important steps to advance its Enterprise Risk Management (ERM) program.

### **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.

The ERM Annual Assessment process includes the following key steps:



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 2023 Department of Education ERM profile was published with the aggregated result and analysis from the annual assessment process. This profile highlights the top 15 risks for the Department around the following 6 main functional processes:

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

In FY 2023, after launching the ERM digital tool for collecting, analyzing, and reporting risk data, EDARM continued to enhance the tool based on user feedback and is building additional capabilities and visual analysis for all stakeholders to further monitor and evaluate trends and results.

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.

### 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 Green Book and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

In FY 2023, the Department and Federal Student Aid (FSA) did identify one material weakness related to the reliability of reporting. 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 Inspector General (OIG) in its FY 2024 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

Annually, the Department evaluates its POCs' internal control system using the 17 GAO Green Book principles to ensure entity level control objectives are met. These evaluations assist POCs in producing a letter of assurance each year by September 30, documenting their internal control system, identifying any control deficiencies, and noting any major improvements or challenges.

In FY 2023, the external financial statement auditor and FSA separately identified errors in the data in the system that was used in key assumptions for the SLM. FSA has corrected some of the identified errors and is continuing to research other known errors to identify and implement corrective actions.

In FY 2023, the Department tested a proportionate number of key financial controls in significant business processes based on qualitative process risk assessments and rotational test plans. The internal controls assessment did not find any material weaknesses. 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.

In addition, the Department's shared service provider, the U.S. Department of the Interior (DOI)/ Interior Business Center (IBC), uses the Federal Personnel and Payroll System (FFPS) to process its payroll. DOI's auditor tested FFPS and the results of their FY 2023 review indicated that the controls tested were operating effectively, providing reasonable assurance that the control objectives specified were achieved during that period.

### Internal Control Over Operations

In FY 2023, 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 stakeholder outreach, 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 significant achievement has been the creation of the acquisition portal and dashboard, which enhances and streamlines the acquisition management process by providing a solitary access point for gathering, editing, and reviewing submissions and enabling accountability and transparency throughout the Department. The dashboard provides the Department with the ability to present decision-makers with clearly understood data to spot important acquisition trends and resources across the agency.

## 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).

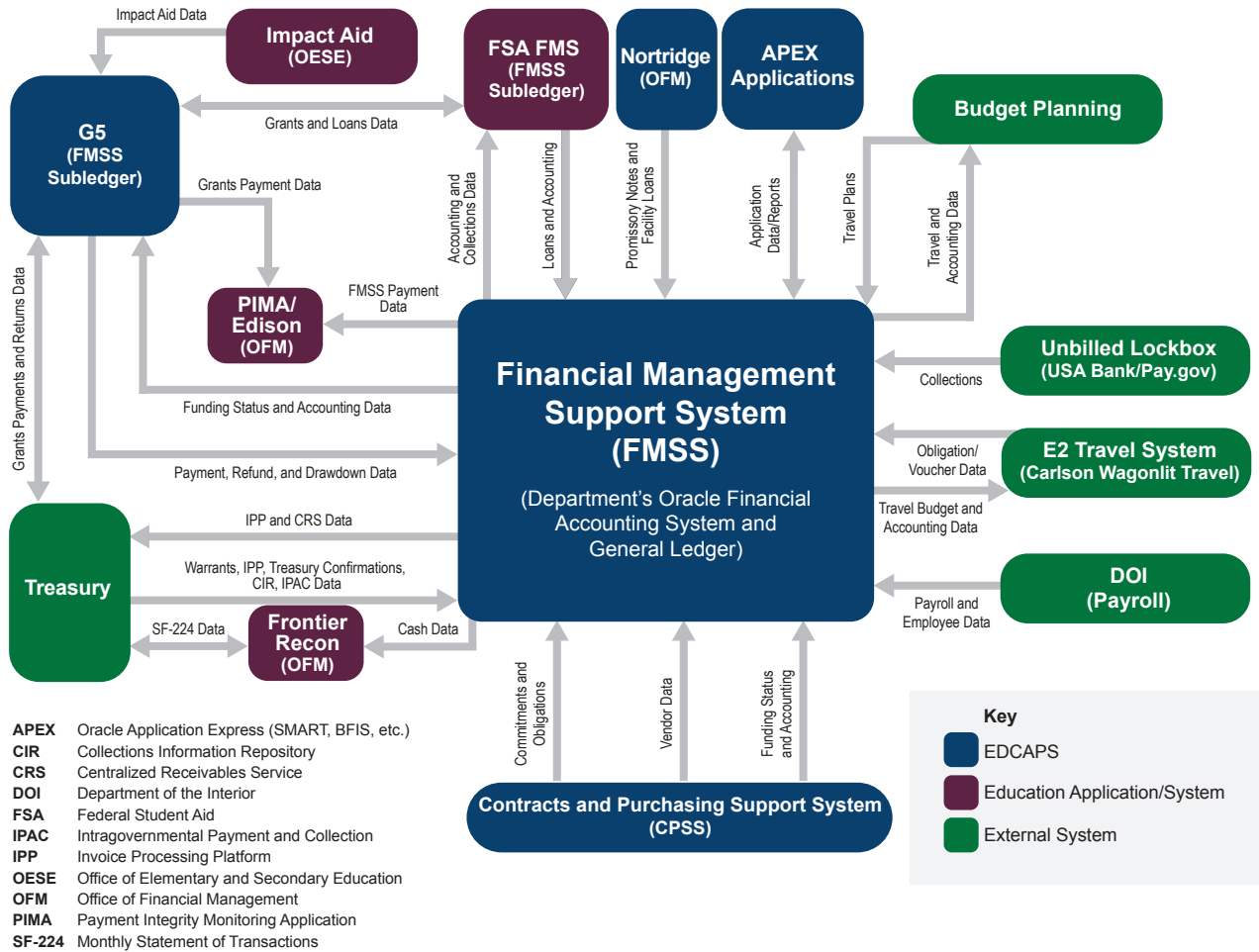
EDCAPS is composed of five main integrated components:

- 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 is 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 numerous Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States and territories, as follows:

- G5 – 825
- CPSS - 710
- FMSS - 400
- E2 – 3,720

EDCAPS is serving approximately 45,790 external users, mostly users of Grants Management System (G5). In FY 2023, the Department conducted an annual risk assessment of EDCAPS and tested 86 IT security controls out of a baseline of 630 IT security controls, as follows:

- EDCAPS—15
- FMSS—3
- CPSS—27
- G5—33
- E2—8

The Department designated the FMSS as a mission-critical system that provides core financial management services and focused its system strategy on the following areas during FY 2023:

- 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* and *Digital Accountability and Transparency Act of 2014*.
- 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, Centralized Receivables Service invoices, warrants, Treasury confirmations, Collections Information Repository collections and administrative return, collections/payments).
  - 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, except for the material weakness reported in the Secretary's Statement of Assurance. The financial

statement auditors, in their independent assessment, concluded that the Department did not substantially comply with FFMIA requirements, and the Department concurred. 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. However, the Department reports some areas of non-compliance:

#### ***The Federal Managers' Financial Integrity Act (FMFIA)***

***Federal Managers Financial Integrity Act of 1982 (FMFIA), Pub. L. 97-255 – (H.R. 1526)*** was enacted into law on September 8, 1982.

The FMFIA establishes overall requirements with regard to internal control and requires the agency head to certify annually to the President and Congress whether there is reasonable assurance that the Department's internal controls are achieving their intended objectives. This is also noted in the Office of Management and Budget Circular A-123 (OMB A-123), *Management's Responsibility for Enterprise Risk Management and Internal Control*, which implements the FMFIA.

The Department's management performed an internal control assessment as required under FMFIA; however, management's assessment did not comply with limited requirements within the FMFIA and the related OMB A-123 requirements. Specifically, the Department did not identify and document specific and limited financial statement risks and the associated controls that were responsive to those specific risks. Additionally, the Department's management internal controls did not properly identify specific risks impacting the data used to calculate the subsidy re-estimates used in the consolidated financial statement. This resulted in the lack of timely identification of errors in data that impacted subsidy re-estimates in the consolidated financial statements.

#### ***Federal Financial Management Improvement Act of 1996 (FFMIA)***

***Federal Financial Management Improvement Act of 1996 (FMFIA), Pub. L. 104-208, Title VIII (31 U.S.C. 3512 note)*** was enacted into law on September 30, 1996.

The FFMIA requires the Department to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Appendix D to the Office of Management and Budget (OMB) Circular A-123 provides the FFMIA Compliance Determination Framework that is used in determining whether the Department's financial management systems comply substantially with FFMIA requirements. Per section 806 of the FFMIA, "financial management systems" includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

The Department did not meet limited FFMIA requirements due to an inadequate risk assessment over specific key processes and data used in the consolidated financial statement. As a result, the Department did not comply with FFMIA, increasing the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statement.

### ***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>3</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 2022, the OIG concluded that the Department did not comply with the PIIA for the FY 2022 reporting period because it did not meet one of the six compliance requirements. Specifically, the Department reported improper payment and unknown payment estimate rates that exceeded 10 percent.

For the Title I program, the Department reported an improper payment and unknown payment estimate that exceeded 10 percent for the second consecutive year. 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. In addition, the Department's OIG determined that the improper payment and unknown payment estimates for each of the five programs (Title I, Special Education, Education Stabilization Fund, Pell Grant, and Direct Loan) were not reliable. Specifically, for the Title I and Special Education programs, the improper payment and unknown payment estimates were based on inaccurate sampling populations. Further, for the Title I, Special Education, and Education Stabilization Fund programs, the Department's testing results were inaccurate.

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

Additionally, auditors determined that the Department's overall IT security program and practices are effective, as eight out of the nine FISMA domains met the requirements needed to operate at a Level 4 maturity rating, indicating the systems security is Managed and Measurable.

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

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

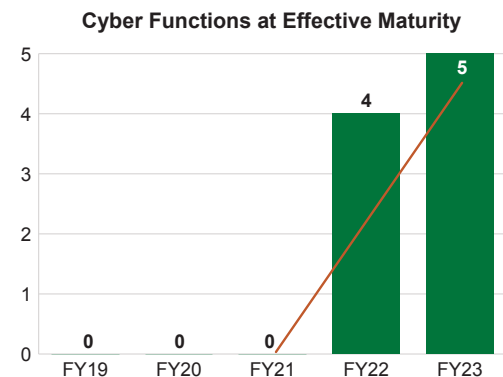
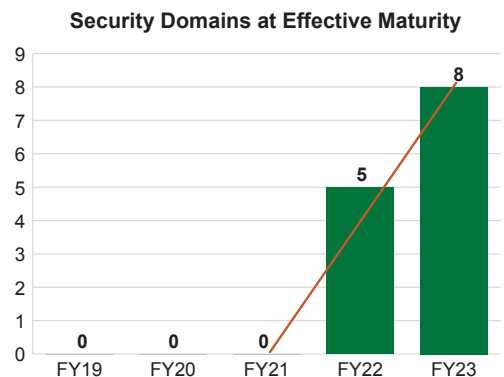
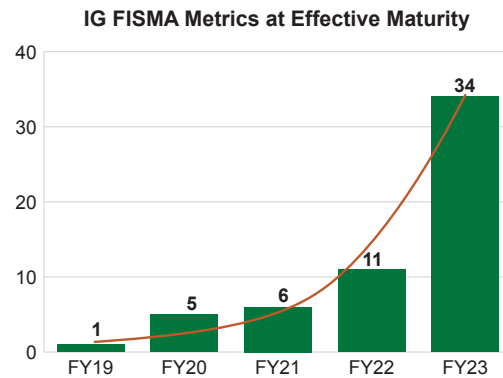
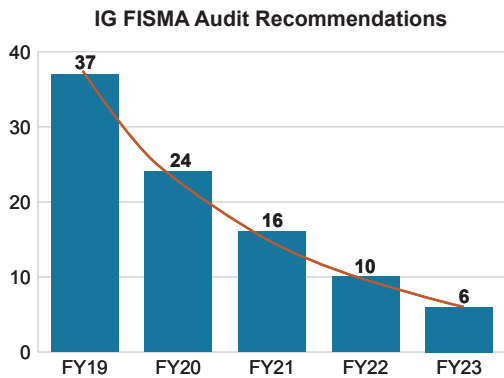
The Department's and FSA's information security programs completed numerous significant activities in FY 2023 to improve cybersecurity capabilities and functions, some of which include:

- In FY 2022, the Department received an overall FISMA assessment of "Effective," or a Level 4 Cybersecurity Maturity Level. This score was the highest achieved by

<sup>3</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.

the Department since the scoring metrics were established in 2014. In FY 2023, the Department was again assessed to be overall “Effective.” However, in FY 2023, all five cybersecurity functions were assessed to be operating at Level 4. This is the first time the Department has achieved such a result which reflects significant strides in advancing the Department’s cybersecurity maturity and effectiveness across all functions and 8 of 9 security domains which make up those functions as supported by information in the graphics below.

Security Function	Metric Domain	Maturity Level	Change from 2022	Met Federal Goal
Identify	Risk Management	Managed and Measurable	▲	✓
Identify	Supply Chain Risk Management	Managed and Measurable	▲	✓
Protect	Configuration Management	Managed and Measurable	=	✓
Protect	Identity and Access Management	Consistently Implemented	=	
Protect	Data Protection and Privacy	Managed and Measurable	▲	✓
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	=	✓



- In FY 2023, the Department continued advancing its cybersecurity capabilities, policies, and procedures as well as implementing priority capabilities to reduce risk in support of requirements levied from Office of Management and Budget (OMB) and Department of Homeland Security (DHS), including those documented within Executive Order on Improving the Nation's Cybersecurity (EO 14028). The Department was the first cabinet-level Department to receive funding from the TMF and successfully adopted a SASE solution in support of advancing its ZTA capabilities in support of federal requirements as outlined in OMB Memorandum M-22-09. SASE has modernized the Department's cybersecurity posture through migrating away from legacy Virtual Private Networks (VPN). The new solution leverages cloud native capabilities to enhance the teleworking employees' experiences, including providing 10x faster connection speed than the legacy VPN access, reducing the number of logins required for applications, and increasing performance for tools such as Microsoft Teams, Outlook, Zoom, and other applications and data while modernizing the Department's Cybersecurity posture.
- The Department issued a contract with a professional service provider to modernize and enhance its Enterprise ICAM (Identity, Credential, and Access Management) solution beginning in September 2022 and aligns with the OMB Memorandum M-22-09, Moving the U.S. Government Toward Zero Trust Cybersecurity Principles requirements to meet specific cybersecurity standards and objectives by the end of FY 2024. The ICAM program continues to provide improved security features and functionality which enhance the security posture of the Department. The Enterprise ICAM service has been working to integrate all Department information systems with modern, phishing resistant authentication services, and has instituted a single sign-on (SSO) capability through a centralized user portal for Department employees and contractors to access their Microsoft Office 365 applications.
  - Enterprise ICAM provides the following new capabilities to the Department: self-service password reset functionality and security information registration; certificate-based authentication to support native personal identity verification (PIV) in cloud service provider SSO; and identity lifecycle management capabilities to enable automated user account provisioning and deprovisioning. Enterprise ICAM has also integrated with the ED Cyber Data Lake (EDCDL) to develop a centralized identity dashboard to improve transparency into identity related metrics that align with OMB Memorandum M-22-09, Moving the U.S. Government Toward Zero Trust Cybersecurity Principles, and OMB Memorandum M-21-31, Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents, for user and privileged user logging requirements.
  - The Department's ICAM program was successful in integrating with Login.gov for public users and was integral to instituting multifactor authentication (MFA) deployment across the Department through integrating PIV validation of Department organizational users. Through the implementation of ICAM, Department online resources are more secure for users to access through implementation of phishing resistant authentication and improved visibility. Implementation also strengthens the Department's access management capabilities by reducing the risk of successful phishing cyber-attacks across the Department's enterprise and ensuring the right people have the right level of access to Department resources. Users experience a superior interaction with the Department's services as they will log on substantially fewer times and will need to remember fewer passwords and pins.

- The Department's accomplishments in maturing its risk management capabilities, specifically the maturation of the Cybersecurity Framework (CSF) Risk Scorecard, has been recognized by other Federal Agencies, including OMB, as an optimized capability in managing and communicating cybersecurity risk. The Department of Commerce, Department of Justice, Department of Transportation, and Nuclear Regulatory Commission have all requested playbooks for the development and implementation of CSF-based risk scoring capabilities in their environments based upon our constructs. Released in November 2022, version 3.0 of the ED CSF Risk Scorecard now aligns National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 5 security and privacy controls to the NIST CSF objectives as well as the NIST Privacy Framework (PF) Ver. 1.0. The ED CSF Risk Scorecard provides continuous measurement and risk prioritization of key metrics for system stakeholders, POC leadership, and Department executive leadership on a daily, monthly, and quarterly basis.
- On April 14, 2022, the Department's CISO issued a memorandum for Recission of Department Standard PR.AC: Emergency PIV Alternative. On May 5, 2020, to address the closure and limited operating capacity of Federal Government badging offices due to the coronavirus 2019, OCIO issued Standard PR.AC: Emergency PIV Alternative Standard. This standard provided authorization to access Department systems for those who did not hold a valid PIV but have been cleared by the Department's Office of Personnel Security. OCIO has determined Standard PR.AC: Emergency PIV Alternative Standard is now unnecessary as Federal Government badging offices are now open and are at normal operating capacity. This memo serves to drive actions necessary to ensure the Department's workforce is using the strongest multifactor authentication possible in alignment with Executive Order 14028.
- The integration of supply chain risk management (SCRM) assessments with the Department's Enterprise Architecture Technology Insertion process, also known as the (EATI) process, successfully identified 15 CFR Part 7 concerns with Eclipse DB and 7-zip resulting in Deep Dive reviews and the creation of plan of action and milestones for mitigation. SCRM has also been integrated into the CSF Risk Scorecard to strengthen the ability to measure and monitor supply chain risk. This integration has allowed the Department to identify risks and empowered senior leadership the ability to accept, mitigate, or transfer supply chain risk appropriately within the Department.
- The Department continued to build on FY 2022 awards and received multiple recognitions and multiple awards in FY 2023 from the Federal Information Security Educators Association (FISSEA). FISSEA is an organization run by and for Federal government information security professionals to assist Federal agencies in strengthening their employee cybersecurity awareness and training programs. These awards include Awareness Training Category award for the Cybersecurity and Privacy Awareness Escape Room course; Innovative Solutions award for badges awarded for high levels of symposium participation and top reporters of phishing exercises; and Awareness Newsletter award for the Department's Bits and Bytes awareness newsletter. Following receipt of these awards, the Department of Energy, Postal Regulatory Commission, Social Security Administration, Department of Health and Human Services, Department of Labor, Department of Commerce, and Consumer Financial Protection Board reached out to the Department and requested meetings to learn more about the Department's program and obtain guidance and direction on how to build and maintain an effective training program.

- From an incident response perspective, there have been no major cybersecurity incidents across the Department in FY 2023. To bolster collaboration and interagency coordination, the Department has also allocated a dedicated resource to work with law enforcement and the National Cyber Investigative Joint Task Force. The Department also continued maturing its cyber threat intelligence and cyber hunt capabilities by establishing dedicated resourcing to interface with the intelligence community for Department of Education-specific threat indicators.
- The Department, in coordination with 18 Federal agencies through the Memorandum 21-31 (M-21-31) working group, is leading the government's efforts to determine impact, applicability, and legal ramifications for statistical data collection for event logging. Adhering to Executive Order (EO) 14028 (Section 8) to improve the Nation's Cybersecurity, the implementation M-21-31 will strengthen the Department's event logging capabilities to better identify, investigate and prevent cyber-attacks such as data breaches, identity theft, and other types of cybercrime. Without this capability, the Department will be unable to aid law enforcement and national security partners when a cyber-attack impacts the Department. This can lead to prolonged attacks degrading, disrupting, and limiting services. Furthermore, Department staff will be unable to answer questions to Congress and oversight bodies about what happened, when it started, and how staff resolved the issue in cybersecurity breaches and incidents.
- On February 27, 2023, OMB Memorandum M-23-13, "No TikTok on Government Devices" Implementation Guide, was issued. The Department issued the appropriate CISO memorandum to all Department employees and contractors to remove TikTok and any successor application or service developed or provided by ByteDance Limited or subsidiary from ED devices and providing instructions and deadlines for its removal. Further the Department was able to leverage its newly deployed ZTA tools, SASE, to begin blocking TikTok by its application identifier.
- In support of the Department's maturation plan for the Education's Security Operations Center (EDSOC), efforts are underway to build out a consolidated and centralized SCIF for use by the Department and FSA. This new SCIF will provide a secure room for classified briefings as well as serve as a disaster recover site to ensure continuity of business operations in the event of an emergency and deemed necessary.
  - In February 2023, the Department and FSA combined Security Information and Events Management licenses and migrated FSA's data to the EDCDL in August 2023. In doing so, the Department saved in FY 2023, this migration drastically increased the opportunity for information sharing between EDSOC and FSA Security Operations Center incident response analysts allowing the Department to adhere to EO 14028 and OMB M-21-31.
  - The Department also enhanced its data loss prevention (DLP) capability through an engagement with DHS CISA under the Secure Cloud Business Applications project which provided guidance and capabilities to secure cloud business application environments and protect federal information that is created, accessed, shared, and stored. The Department has also gone above and beyond by taking the next steps to include DLP looking for things like Federal Tax Information and Employer Identification Number.



- The Department's Information System Security Support Services (I4S) executed a Blanket Purchase Agreement (BPA), as well as I4S BPA Call Order1 to provide Support Services related to Program Management Support, Governance, Risk and Compliance Tool (CSAM) Support, and Contractor Information System Security Officer (ISSO) Support. The Department will now be able to execute call orders against this BPA to procure Information System Owner, ISSO, and Vulnerability Management and Security Engineering services.

## Forward-Looking Information

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>4</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 75 percent of the direct loan portfolio was in mandatory administrative forbearance when the student loan repayment deferral period ended on August 31, 2023.
- As of September 2023, more than 9.9 million direct loan recipients were enrolled in IDR plans. Overall, as of September 2023, about 50 percent of direct loan dollars and more than 32 percent of direct loan 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.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Gen FSA, see page 63.
- 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.

<sup>4</sup> <https://www.stlouisfed.org/publications/regional-economist/2023/mar/return-investing-college-education>

## 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 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:

**Return to Repayment:** 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 ended. Interest began accruing on September 1, 2023, and the first payments were due in October. To help borrowers successfully return to repayment, the Department created a temporary on-ramp period through September 30, 2024. This on-ramp period protects borrowers from having a delinquency reported to credit reporting agencies. This prevents the worst consequences of missed, late, or partial payments. While payments will be due and interest will accrue, interest will not capitalize for the duration of the on-ramp period. There is uncertainty regarding cost estimates as millions of borrowers have not been required to make monthly payments on their federal student loans since March 2020 and a large portion of those borrowers have no previous experience in making loan payments.

**Income-Driven Repayment Plans:** On July 10, 2023, the Department published a Final Rule to revise the current Revised Pay As You Earn (REPAYE) repayment plan which may also be referred to as the Saving on a Valuable Education (SAVE) plan. The revised plan will result in lower monthly payments for nearly all qualifying borrowers (among those who did not already have a \$0 monthly payment). Provisions of the plan are being implemented on a tiered schedule with some provisions currently effective and others effective July 1, 2024.

IDR plans tend to be more costly to the government than non-IDR plans. For the 2023 loan cohort, it is estimated that the government will recover 57 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 introduction of the SAVE plan has made IDR terms more generous and 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 September 30, 2023, the total number of borrowers who received forgiveness from the PSLF waiver exceeded 673,000. The value of this forgiveness totaled \$46.6 billion. Including TEPSLF and PSLF discharges processed before the waiver period, the value of forgiveness exceeded \$52.1 billion and included 730,000 borrowers.

As of September 30, 2023, the number of borrowers with certified employment totaled 2.09 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. Borrowers may certify public service employment one year at a time, rather than certifying all 10 years at once, and this process also makes the number

of borrowers with certified employment higher than the number who have received forgiveness. Any future congressional or regulatory action that may affect eligibility for PSLF continues to be an area of uncertainty.

**Broad-Based Debt Relief:** On June 30, 2023, the Supreme Court ruled that the Secretary does not have authority under the *Higher Education Relief Opportunities for Students Act of 2003* (HEROES Act) to establish a student loan forgiveness program. In response, the Secretary initiated a rulemaking process aimed at opening an alternative path to debt relief using the authority under the *Higher Education Act*.

**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*). The court granted final approval to the settlement as fair, adequate, and reasonable on November 16, 2022. In the settlement, 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 2023 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 2023. 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.

From the second quarter of 2020 until the expiration of the federal Public Health Emergency on May 11, 2023, the COVID-19 pandemic caused widespread disruption to the American economy. The emergency relief measures provided by Congress and the President resulted in flexibilities for federal student loan borrowers, 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 were 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 2018–22, resulted in a projected increase in the re-estimate of \$3.0 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 continue to closely monitor wage growth following 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 in recent years. 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 \$114.1 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 5,400 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 legacy federal student aid environment, students and families navigated a complex and fragmented landscape and interacted with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. This poor customer experience created confusion and resulted in customers failing to understand how to apply for and maintain their aid eligibility. As a result, federal student loan borrowers often do not know for which loan forgiveness and repayment options they qualify. Additionally, operational complexities resulted in higher administrative costs and hindered effective oversight of the Department's vendors.

### Next Gen FSA Environment

As part of the Next Gen FSA initiative, 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. In addition, the FSA Partner Connect website—**fsapartners.ed.gov**, which was launched as a part of the Next Gen FSA initiative—serves as a resource for entities that participate in the federal student aid programs. FSA also 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.

During FY 2023, FSA enhanced many of its Digital and Customer Care (DCC) tools, including the Public Service Loan Forgiveness (PSLF) Help Tool, Loan Simulator, Aidan<sup>®</sup> Virtual Assistant, and the Federal Student Aid Estimator. In FY 2023, FSA significantly updated the PSLF Help Tool to allow users, for the first time, to fully complete the PSLF application process digitally using the new digital signature and submission components of the PSLF Help Tool. Previously, borrowers had to follow multiple, disjointed steps to complete the PSLF Form, including printing and signing the form and having their employers sign the paper form as well. Digital signature and submission created a faster, more straightforward, and more transparent process for borrowers applying for PSLF. FSA updated Loan Simulator to improve borrowers' experience and allow users to compare different repayment plans more easily. FSA enhanced Aidan to give borrowers information about a wider range of topics.

FSA also updated the Federal Student Aid Estimator, which helps students determine how much and for what types of federal student aid they may be eligible. The newly updated tool now provides an estimate of the amount of federal student aid that a student may be eligible to receive using criteria that align with the 2024-25 *Free Application for Federal Student Aid* (FAFSA<sup>®</sup>) form.

Finally, FSA enhanced other resources and tools across **StudentAid.gov** to help borrowers prepare for student loan payments to restart when the COVID-19 payment pause ended in fall 2023.

Throughout FY 2023, FSA completed several updates to the Enterprise Data Management and Analytics Platform Services (EDMAPS), including three successful packages of updates that support tools on StudentAid.gov, including the PSLF Help Tool digital signature and submission functionality and updates to the IDR application.

As a part of the Next Gen FSA initiative, FSA also successfully awarded new contracts to five companies to modernize and enhance servicing for federal student loan borrowers. These contracts, awarded during FY 2023 through the Unified Servicing and Data Solution (USDS) solicitation, mark the first step toward implementing the new servicing environment during FY 2024, which will be FSA's long-term loan servicing solution. This new servicing environment will replace the legacy loan servicing environment, which can be confusing for borrowers as legacy loan servicers operate under their own brands.

The new environment is designed to provide all federal student loan borrowers with a high-quality customer experience, deliver enhanced support for at-risk borrowers, and ensure vendor accountability. FSA's goals for the new loan servicing environment include:

- providing all federally managed borrowers with complete account management capabilities on **StudentAid.gov**;
- increasing servicer accountability to reduce loan delinquencies and defaults and other customer service benchmarks through clear, measurable service-level agreements and performance incentives;
- allowing 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; and
- bringing legacy loan servicers up to enhanced cybersecurity standards.



Awarding the contracts for the new loan servicing environment is the culmination of nearly a decade of work to overhaul federal student loan servicing, and borrowers will begin to see the benefits when the new servicing environment goes live in spring 2024.

The Next Gen Business Process Operations (BPO) vendors continue to provide support for customers by answering questions through the Federal Student Aid Information Center. In FY 2023, BPO vendors handled a higher volume of calls and chats, exceeding forecasted volumes in summer 2023, despite reduced hours of operations that went into effect earlier in FY 2023 due to budget reduction. BPO vendors provided efficient and effective customer experiences about topics that include return to repayment; the SAVE Plan and other IDR plans; PSLF, including processing employer adjudication cases; and borrower defense to repayment. In addition, BPO vendors also staffed FSA's debt relief hotline, which received a significant number of inquiries, and supported users who needed to reset their StudentAid.gov accounts. Finally, the BPO team hosted an all-BPO vendor meeting in June 2023 to focus on vendors' concerns and explore BPO recommendations.

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. During FY 2023, FSA further updated the website by transitioning the FSA Conference website and the FSA Learning Management System (LMS) to the Partner Connect website. The new website aligns with the overall design of FSA Partner Connect and the new look and feel provide an improved user experience for partners. Conference information and resources that were available on the FSA Conference website—including session materials and recordings from past conferences—were also moved into Partner Connect.

Finally, during FY 2023, FSA began work on the Title IV Origination and Disbursement (TIVOD) Modernization Project. This project will award one or more contracts to replace contracts expiring in January 2025. The project will ensure the continuation of functionality delivered by Common Origination and Disbursement (COD), the National Student Loan Data System (NSLDS®), EDMAPS, and critical back-end services, such as data integration and customer service for schools and other partners.

### Leveraging Data as a Strategic Asset

The Department continues its focus on leveraging its data as a strategic asset by continuing to implement requirements in the *Foundations for Evidence-Based Policymaking Act of 2018* (Evidence Act; **P.L. 115-435**) and the **Federal Data Strategy**. Throughout FY 2023, the Department continued to strengthen data governance while overseeing an 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 Department's inaugural Data Strategy (December 2020) and the agency's updated Data Strategy—published in August 2023—collectively set forth the agency's plan to meet its longstanding vision: to realize the full potential of data to improve education outcomes and lead the nation in a new era of evidence-based policy insights and data-driven operations. The mission of the Data Strategy is to optimize the Department's ability to provide trusted data and insights to internal and external stakeholders, guided by the principles of ethical governance, conscious design, and a learning culture. The four goals of the Data Strategy focus the Department's efforts on strengthening agency-wide data governance, building human capacity to leverage data, advancing the strategic use of data, and improving data access, transparency, and privacy. These interconnected goals continue to build the Department's capacity for data governance and management to promote evidence-based decision-making.

Since the publication of the agency's inaugural Data Strategy in 2020, the Department has established an agency-wide data governance program and released foundational governance policies, created a data skills training program, made progress on essential data infrastructure modernization projects, developed guidance around data quality, data privacy, open data, performance measures, and other topics, and built staff capacity for data visualization and storytelling. By the end of FY 2023, the Department had made substantial progress toward completing planned activities and action plans aligned with each of the 19 objectives established in its inaugural Data Strategy. Specifically, the agency fully executed 16 of 19, or 84 percent of the original Data Strategy objectives, exceeding the Department's FY 2022–2026 Strategic Plan Objective 5.2 performance metric for FY 2023.

The 2023 Data Strategy establishes 16 new objectives that reflect the agency-wide progress to date to build data maturity, processes, and outcomes. For example, buttressed by the progression achieved through the inaugural Data Strategy, the Department is now focused on advancing agency-wide data maturity, developing a data valuation methodology to ensure strategic data investments, fully implementing a cohesive data quality plan, and improving intra- and inter-agency data sharing as part of the Goal One focus for the next few years. Under Goal Two, the data workforce plan aspires to address agency staffing and training needs while the Department continues to build out the pioneering Data Literacy and Data Science training programs to tailor support for all proficiency levels and help staff develop data visualization and storytelling capacity. To advance the strategic use of data under Goal Three, the agency will strengthen the evidence-building pipeline by addressing the Learning Agenda's priority learning questions and identifying gaps in Department data while supporting the agency's grant management and student loan servicing systems. Finally, under Goal Four, the agency plans to publish and implement an Open Data Plan, continue to expand the comprehensive data inventory, enhance transparency through access to agency administrative data, and strengthen the data release and disclosure review processes.

The agency's pioneering work and accomplishments continue to be recognized by other federal agencies and affiliates. For example, in April 2023, the Department's Data Skills Team—leading Data Strategy Goal Two—was bestowed the 2022 Federal Chief Data Officers Council (CDOC) Distinguished Achievement in Federal Data Award. The Federal CDOC Awards recognize both civilian and military employees and teams of federal agencies that demonstrate innovative data policy and practices to advance government mission achievement and increase the benefits to the Nation through improvement in the management, use, protection, dissemination, and generation of data

in decision-making and operations. The award category for Distinguished Achievement in Federal Data highlights individuals or teams who make truly exceptional contributions to Federal Data and the use of data in policymaking.

### 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 make new connections and foster evidence-based decision making.

The Department's Open Data Platform (ODP) at <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 Title II of the *Foundations for Evidence-Based Policymaking Act of 2018* and guided by Data Strategy Goal Four, throughout FY 2023, the Department continued to advance toward the development of the 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. In FY 2023, the number of data assets categorized in the agency's comprehensive data inventory grew to over 800, demonstrating the Department's commitment to providing the public with quality data that can be freely accessed and used. Progress attained exceeded the FY 2023 target for performance indicator 5.4.5 in the Department's FY 2022–2026 Strategic Plan.

In FY 2023, ODP was upgraded to support accounts for public users through the General Services Administration's login.gov service. This innovation allows participating users to follow offices or specific data assets and receive notifications when the items they follow are updated. Future public engagement features through the Open Data Platform are planned to build on this foundational capability.

Future Open Data activities include the development, publication, and implementation of an Open Data Plan aligned with ED's Data Strategy, further detailing the agency's efforts to make government data open for the public. Aligned with statutory requirements, the following four goals will guide the development of the agency's Open Data Plan: 1) to improve the usability of ED's data assets, 2) to identify what data assets are being used, and how they are being used, 3) to grow the data inventory to help the agency find and use available data, and 4) to create processes to improve the quality, completeness, accuracy, and timeliness of ED's data. The agency conducted an OMB-approved public Customer Survey in the summer of 2023, engaged CFO Act agencies, and collaborated with stakeholders across the Department to garner input on the development of the Open Data Plan and ways to improve the agency's comprehensive data inventory.

The Department awaits further guidance from OMB through the annual Federal Data Strategy Action Plan—the last one was published in 2021—as well as the next phase of guidance on Title II of the *Foundations for Evidence-Based Policymaking Act of 2018*, known as the *OPEN Government Data Act*.

## Education Stabilization Fund Public Transparency Portal

The Department launched the **Education Stabilization Fund Transparency Portal** in 2020 to provide transparency into how the \$263 billion investment in education provided for state and institutional COVID-19 recovery and rebuilding efforts was awarded and spent. The ESF Transparency Portal was established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in March 2020, with subsequent allocations to the Fund codified through the *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSA Act), signed into law in December 2020, and the *American Rescue Plan Act* (ARP Act), signed into law in March 2021. The ESF Transparency Portal includes four primary emergency relief funds: (1) the Elementary and Secondary School Emergency Relief (ESSER) Fund, (2) the Governor's Emergency Education Relief (GEER) Fund, (3) the Emergency Assistance to Non-Public Schools (EANS) Fund, and (4) the Higher Education Emergency Relief (HEER) Fund. In September 2023, the Department upgraded the website to improve overall usability and public accessibility of the site's data assets and reports.

Throughout FY 2023, the work to communicate ESF award expenditures by states, local school districts, and institutions of higher education, continued unabated but with a renewed focus on improving data collection and accurate and timely reporting via the ESF Transparency Portal. In December 2022 and January 2023, the Department publicly released, via the ESF Transparency Portal, the Calendar Year (CY) 2021 Annual Performance Reports (APRs) received from more than 4,600 institutions of higher education and 52 FY 2021 APRs for the ESSER Fund grantees. In addition, the Department published reports summarizing expenditures and highlighting how funds were used to support students, schools, institutions, and their communities while spotlighting grantees' work to reengage students and address learning needs.

Throughout the spring and summer of 2023, the agency coordinated, planned, and conducted the CY 2022 (Year 3) APR data collection for nearly 4,000 institutions of higher education. In the summer of 2023, the APR data collections for FY 2022 ESSER Fund Year Three, ESF-SEA Fund Year Three, GEER Fund Year Three, and EANS Fund Year Two State and outlying area grantee submissions were conducted. To support grantees and improve data quality in FY 2023, the agency provided enhanced technical assistance through increased customer communications, live webinars, published business rules and forms, and the provision of grantee-specific Help Desk support.

The outcome of these interventions and initiatives was a distinguishable increase in the timeliness of grantee submission of APR data. In 2023, 100 percent of ESSER grantees reported during the allotted initial reporting period and for HEERF, 400 fewer IHEs failed to submit their HEERF reports during the allotted initial reporting period than in 2022. Through the end of FY 2023, the Department continued to work with grantees to address data quality issues to provide the public with more accurate information on the expenditure of the education relief funds. These FY 2023 initiatives to improve communications and the quality of the data the agency receives from ESF grantees increases the reliability of and promotes greater transparency into the expenditures of CARES, CRRSA, and ARP funds.

Additionally, in July 2023, an audit report managed by the Pandemic Response Accountability Committee in coordination with the Department's Office of Inspector General (OIG) and other Inspector Generals across a host of agencies studying the sources, intended purpose, and impacts of federal pandemic response program funds provided to six select geographic areas, acknowledged ED's **ESF Transparency Portal**

for “clearly distinguishing ESF funding by subprogram, like HEERF, and for providing information on how funds are being used by recipients and subrecipients, i.e., local school districts, which supports increased public transparency of specific programs.”

### Data Quality

The Department's Data Quality Program aims to improve the quality of data collected and published by the agency, serves as a component part of the response to OIG's annual Management Challenges report, and will be executed in concert with supporting initiatives. The agency has published a data quality playbook for grant staff, a data quality plan template and instructions for POCs, and offered data quality trainings to support the procedures outlined in the agency's revised *Information Quality Act* (IQA) guidelines which were published in September 2023.

The agency has determined that there are three root causes to the persistent data quality challenges, identifying them initially in the 2020 response to the Department OIG's findings in the Data Quality and Reporting section of its Management Challenges report. The first root cause is prime grant recipients' capacity, as they are focused on programming to serve students. They have limited time and fiscal resources to improve data quality and reporting. Additionally, prime grantees are responsible for the quality of data reported to them by their own subgrantees. Data errors in subgrantee reporting become aggregated to larger errors in prime grantee reporting. Second, grants staff at the Department have large portfolios, in which looking at data quality is just one responsibility during the limited time they must spend monitoring, providing technical assistance to grantees, preparing required paperwork, and taking training on grants administration. Third, the agency has worked on this issue over the past three years, the Department has acknowledged the need to communicate to grantees that there are credible consequences for failing to report accurate data at an acceptable level of quality.

The agency is working to implement data quality policies that encourage and support principal offices to establish a data quality plan in advance of seeking internal approvals for collecting, creating, processing, storing, or otherwise managing data. Additionally, the agency has developed and, throughout FY 2024, will deploy templates, training, and other resources to support agency staff that are engaged in implementing these policies.

Further progress in improving data quality is reliant on the FY 2023 publication of the revised IQA Guidelines. The FY 2023 Guidelines revision reflects in-depth collaboration and consultation with leaders across the agency. The Guidelines encourage offices to establish and publish data quality plans for all agency data assets disseminated to the public. These plans will set measurable data quality targets that are appropriate for how the data will be used. Principal offices will also set explicit data quality expectations so the data they disseminate will be fit for its intended purpose and, accordingly, those offices will need to figure out how to resource their efforts to meet those expectations. Publication of the revised IQA Guidelines publication will initiate review of a new Data Governance Policy on Data Quality by the agency's Data Governance Board. The policy describes actions offices can take at each stage of the data management lifecycle so that the agency uses data for decision making to best serve our nation's students and educators.

The agency has consolidated access to a suite of data quality resources for staff with a new Data Quality page on the agency's internal website, connectED. The Department released a Data Quality Playbook that provides practical strategies, or plays, to improve data quality across the data management lifecycle, including checklists and questions to guide staff planning data collections for grants programs. The Department also conducted the

first quarterly instructor-led training on the Playbook in August 2023, and, in addition, on-demand, self-paced training has been posted to the agency's Learning Management System, FedTalent. Beginning in FY 2024, the agency plans to pilot a Data Quality Plan Template and instructions for completing the Data Quality Plan. The plan will help ensure that the quality of a Department data asset is planned for, documented, and assessed throughout the data management lifecycle.

Current data quality capacity is not sufficient to support principal offices as they start to use these resources to ensure their data quality is high enough for their intended uses. An additional agency staffer hired to lead the Data Quality Initiative, an agency-wide data quality coordinator, will serve a vital role in coordinating implementation and assessment of these policies and resources. The incumbent in that role will be responsible for reviewing data quality plans and providing feedback and technical assistance to principal offices, developing and monitoring the inventory of data quality plans, and reviewing the impact of these policies against both the agency's desired near-term and longer-term outcomes.

### 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. It establishes the plan for how the agency will improve high-quality evidence building to strengthen the nation's education system. 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 and is released in conjunction with the President's Budget request each spring. Both the Learning Agenda and the Department's Annual Evaluation Plan can be found at <https://evaluation.gov/agencies/department-of-education>.

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 the Office of the General Counsel, and ex-officio representatives such as 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 collaboration with the Department's Data Governance Board, the Evidence Leadership Group has begun work to align the Department's evidence-building and data strategies. This includes considering whether and how new information collections can be used to address agency priority learning questions; how existing collections might be put to use in new ways to build evidence related to the Department's Learning Agenda; and where gaps in Department data may suggest the need to collaborate with other partners to meet the Department's learning goals.

## 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.

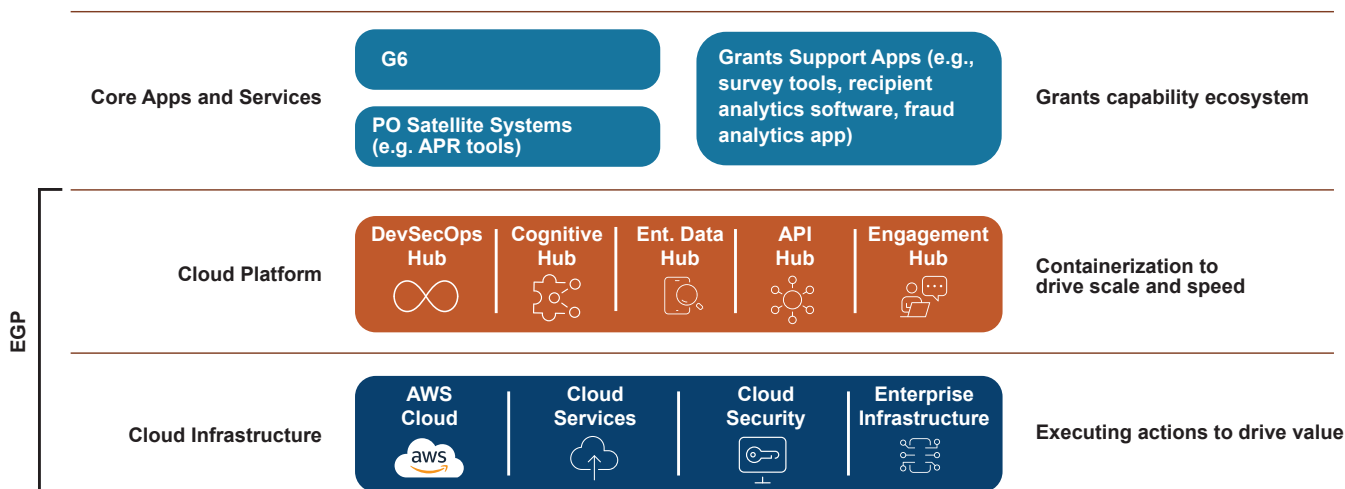
To effectively address the needs of all users, the Business Systems Support Division within the Office of Finance and Operations initiated the G5 Modernization Initiative to replace G5 and implement a state-of-the-art grants management system. The objective of this program is to implement an enterprise-wide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

In Year 2 (FY 2023), the program began its first phase of the G5 modernization to G6. The team is implementing the Pre-award phase of the grants' lifecycle, including Planning and Scheduling, Applications, Application Packages (Grants.gov, Impact Aid, Fellowship), Discretionary Grants, Formula Grants, and Loans. These capabilities are identified based on what is available in the current G5; however, the Department expects that the implementation team will 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 2024 to FY 2025 will be dedicated to Phases 2, 3 and 4, when 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.

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FINANCIAL  
SECTION  
(UNAUDITED)



## About the Financial Section

In FY 2023, the Department prepared its Consolidated Balance Sheet as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of this statement is an important part of the Department's financial management goal of providing accurate and reliable information for decision-making.

### Message From the Chief Financial Officer

The Chief Financial Officer message summarizes the Department's FY 2023 accomplishments and audit opinion.

### Consolidated Balance Sheet and Related Notes

The **Consolidated Balance Sheet** summarizes 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 **Notes to the Consolidated Balance Sheet** provide information to explain the basis of the accounting and presentation used to prepare the statement and to explain specific items in the statement. 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.** Commitments and Contingencies

### Report of the Independent Auditors

The results of the audit of the Department's Consolidated Balance Sheet for FY 2023 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 KPMG LLP to audit the Consolidated Balance Sheet of the Department as of September 30, 2023.

## Message From the Chief Financial Officer

The Office of Finance and Operations (OFO) 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.” Our Fiscal Year (FY) 2023 Agency Financial Report is a valuable tool the public can use to better understand the Department’s programs and how they effectuate this critical mission. In FY 2023, the Department continued to implement new programs geared toward improving student educational outcomes and helping student loan borrowers transition to their new loan repayment status.

On January 24, 2023, Secretary Cardona announced the “Raise the Bar: Lead the World” initiative. This plan represents an opportunity to improve the nation’s education system from preschool through college. It focuses on three major areas: achieving academic excellence, boldly improving learning conditions, and creating pathways for global engagement.

The Administration is also taking additional steps aimed at providing debt relief to eligible borrowers. Specifically, the agency initiated a rulemaking process aimed at offering an alternative path to debt relief for many working and middle-class borrowers. The Department also instituted a 12-month “on-ramp” to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies.

OFO supports these initiatives by providing human capital, financial, acquisition and grants management services across all Departmental offices. In addition to supporting these programs, OFO continued working with leaders across the agency to ensure effective financial stewardship of taxpayer dollars. Over the course of FY 2023, the Department made process improvements to address issues identified in the FY 2022 financial statement audit. The FY 2022 disclaimer of opinion was largely related to the Broad-Based Debt Relief program and its impact on the agency’s financial statement re-estimates. This year, the independent auditor issued a disclaimer of opinion on the Department’s FY 2023 balance sheet. The Department will develop and implement additional corrective action strategies to address the issues highlighted in the FY 2023 report. We remain committed to continually evaluating new programs, current business processes, and our internal controls for improvement opportunities in FY 2024 and beyond.

Through the hard work and dedication of our employees and partners we will continue to make improvements in our programs and operations. 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  
November 16, 2023*

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**U.S. Department of Education  
Consolidated Balance Sheet  
As of September 30, 2023**

(Dollars in Millions)

	FY 2023 (Unaudited)
<b>ASSETS (Note 2)</b>	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 244,029
Other Assets (Note 4)	153
Total Intragovernmental	244,182
Other than Intragovernmental:	
Loan Receivables, Net (Note 5)	
Direct Loan Program	1,030,912
Federal Family Education Loan (FFEL) Program	39,314
Other Credit Programs for Higher Education	2,766
Cash and Other Monetary Assets	564
Other Assets (Note 4)	311
Total Other than Intragovernmental	1,073,867
<b>Total Assets</b>	<b>\$ 1,318,049</b>
<b>LIABILITIES (Note 6)</b>	
Intragovernmental:	
Debt Associated with Loans (Note 7)	
Direct Loan Program	\$ 1,127,011
FFEL Program	60,896
Other Credit Programs for Higher Education	1,056
Accounts Payable	1
Other Liabilities:	
Subsidy Due to Treasury (Note 8)	1,630
Guaranty Agency Funds Due to Treasury	564
Other Liabilities (Note 9)	1,332
Total Intragovernmental	1,192,490
Other than Intragovernmental:	
Accounts Payable	3,895
Loan Guarantee Liabilities (Note 5)	11,197
Other Liabilities:	
Accrued Grant Liabilities	5,137
Other Liabilities (Note 9)	964
Total Other than Intragovernmental	21,193
<b>Total Liabilities</b>	<b>\$ 1,213,683</b>
Commitments and Contingencies (Note 10)	
<b>NET POSITION</b>	
Unexpended Appropriations	\$ 171,562
Cumulative Results of Operations	(67,196)
<b>Total Net Position</b>	<b>\$ 104,366</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,318,049</b>

The accompanying notes are an integral part of this statement.



# Notes to the Consolidated Balance Sheet for the Year Ended September 30, 2023

## 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. The Consolidated Balance Sheet should be read with the realization that it is 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 provide 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 IHEs for the building and renovating of their facilities. (See Note 5)

**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.

**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 Note 3)

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

- 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.

Other regulatory flexibilities and incentives provided to help students through COVID-19 included:

- 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.

## Basis of Accounting and Presentation

The Consolidated Balance Sheet was prepared to report the financial position of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The Consolidated Balance Sheet was 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. FSA also issues a stand-alone Consolidated Balance Sheet that is 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 Balance Sheet.

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).

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.
- 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.

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 for all loan types except subsidized Direct Loans. 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 10, 20 or 25 years under certain rules.

### 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 15 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 10)

## 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 include in-process grant and loan disbursements.

### 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.

Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees in the Department's Statements of Net Cost. These OPM imputed costs are offset by imputed financing sources from costs absorbed by others in the Department's Statements of Changes in Net Position.



***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)

### Net Position

The components of net position are classified on the Department's Consolidated Balance Sheet as follows:

**Unexpended Appropriations.** Unexpended Appropriations is the portion of the Department's appropriations received that are represented by undelivered orders or are unobligated.

**Cumulative Results of Operations.** Cumulative Results of Operations represents the accumulated 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 activity (e.g. movement of unexpended appropriations which affect cumulative results of operations) performed by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

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 the Consolidated Balance Sheet in conformity with GAAP. These estimates are reflected in the assets, liabilities, and net position of the Consolidated Balance Sheets 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 Consolidated Balance Sheet include: allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; and grant liability and advance accruals. (See Notes 4 and 5)

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<sup>®</sup>) 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)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
<b>Non-Entity Assets</b>		
Fund Balance with Treasury	\$ 862	\$ -
Loans Receivable, Net	-	1,386
Cash and Other Monetary Assets	-	564
Accounts Receivable, Net	-	36
<b>Total Non-Entity Assets</b>	<b>862</b>	<b>1,986</b>
Entity Assets	243,320	1,071,881
<b>Total Assets</b>	<b>\$ 244,182</b>	<b>\$ 1,073,867</b>

The Department's FY 2023 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 (28.4 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (69.8 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)

	2023 (Unaudited)
Appropriated Funds	\$ 102,088
Revolving Funds	65,913
Special Funds	9
Non-Budgetary: Trust Funds	1
COVID-19 Funds	75,263
All Other Funds	755
<b>Total Fund Balance with Treasury</b>	<b>\$ 244,029</b>

In FY 2023, \$523 million of unused funds from canceled appropriations was returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines.

#### NOTE 4. Other Assets

(Dollars in Millions)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
Accounts Receivable, Net	\$ 6	\$ 307
Advances to Others and Prepayments	145	2
Property and Equipment, Net	-	2
Other	2	-
<b>Total Other Assets</b>	<b>\$ 153</b>	<b>\$ 311</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, 2023, related to criminal restitutions totaled \$138 million, and \$127 million, respectively.

#### NOTE 5. Loan Receivables, Net and Loan Guarantee Liabilities

##### Loans Receivables

(Dollars in Millions)

	2023 (Unaudited)			
	Principal	Accrued Interest	Allowance for Subsidy	Net
Direct Loan Program	\$ 1,336,158	\$ 83,439	\$ (388,685)	\$ 1,030,912
FFEL Program	78,991	20,840	(60,517)	39,314
Other Credit Programs for Higher Education	2,874	562	(670)	2,766
<b>Total Loans Receivable</b>	<b>\$ 1,418,023</b>	<b>\$ 104,841</b>	<b>\$ (449,872)</b>	<b>\$ 1,072,992</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. 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.

What follows is additional analysis 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 \$1,419.6 billion in gross loan receivables, as of September 30, 2023, \$76.5 billion (5.4 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer.

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

	2023 (Unaudited)
Stafford	\$ 15,671
Unsubsidized Stafford	44,878
PLUS	23,928
Consolidation	37,792
<b>Total Disbursements</b>	<b>\$ 122,269</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 \$37.8 billion during FY 2023. 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 Subsidy Rates—Cohort 2023 (Unaudited)

	Interest Differential	Defaults	Fees	Other*	Total
Stafford	24.63%	1.99%	-1.06%	-11.39%	14.17%
Unsubsidized Stafford	26.89%	1.81%	-1.06%	-16.16%	11.48%
PLUS	12.91%	1.20%	-4.23%	-16.56%	-6.68%
Consolidation	26.33%	0.20%	0.00%	7.01%	33.54%
<b>Weighted Average Total</b>	<b>23.89%</b>	<b>1.21%</b>	<b>-1.29%</b>	<b>-8.19%</b>	<b>15.62%</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.

## 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)

	2023 (Unaudited)
Outstanding Principal of Guaranteed Loans, Face Value	\$ 80.6
Amount of Outstanding Principal Guaranteed	\$ 80.6

As of September 30, 2023, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately \$80.6 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2023, the interest balances outstanding for guaranteed loans held by lenders was approximately \$3.8 billion. The Department's total FFEL Program guarantees (principal and interest) are approximately \$84.4 billion as of September 30, 2023. 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)

	2023 (Unaudited)			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
<b>DEFAULTED FFEL GUARANTEED LOANS</b>				
FFEL GSL Program (Pre-1992)	\$ 3,208	\$ 5,029	\$ (8,014)	\$ 223
FFEL GSL Program (Post-1991)	37,829	8,044	(34,253)	11,620
<b>Total Defaulted FFEL Guaranteed Loans</b>	<b>41,037</b>	<b>13,073</b>	<b>(42,267)</b>	<b>11,843</b>
<b>ACQUIRED FFEL LOANS</b>				
Loan Purchase Commitment	13,083	2,490	(8,204)	7,369
Loan Participation Purchase	23,673	4,939	(9,879)	18,733
ABCP Conduit	1,198	338	(167)	1,369
<b>Total Acquired FFEL Loans</b>	<b>37,954</b>	<b>7,767</b>	<b>(18,250)</b>	<b>27,471</b>
<b>FFEL Program Loan Receivables</b>	<b>\$ 78,991</b>	<b>\$ 20,840</b>	<b>\$ (60,517)</b>	<b>\$ 39,314</b>

### Liabilities for Loan Guarantees (Dollars in Millions)

	2023 (Unaudited)
Post-1991 FFEL Loan Guarantee Liability	\$ 11,084
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	(138)
<b>FFEL Liabilities for Loan Guarantees</b>	<b>10,946</b>
HEAL Liabilities for Loan Guarantees	251
<b>Total Ending Balance for Liabilities for Loan Guarantees</b>	<b>\$ 11,197</b>

### Other Credit Programs for Higher Education

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

	2023 (Unaudited)			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
Federal Perkins Loans	\$ 1,313	\$ 467	\$ (394)	\$ 1,386
TEACH Program Loans	809	67	(322)	554
HEAL Program Loans	368	25	(5)	388
Facilities Loan Programs	384	3	51	438
<b>Total</b>	<b>\$ 2,874</b>	<b>\$ 562</b>	<b>\$ (670)</b>	<b>\$ 2,766</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 \$343 million in FY 2023.

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 \$521 million to the Department in FY 2023 for the federal share of collected cash.

Beginning with the 2023 reporting year, as part of the wind-down of the Federal Perkins Loan Program, the Secretary began requiring schools to assign to the Department all Perkins Loans that have been in default for more than two years for which there have been no current collections. While the mandatory assignment policy has driven more schools to liquidate, the majority of schools are continuing to service existing portfolios to recover the money they contributed to their Perkins funds and will do so for as long as it is feasible 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 2024-25 FISAP shows a \$1.6 billion outstanding principal balance on Perkins loans held by schools and the Department’s equity interest on this portfolio is \$1.4 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.

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

**TEACH Subsidy Rates—Cohort 2023 (Unaudited)**

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	76.72%	1.56%	0.00%	-32.63%	45.65%

\*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.

**Facilities Loan Programs.** The Department also administers the HBCU Capital Financing program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with HEA, as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately \$378 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and \$951 million obligated to support near term lending as of September 30, 2023.



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)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
<b>Liabilities Not Covered By Budgetary Resources</b>		
Unfunded Leave	\$ -	\$ 55
FECA Liabilities	4	14
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>4</b>	<b>69</b>
<b>Liabilities Not Requiring Budgetary Resources</b>		
Subsidy Due to Treasury General Fund	529	-
Federal Perkins Loan Program	1,377	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(68)	865
Custodial Liabilities	1	-
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>1,839</b>	<b>865</b>
Total Liabilities Covered By Budgetary Resources	1,190,647	20,259
<b>Total Liabilities</b>	<b>\$ 1,192,490</b>	<b>\$ 21,193</b>

**NOTE 7. Debt Associated with Loans**  
(Dollars in Millions)

	2023 (Unaudited)
<b>Debt to the Bureau of Public Debt</b>	
Direct Loan Program	\$ 1,127,011
FFEL Program	60,896
Other Credit Programs for Higher Education	678
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,188,585</b>
<b>Debt to the Federal Financing Bank</b>	
Other Credit Programs for Higher Education	378
<b>Total Debt Associated with Loans</b>	<b>\$ 1,188,963</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. 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 94.8 percent of the Department’s debt, as of September 30, 2023, is attributable to the Direct Loan Program.

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

	2023 (Unaudited)	
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	\$	585
FFEL Program		516
<b>Total Credit Program Downward Subsidy Re-estimates</b>		<b>1,101</b>
Future Liquidating Account Collections		
FFEL Program		529
<b>Total Future Liquidating Account Collections</b>		<b>529</b>
<b>Total Subsidy Due to Treasury General Fund</b>	<b>\$</b>	<b>1,630</b>

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

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
Federal Perkins Loan Program	\$ 1,377	\$ -
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(68)	865
Liability for Advances and Prepayments	2	-
Accrued Funded Payroll and Leave	-	28
Accrued Unfunded Annual Leave	-	55
Employer Contributions and Payroll Taxes Payable	16	2
FECA Liabilities	4	14
Custodial Liabilities	1	-
<b>Total Other Liabilities</b>	<b>\$ 1,332</b>	<b>\$ 964</b>

**NOTE 10. 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)

2023 (Unaudited)	
2024	\$ 54
2025	47
2026	48
2027	49
2028	50
After 2028	51
<b>Total</b>	<b>\$ 299</b>

The Department leases from the GSA all or a portion of 15 privately owned and 10 publicly owned buildings in 20 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 2023 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, 2023. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2023, is not expected to have a material impact on these financial statements.

# Report of the Independent Auditors



## UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 16, 2023

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

Dear Secretary Cardona:

The enclosed Independent Auditors' Report (report) covers the consolidated balance sheet of the United States Department of Education (Department) as of September 30, 2023, and the related notes (the consolidated financial statement), to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's consolidated financial statement 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 statement of the Department as of September 30, 2023. 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*. Following is a summary of the results reported in the Independent Auditors' Report.

### **Report on the Audit of the Consolidated Financial Statement**

#### *Disclaimer of Opinion*

- KPMG has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion because of unresolved errors KPMG identified in the underlying data used to calculate the subsidy re-estimates for the Department's direct loan and loan guaranty programs.

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

#### *Material Weakness (Exhibit A)*

- Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement.

#### *Significant Deficiencies (Exhibit B)*

- Information Technology Controls Need Improvement, and
- Entity Level Controls Need Improvement.

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

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### Report on Compliance and Other Matters

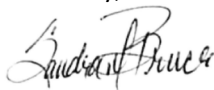
#### *Compliance and Other Matters (Exhibit C)*

- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Federal Financial Management Improvement Act of 1996 (FFMIA)

In connection with the contract, the Office of Inspector General reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the consolidated financial statement in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Department's consolidated financial statement or internal control over financial reporting, or conclusions on whether the Department's financial management systems complied substantially with the three FFMIA requirements, or on compliance with laws and other matters. KPMG is responsible for the report dated November 16, 2023, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Sincerely,



Sandra D. Bruce  
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 Statement

#### *Disclaimer of Opinion*

We were engaged to audit the consolidated balance sheet of the United States Department of Education (Department) as of September 30, 2023, and the related notes (the consolidated financial statement).

We do not express an opinion on the accompanying consolidated financial statement of the Department. 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 consolidated financial statement.

#### *Basis for Disclaimer of Opinion*

During fiscal year 2023, we identified errors in the underlying data used to develop assumptions used to calculate the subsidy re-estimates for the Department's direct loan and loan guaranty programs. Management was unable to determine the extent of the impact of these issues on the balance sheet and related notes. As a result of this matter, we are unable to determine whether any adjustments to the balance sheet might have been necessary with respect to the fiscal year 2023 Loan Receivables, Net – Direct Loan Program; Loan Receivables, Net – Federal Family Education Loan (FFEL) Program; Subsidy Due to Treasury; Loan Guarantee Liabilities; Unexpended Appropriations; Cumulative Results of Operations; and the related notes.

#### *Other Matter - Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the fiscal year 2023 Agency Financial Report to provide additional information for the users of its consolidated financial statement. Such information is not a required part of the consolidated financial statement 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 Statement*

Management is responsible for the preparation and fair presentation of the consolidated financial statement 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 the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statement*

Our responsibility is to conduct an audit of the Department's consolidated financial statement in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget

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.



(OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this consolidated financial statement.

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.

#### *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 statement. Such information is the responsibility of management and, although not a part of the basic consolidated financial statement, 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 statement in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information 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.

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

In connection with our engagement to audit the Department's consolidated financial statement as of September 30, 2023, 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 statement, 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 statement 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.

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 statement as of September 30, 2023, 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 statement. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01, and which are described in Exhibit C.

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 instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements and (2) applicable Federal accounting standards. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with 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 statement, other 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 D. The Department's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statement and, accordingly, we express no opinion on the response.

#### **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.  
November 16, 2023



### 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 of the subsidy costs (commonly referred to as subsidy re-estimates) of its direct loan and loan guaranty programs as of September 30 every year.

These subsidy re-estimates are calculated using an internally developed cash flow model, the Student Loan Model (SLM). The SLM utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The future cash flow outputs generated from the SLM are 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 re-estimates.

##### Condition:

Management did not design and implement sufficiently precise controls over the relevance and reliability of certain data used in key assumptions for the SLM.

##### Cause/Effect:

Management's risk assessment process was not sufficient to identify the risk related to the relevance and reliability of the underlying data used in significant assumptions for the subsidy re-estimates. Additionally, management did not sufficiently communicate errors in the underlying data internally to those responsible for calculating the subsidy re-estimates. Inadequate controls over the relevance and reliability of the underlying data used to develop the subsidy re-estimates led to errors which increases the risk that the balance sheet and related notes 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 6, *Define Objectives and Risk Tolerances*; Principle No. 10, *Design Control Activities*; Principle No. 13, *Use Quality Information*; Principle No. 14, *Communicate Internally*.
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraph 20.

##### Recommendation:

We recommend that management 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 re-estimates. Such review should be documented and maintained.

## 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 2023, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies, such as change and configuration management 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, configuration management, and computer operations. New and existing IT control deficiencies related to security management, access controls, and segregation of IT duties for the Department's core financial management system, three of FSA's financial and mixed systems, and one identity and access management support system are as follows:

#### Department:

1. Deficiencies in IT security management controls: System deficiencies, including those identified during external audits, for the Department's core financial management system were not documented in Plan of Action and Milestones (POA&M) and tracked in the security management tool, as required by Department policies and guidance.
2. Deficiencies in IT logical access controls: Access controls for new and separated contractors were not consistently and accurately performed, including the inconsistent reporting of start and termination effective dates. Further, the access 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 for two of three of the Department's financially relevant applications was not met for all accounts.
3. Deficiencies in IT controls related to the segregation of IT duties: For one of the Department's core financial management systems, users with developer access had access greater than read-only to the system's production environment.
4. Deficiencies in IT application change management and patch management controls: The application change management and patch management policies and controls were not consistently followed for the Department's core financial management system in accordance with Department policy. The Department did not provide sufficient evidence supporting tracking, security assessment, and approval for certain application changes and patches.

5. Deficiencies in IT computer operations controls: Controls over computer operations were not properly designed and implemented. Specifically,
  - a) changes to the job processing and scheduling tools were not centrally tracked;
  - b) changes were made directly in the production environment; and
  - c) the use and monitoring of generic and shared accounts for the job scheduling tool did not follow the Department's requirements.

**FSA:**

1. Deficiencies in IT security management controls: Management did not effectively operate corrective action, remediation, and quality review controls for IT security weaknesses. Specifically, Plan of Action and Milestone (POA&M) closure documentation for three FSA systems and one identity and access management system did not always address the root cause of the deficiencies, thereby increasing the potential of IT control deficiencies reoccurring in the future.
2. Deficiencies in IT logical access controls: The access control processes were not consistently followed for three FSA systems and one identity and access management system. Specifically,
  - a. evidence supporting complete and accurate access listings and evidence supporting new, modified, or separated users was not provided or was provided with missing required information and/or approvals;
  - b. unauthorized access was provisioned and/or access was provisioned without adhering to the least privileged principle;
  - c. evidence supporting complete and accurate access reviews and recertification controls was unavailable or was retained; and
  - d. the Department's requirement for multi-factor authentication control was not implemented for all internal system users.

**Cause/Effect:**

Management has not performed effective risk assessments and there was a lack of effective monitoring controls over the effectiveness of designed control activities by the Department and FSA to ensure the following:

1. All system deficiencies, including those identified during external audits, have a documented POA&M and are tracked in the required security management tool. Additionally, 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.
- Department IT Identification and Authentication (IA) Standard.
- EDCAPS System Security Plan (SSP) control requirements.
- FMS 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.
- Office of the Chief Information Officer (OCIO), Information Assurance Services (IAS) Plan of Action and Milestones, Standard Operating Procedures (SOP), Version 2.8 dated July 7, 2022, Section 1.4 *POA&M Management* and Section 4.7 *CAP POA&M Workflow*.
- Cybersecurity Policy, Departmental Directive ACSD-OCIO-004, section V. *Responsibilities*.
- Information Technology (IT) System Security Assessment and Authorization (CA) Standard dated January 31, 2023, Section 2.4 *CA-5 Plan of Action and Milestones (POA&M) (P, L, M, H and Control Overlay)*.
- IT Program Management (PM) Standard dated January 31, 2023, section 2.4 *PM-4 Plan of Action and Milestones Process (P, Deployed Organization-Wide)*.
- The Green Book, Principle No. 2, *Exercise Oversight Responsibility*, Principle No. 3 *Establish Structure, Responsibility, and Authority*, Principle No. 4, *Demonstrate Commitment to Competence*, Principle No. 7, *Identify, Analyze, and Respond to Risks*, Principle No. 8 *Assess Fraud Risk*, Principle No.10, *Design Control Activities*, Principle No. 11, *Design Activities for the Information System*, Principle No. 13, *Use*

*Quality Information, Principle No.16, Perform Monitoring Activities, Principle No.17, Evaluate Issues and Remediate Deficiencies.*

- 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 *CA-5 Plan of Action and Milestones, PM-4 Plan of Action and Milestone Process, AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, AT-3 Role-based Training, AT-4 Training records, IA-2 Identification and Authentication (Organizational Users); CM-3 Configuration Change Control, and SI-2 Flaw Remediation.*

**Recommendations:**

We recommend that the Department:

1. Improve the risk assessment process over IT to help ensure the Department is appropriately defining objectives to enable the identification of risks and associated controls to help mitigate the risks.
2. Communicate control issues and/or weaknesses through established tools and relevant reporting lines to the appropriate parties on a timely basis to enable prompt evaluation and resolution of the issues and/or weaknesses.
3. Evaluate, design, and implement controls to track and report all new and separated contractors.
4. Ensure separated contractors are off-boarded and system personnel are notified in a timely manner to disable or remove access to IT resources.
5. Provide training and oversight to the Department's personnel with on/off-boarding controls to help ensure new/separated contractors are properly tracked.
6. Update access review procedures to require the reviewers to verify the access lists received to be used in the performance and operation of the access reviews is complete and accurate and not modified prior to commencing the access reviews.
7. Identify, design, and implement controls requiring a reviewer to validate the population generated for review is complete and accurate.
8. Enforce established access authorization controls and ensure all requirements are met prior to granting system access. 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.
9. Ensure the application and database server access review controls include the verification of access privileges assigned to the user accounts are commensurate with job responsibilities and follow the concept of least privilege.
10. Ensure the database and server layer controls comply and operate with the disabling of inactive accounts and account lockout duration password setting requirements, as required by Department Policy.
11. 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:
  - a. Authorize the use of these accounts by approved personnel,

- b. 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
- c. Require that generic/shared accounts' passwords are changed each time approved personnel separate or transfer from the Department.

We recommend that FSA:

- 12. Design and implement improvements for the risk assessment process over IT to help ensure the FSA is appropriately defining objectives to enable the identification of risks and associated controls to help mitigate the risks.
- 13. Design and implement controls 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.
- 14. 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.
- 15. Ensure segregation of duties and least privilege principles are adhered to when granting user access.
- 16. Evaluate and update the access review controls based on risk and enforce segregation of duties.
- 17. Reconcile the list of users' roles and responsibilities from the identity and access software tools to the lists that reside in each system accessed by such users.
- 18. Update access review policies and controls 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.
- 19. Enforce the operation of established access authorization controls and ensure all requirements are met prior to granting access to systems.

## B. Entity Level Controls Need Improvement

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 financial reporting processes to enable the identification of risks, define risk tolerances and identify 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. 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. Insufficient monitoring prevented the Department and FSA from implementing corrective action plans and remediating control deficiencies timely.

The conditions noted above contributed to the control deficiencies described earlier in Exhibits A and B.A 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:

- The Green Book Principle 6, Define Objectives and Risk Tolerances.
- The Green Book Principle 17, Evaluate Issues and Remediate Deficiencies.

### Recommendations:

We recommend that management:

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.

**Compliance and Other Matters****A. Federal Managers' Financial Integrity Act of 1982 (FMFIA)****Condition:**

Management performed an internal control assessment as required under FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB A-123 requirements. Specifically, management did not consistently identify and document financial statement and process level risks and key controls.

**Cause/Effect:**

Management did not substantially meet FMFIA requirements due to a lack of adequate risk assessments over key processes and data used in the consolidated financial statement. In addition, management did not sufficiently consider FMFIA and OMB Circular No. A-123 requirements when performing their evaluation of internal controls.

This resulted in the lack of timely identification of errors in data that impacted subsidy re-estimates in the consolidated financial statement. Furthermore, management could not determine the effect of these errors on the consolidated financial statement.

**Criteria:**

The following criteria were considered in the evaluation of the compliance matter presented in this Exhibit:

- Section 2 of FMFIA.
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

**Recommendation:**

We recommend that management update the risk assessment regarding the evaluation of internal controls to ensure it includes all key processes, key data, and other material line items on the consolidated financial statement.



**B. Federal Financial Management Improvement Act of 1996 (FFMIA)****Condition:**

Management did not establish and maintain financial management systems that substantially comply with the following FFMIA requirements:

1. Federal Financial Management Systems Requirements. As discussed in Exhibit A, deficiencies in controls to prevent or detect errors in data used to calculate subsidy re-estimates prevented management from issuing reliable and accurate financial reporting. Specifically, management was unable to produce an auditable financial statement based on the data from the agency's financial system.
2. Federal Accounting Standards. As discussed in Exhibit A, the control deficiencies identified during the audit provide an indication that the Department's financial management systems were substantially noncompliant with applicable federal accounting standards. Specifically, management was unable to provide evidence that the cash flow projections for the subsidy re-estimates were based on sufficient relevant and reliable data preventing the agency's ability to prepare an auditable financial statement.

**Cause/Effect:**

Management did not substantially meet FFMIA requirements due to an inadequate risk assessment over key processes and data used in the consolidated financial statement.

This increases the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statement.

**Criteria:**

The following criteria were considered in the evaluation of the compliance matter presented in this Exhibit:

- Section 803(a) of FFMIA.
- Appendix D to OMB Circular No. A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*

**Recommendation:**

We recommend that management implement the recommendation presented in the material weakness in Exhibit A.

**Att: Management's Response**



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

November 13, 2023

MEMORANDUM

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

**FROM:** Denise L. Carter DENISE CARTER Digitally signed by DENISE CARTER  
Date: 2023.11.13 17:51:52 -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: 2023.11.13 18:05:01  
-0500  
Chief Information Officer

**SUBJECT:** DRAFT INDEPENDENT AUDITORS' REPORT  
Fiscal Year 2023 Financial Statement  
U. S. Department of Education  
(ED-OIG/A23FS0127)

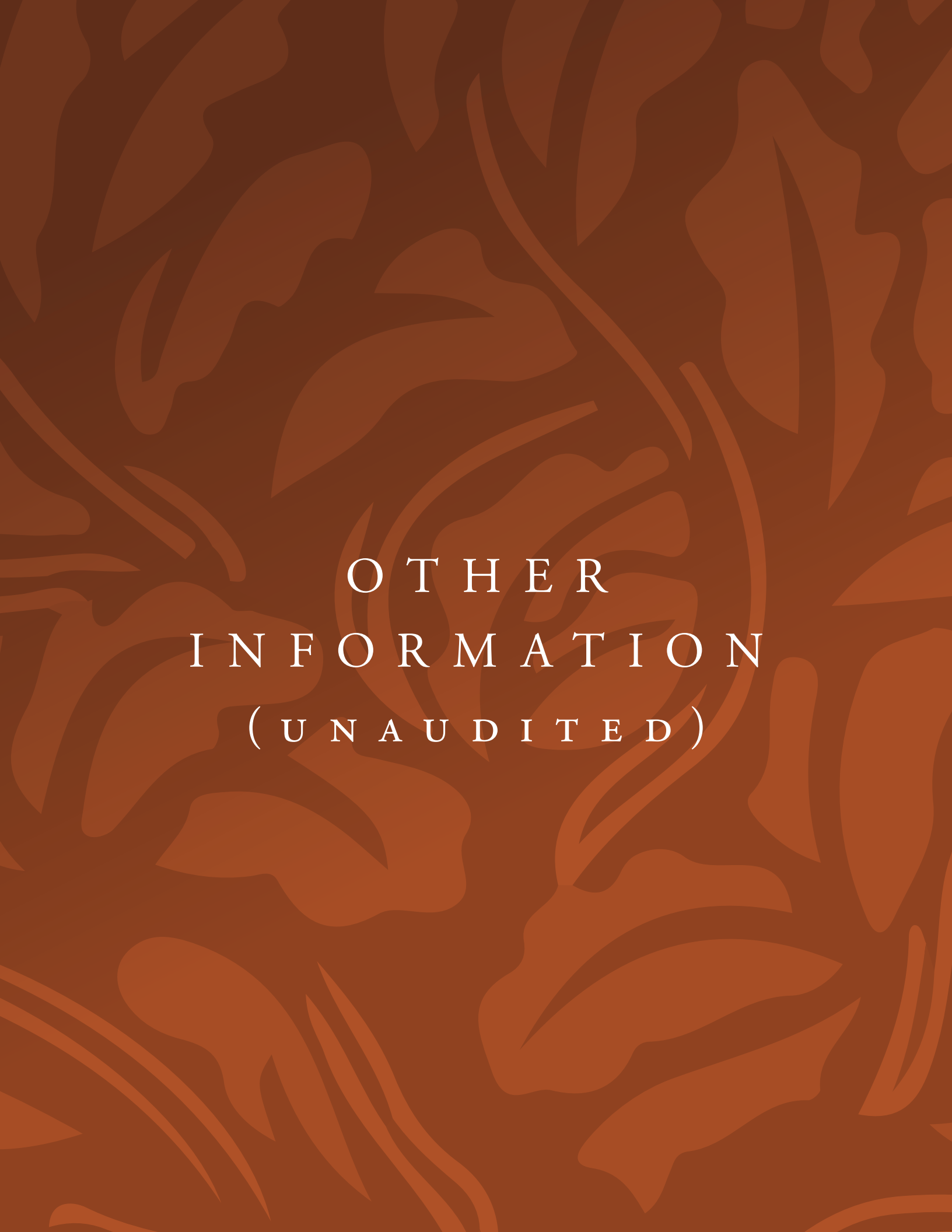
We appreciate the opportunity to provide input on the draft audit report and would like to thank the Office of Inspector General audit team for their partnership and support during the annual audit.

The Department concurs with the findings and will take the appropriate actions to address the audit recommendations. The agency takes its fiscal responsibilities seriously and will make it a priority to implement business processes and internal controls to resolve the issues raised in the audit feedback as we continue to strive to return to an unmodified opinion in the future.

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

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



OTHER  
INFORMATION  
(UNAUDITED)



## About the Other Information Section

The Other Information section includes:

### Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (Unaudited)

The **Consolidated Statement of Net Cost (Unaudited)** shows, 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 Statement of Changes in Net Position (Unaudited)** presents 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 Sheet.

The **Combined Statement of Budgetary Resources (Unaudited)** presents the budgetary resources available to the Department, the status of these resources, and the outlays of budgetary resources.

The **Notes to the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (Unaudited)** 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 11.** Other Accounting Policies

**Note 12.** Property and Equipment

**Note 13.** Credit Program Subsidy Expense and Reconciliations of Loans Receivable, Allowance for Subsidy, and Liabilities for Loan Guarantees

**Note 14.** Roll-Forward of Debt Associated with Loans

**Note 15.** Net Cost of Operations

**Note 16.** COVID-19 Activity

**Note 17.** Statement of Budgetary Resources

**Note 18.** Reconciliation of Net Cost to Net Outlays

**Note 19.** Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process

**Note 20.** Other Matters

### Required Supplementary Information (Unaudited)

This section contains the Combining Statements of Budgetary Resources for the year ended September 30, 2023.

### Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2024

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 2024. The OIG identified the following seven challenges: (1) Implementing Pandemic Relief Laws for Elementary and Secondary Education, (2) Implementing Pandemic Relief Laws for Higher Education, (3) Oversight and Monitoring of Student Financial Assistance Programs, (4) Oversight and Monitoring of Grantees, (5) Data Quality and Reporting, (6) Improper Payments, and (7) 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 Related Financial Risk

This section summarizes the Department's FY 2021 Climate Adaptation Plan and provides information on the FY 2024 Climate Adaptation and Environmental Justice Plans.

### 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.

# The Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (Unaudited)

**U.S. Department of Education**  
**Consolidated Statement of Net Cost**  
**For the Year Ended September 30, 2023**  
(Dollars in Millions)

	FY 2023 (Unaudited)
<b>PROMOTE EQUITY FOR PREKINDERGARTEN THROUGH GRADE 12 STUDENTS WITH ACCESS TO EDUCATIONAL RESOURCES, OPPORTUNITIES, AND INCLUSIVE ENVIRONMENTS</b>	
Gross Costs	\$ 100,093
Earned Revenue	(104)
<b>Net Program Cost</b>	<b>\$ 99,989</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	\$ (78,781)
Earned Revenue	(35,917)
<b>Net Cost (Surplus) of Direct Loan Program</b>	<b>\$ (114,698)</b>
<b>FFEL Program</b>	
Gross Costs	\$ 11,848
Earned Revenue	(3,994)
<b>Net Cost of FFEL Program</b>	<b>\$ 7,854</b>
<b>Other Credit Programs for Higher Education</b>	
Gross Costs	\$ 84
Earned Revenue	(907)
<b>Net Cost (Surplus) of Other Credit Programs for Higher Education</b>	<b>\$ (823)</b>
<b>Non-Credit Programs</b>	
Gross Costs	\$ 49,084
Earned Revenue	(10)
<b>Net Cost of Non-Credit Programs</b>	<b>\$ 49,074</b>
<b>Net Program Costs (Surplus)</b>	<b>\$ (58,593)</b>
<b>Total Program Gross Costs</b>	<b>\$ 82,328</b>
<b>Total Program Earned Revenue</b>	<b>\$ (40,932)</b>
<b>Net Cost of Operations (Notes 15 &amp; 18)</b>	<b>\$ 41,396</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of Education**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2023**  
(Dollars in Millions)

	FY 2023 (Unaudited)	
	Unexpended Appropriations	Cumulative Results of Operations
<b>Beginning Balances</b>	<b>\$ 231,216</b>	<b>\$ (9,487)</b>
Appropriations Received	255,795	-
Appropriations Transferred – In/Out	4	-
Other Adjustments (Rescissions, etc.)	(1,629)	-
Appropriations Used	(313,824)	313,824
Nonexchange Revenue	-	3
Imputed Financing from Costs Absorbed by Others	-	64
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(330,204)
Net Cost of Operations	-	(41,396)
<b>Net Change</b>	<b>\$ (59,654)</b>	<b>\$ (57,709)</b>
<b>Net Position</b>	<b>\$ 171,562</b>	<b>\$ (67,196)</b>

The accompanying notes are an integral part of these statements.



**U.S. Department of Education**  
**Combined Statement of Budgetary Resources**  
**For the Year Ended September 30, 2023**  
(Dollars in Millions)

	FY 2023 (Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance from Prior Year Budget Authority (Net) (Note 17)	\$ 24,544	\$ 27,776
Appropriations (Discretionary and Mandatory)	247,334	7,355
Borrowing Authority (Discretionary and Mandatory) (Note 17)	-	472,659
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	495	70,022
<b>Total Budgetary Resources</b>	<b>\$ 272,373</b>	<b>\$ 577,812</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
New Obligations and Upward Adjustments (Total)	\$253,467	\$523,386
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	13,459	-
Unapportioned, Unexpired Accounts	526	54,426
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 13,985</b>	<b>\$ 54,426</b>
Expired Unobligated Balance, End of Year	4,921	-
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 18,906</b>	<b>\$ 54,426</b>
<b>Total Budgetary Resources</b>	<b>\$ 272,373</b>	<b>\$ 577,812</b>
<b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>		
Outlays, Net (Discretionary and Mandatory)	\$ 306,504	
Distributed Offsetting Receipts (-) (Note 17)	(347,613)	
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 17 &amp; 18)</b>	<b>\$ (41,109)</b>	
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ 296,668</b>

The accompanying notes are an integral part of these statements.

## Notes to the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources for the Year Ended September 30, 2023 (Unaudited)

### NOTE 11. Other Accounting Policies

#### Basis of Accounting and Presentation

These financial statements were prepared to report the 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. For FY 2023, the Department elected to present these financial statements as unaudited and include them in the Other Information section. 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 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.

#### Subsidy Cost and Budgetary Accounting for Federal Credit Programs

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 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 7.8 percent of the amount obligated for new loan awards will not be disbursed.

### 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.

### 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 costs 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. Administrative overhead costs are allocated to loan and non-credit programs based on number of applications processed, number of loans serviced, dollar amount of loan originations, cost of school compliance actions, and the cost to collect defaulted loans.

**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.

**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.

### 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

Allocation transfers are an arrangement established by statute that allow an agency to delegate authority and financial operations to other Federal agencies. Treasury establishes a separate subsidiary account (allocation account) under the parent fund account to provide for the reporting of obligations and outlays incurred by the child 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 has established a child relationship with the Department of the Interior for transactions related to the Bureau of Indian Affairs, and receives allocation transfers, as the child, from the Department of Health and Human Services.

### 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 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 Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position include: allocation of Department administrative overhead costs; and subsidy expense for direct, defaulted guaranteed, and acquired loans. (See Notes 13 and 15)

**NOTE 12. Property and Equipment**

Changes in property and equipment balances were as follows:

**Property and Equipment**

(Dollars in Millions)

	2023 (Unaudited)		
	Acquisition Value	Accumulated Depreciation	Net
Balance Beginning of the Year	\$ 168	\$ (162)	\$ 6
Dispositions	(4)	-	(4)
<b>Balance at End of Year</b>	<b>\$ 164</b>	<b>\$ (162)</b>	<b>\$ 2</b>

**NOTE 13. Credit Program Subsidy Expense and Reconciliations of Loans Receivable, Allowance for Subsidy, and Liabilities for Loan Guarantees**

The net loans receivable increased by \$214.3 billion during FY 2023 (as a result of activity identified in the following table).

**Reconciliation of Loans Receivable, Net**

(Dollars in Millions)

	2023 (Unaudited)				
	Direct Loan Program	Defaulted FFEL Guaranteed Loans	Acquired FFEL Loans	Other Credit Programs for Higher Education	Total
<b>Beginning 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>
Add Loan Disbursements:					
New Loan Disbursements	84,477	-	-	188	84,665
Consolidations	37,792	-	-	-	37,792
Add Defaulted Loan Claim Payments	-	4,605	-	-	4,605
Less Principal, Interest, and Fee Payments Received:					
Principal	(42,123)	(364)	(766)	(52)	(43,305)
Interest	(2,147)	(18)	(276)	(8)	(2,449)
Fees	(1,656)	-	1	-	(1,655)
Add Interest Accruals	3,180	80	(969)	9	2,300
Less Loans Written Off:					
Principal	(83,789)	(1,984)	(2,986)	(55)	(88,814)
Interest	(4,990)	(201)	(92)	(5)	(5,288)
Fees	-	(41)	-	-	(41)
Allowance for Subsidy	88,779	2,226	3,078	60	94,143
Add Amortization of Net Interest:					
Interest Revenue on Uninvested Funds	(6,266)	-	(261)	(12)	(6,539)
Interest Revenue from the Public	(3,180)	-	970	(13)	(2,223)
Administrative Fees	2	-	(1)	(4)	(3)
Interest Expense on Borrowing	28,234	-	1,159	32	29,425
Positive Subsidy Transfers	(18,392)	-	-	(37)	(18,429)
Negative Subsidy Transfers	2,109	-	-	-	2,109
Upward Subsidy Re-Estimate	(58,932)	-	(5,808)	(100)	(64,840)
Downward Subsidy Re-Estimate	(12,466)	-	(1,634)	50	(14,050)
Loan Modifications	204,156	-	5,181	38	209,375
Other:					
Other Adjustments to Allowance for Subsidy	851	793	252	(106)	1,790
Other Non-Cash Reconciling Items	(1,241)	(3,184)	(248)	449	(4,224)
<b>Ending Balance of Loans Receivable, Net</b>	<b>\$ 1,030,912</b>	<b>\$ 11,843</b>	<b>\$ 27,471</b>	<b>\$ 2,766</b>	<b>\$ 1,072,992</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 for each of the loan programs.

### Direct Loan Program

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

	2023 (Unaudited)
<b>Beginning Balance of Allowance for Subsidy</b>	<b>\$ 611,919</b>
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	16,283
Adjustments	
Loan Modifications	(204,156)
Fees Received	1,660
Loans Written Off	(88,779)
Subsidy Allowance Amortization	(18,790)
Other Activities	(850)
<b>Ending Balance of Allowance for Subsidy Before Re-Estimates</b>	<b>317,287</b>
Net Upward/(Downward) Subsidy Re-Estimates	71,398
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 388,685</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.

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

	2023 (Unaudited)
<b>Subsidy Expense for Direct Loans Disbursed in the Current Year</b>	
Interest Rate Differential	\$ 27,937
Defaults, Net of Recoveries	1,196
Fees	(1,625)
Other	(11,225)
<b>Total Subsidy Expense for Direct Loans Disbursed in the Current Year</b>	<b>16,283</b>
<b>Modifications and Re-Estimates</b>	
Loan Modifications	
Modification Adjustment Transfer Gain	(7,683)
Modification Adjustment Transfer Loss	6,590
Loan Modifications	(203,063)
<b>Total Loan Modifications</b>	<b>(204,156)</b>
Net Upward/(Downward) Subsidy Re-Estimates	
Interest Rate Re-Estimates	2,093
Technical and Default Re-Estimates	69,305
<b>Total Net Upward/(Downward) Subsidy Re-Estimates</b>	<b>71,398</b>
<b>Total Modifications and Re-Estimates</b>	<b>(132,758)</b>
<b>Direct Loan Subsidy Expense</b>	<b>\$ (116,475)</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 2023 included the following:

- **Loan Deferral Extension.** In FY 2023, the administration extended the student loan repayment deferrals through August 31, 2023. The extended relief for borrowers resulted in an upward modification cost of \$23.2 billion. There was a net positive \$0.1 billion modification adjustment transfer associated with this modification, bringing the total FY 2023 modification cost for the Direct Loan Program student loan repayment deferrals to \$23.3 billion.

- **Borrower Defense to Repayment and Arbitration.** The Department developed regulations to create a fair path for borrowers to receive a discharge if their colleges lied or took advantage of them. The regulations established a process for group claims based on common evidence, to provide for full relief of loans and refund of payments made, stop interest accrual within a certain period upon granting a forbearance related to a claim, establish timeframes for resolving a claim, and establish a reconsideration process for denied borrower defense claims. These changes resulted in an upward modification cost of \$4.2 billion. There was a net negative \$0.1 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$4.1 billion.
- **PSLF.** The PSLF Program removes the burden of student debt on public servants by canceling loans after 10 years of public service. The Department updated the PSLF application process and expanded the types of payments considered to qualify toward loan cancellation and described the types of qualifying employment. The updates included features of the limited-time PSLF waiver related to the treatment of specific deferments and forbearances and payments made prior to consolidation. A provision was included that allows individuals who work as contractors for a qualifying employer in a position or providing services that, under applicable state law, cannot be filled or provided by a direct employee of the qualifying employer, to receive PSLF. These changes resulted in an upward modification cost of \$4.0 billion. There was a net positive \$0.1 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$4.1 billion.
- **Total and Permanent Disability Discharges.** The Department streamlined the application process, eliminated the 3-year post discharge income monitoring period, and expanded the Social Security Administration categories that qualify for the discharge. These changes resulted in an upward modification cost of \$4.3 billion. There was a net positive \$0.1 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$4.4 billion.
- **Closed School Discharge.** The Department expanded the automatic discharge process for borrowers that attended a college that closed and clarified the treatment for borrowers that re-enroll in comparable programs. These changes resulted in an upward modification cost of \$3.4 billion. There was a net positive \$0.3 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$3.7 billion.
- **Interest Capitalization.** Interest capitalization occurs when accrued interest is added to the principal balance of the loan, so that future interest accrues on a higher amount. The Department eliminated interest capitalization wherever it is not required by statute. This change resulted in an upward modification cost of \$3.4 billion. There was a net positive \$0.1 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$3.5 billion.
- **IDR Saving on a Valuation Education (SAVE) Plan.** The Department published a Final Rule to revise the existing Revised Pay-As-You-Earn (REPAYE) repayment plan, which may also be referred to as the SAVE Plan. These changes resulted in an upward modification cost of \$70.9 billion. There was a net negative \$0.5 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$70.4 billion.
- **Broad Based Debt Relief Reversal.** A downward modification was calculated to reverse the inclusion of student loan debt relief from the baseline subsidy cost as a result of

the Supreme Court's ruling on *Biden v. Nebraska* on June 30, 2023. These changes resulted in a downward modification cost of \$319.4 billion. There was a net negative \$0.5 billion modification adjustment transfer associated with this modification, bringing the total modification cost (savings) to \$319.9 billion.

- **Fresh Start/On Ramp.** Fresh Start is a one-time temporary program that offers special benefits for borrowers with defaulted federal student loans. In addition to Fresh Start, the President announced that the Department is instituting a 12-month “on-ramp” to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies. These actions resulted in an upward modification cost of \$2.9 billion. There was a net negative \$0.7 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$2.2 billion.

**Net Upward/Downward Subsidy Re-Estimates for All Prior-Year Loan Cohorts.**

The Direct Loan Program subsidy re-estimate increased subsidy expense in FY 2023 by \$71.4 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2022). 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.

- **Non-IDR Discharges.** The Department updated the assumption to include a standard data update with data from NSLDS that included an update to closed school discharges and PSLF waiver discharges for borrowers not enrolled in IDR. The primary adjustment to the model this cycle was removing adjustments to the rates for total permanent disability and projecting those factors from the actuals in the data. The combined effect of these updates led to a net upward re-estimate of \$29.9 billion.
- **IDR Model Changes.** The Department completed a standard IDR data update that included updates for defaults and collections, updated poverty guidelines, and revised inflation rates provided in OMB's economic assumption package. This cycle also featured an update to the deferment and forbearance rates in the IDR model to account for updated projections based on servicing guidelines that suggest that there may be many fewer forbearances in IDR in the future as well as adjustments for retroactive changes implemented regarding past forbearances. The combined effect of these updates led to a net upward re-estimate of \$26.5 billion.
- **Deferment and Forbearance.** The Department updated deferment and forbearance rates for fiscal years 2023 and prior with updated forecasted rates. Economic assumptions were updated for unemployment rate, and fiscal years 2020 through 2023 were updated for actual payments made by students during the repayment deferral period using data from FSA. The combined effect of these changes led to a net downward re-estimate of \$2.3 billion.
- **Collections.** The Department updated FY 2023 collection rates to reflect the extension of the repayment deferral, along with other technical changes. The combined effect of these changes led to a net upward re-estimate of \$16.4 billion.

- **Default.** The default assumption was updated to include forecasted rates that spread future defaults more evenly across future fiscal years at the end of the Fresh Start period. The effect of these changes led to a net downward re-estimate of \$0.6 billion.
- **Repayment Plan Selection.** The Department incorporated new repayment plan data through FY 2022 and updated the repayment plan assumption for cohorts prior to FY 2020. This update led to a net upward re-estimate of \$6.4 billion.
- **2022 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 \$0.2 billion for these current-year assumption changes attributable to the FY 2022 cohort.
- **Interest on the Re-Estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of \$16.8 billion.
- **Interactive Effects.** The re-estimate includes a net downward re-estimate of \$18.2 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 2021 and 2022 cohorts were calculated. All other cohorts are actual. The combined effect of these changes led to a net upward re-estimate of \$0.8 billion.

### Direct Loan Program Interest Expense and Revenues (Dollars in Millions)

	2023 (Unaudited)
Interest Expense on Treasury Borrowing	\$ 28,234
<b>Total Interest Expense</b>	<b>\$ 28,234</b>
Interest Revenue from the Public	3,180
Interest Revenue on Uninvested Funds	6,266
Administrative Fees	(2)
Amortization of Subsidy	18,790
<b>Total Revenues</b>	<b>\$ 28,234</b>

## Federal Family Education Loan Program

## Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2023 (Unaudited)
<b>Beginning Balance of Post-1991 FFEL Loan Guarantee Liability</b>	<b>\$ 10,409</b>
Adjustments	
Loan Modifications	1,018
Interest Supplements Paid	(1,706)
Claim Payments to Lenders	(4,593)
Fees Received	601
Interest on Accumulation on the Liability Balance	(88)
Other Activities	1,160
Net Upward Subsidy Re-Estimates	4,283
<b>Ending Balance of Post-1991 FFEL Loan Guarantee Liability</b>	<b>11,084</b>
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	(138)
<b>FFEL Liabilities for Loan Guarantees</b>	<b>10,946</b>
HEAL Liabilities for Loan Guarantees	251
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 11,197</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)

	2023 (Unaudited)			
	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
<b>Beginning Balance of Allowance for Subsidy</b>	<b>\$ 7,945</b>	<b>\$ 12,952</b>	<b>\$ 293</b>	<b>\$ 21,190</b>
<b>Adjustments</b>				
Loan Modifications	(1,808)	(3,373)	-	(5,181)
Subsidy Allowance Amortization	(317)	(1,500)	(50)	(1,867)
Loans Written Off	(485)	(2,529)	(64)	(3,078)
Other Activities	(19)	(225)	(12)	(256)
<b>Ending Balance of Allowance for Subsidy Before Re-Estimates</b>	<b>5,316</b>	<b>5,325</b>	<b>167</b>	<b>10,808</b>
Net Upward Subsidy Re-Estimates	2,888	4,554	-	7,442
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 8,204</b>	<b>\$ 9,879</b>	<b>\$ 167</b>	<b>\$ 18,250</b>

## FFEL Program Subsidy Expense

(Dollars in Millions)

	2023 (Unaudited)
<b>Loan Modification Costs</b>	
FFEL Guaranteed Loan Program	
Net Modification Adjustment Transfer (Gain)/Loss	\$ 302
Loan Modifications	716
<b>Total FFEL Guaranteed Loan Program Loan Modifications</b>	<b>1,018</b>
Loan Purchase Commitment	
Net Modification Adjustment Transfer (Gain)/Loss	39
Loan Modifications	(1,847)
<b>Total Loan Purchase Commitment Loan Modifications</b>	<b>(1,808)</b>
Loan Participation Purchase	
Net Modification Adjustment Transfer (Gain)/Loss	61
Loan Modifications	(3,434)
<b>Total Loan Participation Purchase Loan Modifications</b>	<b>(3,373)</b>
<b>Total Loan Modification Costs</b>	<b>(4,163)</b>
<b>Upward/(Downward) Subsidy Re-Estimates</b>	
FFEL Loan Guarantee Program	4,283
Loan Purchase Commitment	2,888
Loan Participation Purchase	4,554
<b>Total FFEL Program Subsidy Re-Estimates</b>	<b>11,725</b>
<b>FFEL Program Subsidy Expense</b>	<b>\$ 7,562</b>

**Loan Modifications.** Loan modifications for the FFEL Loan Program for FY 2023 included the following:

- **Loan Deferral Extension.** In FY 2023, the administration extended the student loan repayment deferrals through August 31, 2023. The extended relief for borrowers resulted in an upward modification cost of \$2.6 billion for the FFEL Program student loan repayment deferrals.
- **Broad Based Debt Relief Reversal.** A downward modification was calculated to reverse the inclusion of student loan debt relief from the baseline subsidy cost as a result of the Supreme Court's ruling on Biden v. Nebraska on June 30, 2023. These changes resulted in a downward modification cost of \$13.6 billion. There was a net positive \$0.7 billion modification adjustment transfer associated with this modification, bringing the total modification cost (savings) to \$12.9 billion.
- **Fresh Start/On Ramp.** Fresh Start is a one-time temporary program that offers special benefits for borrowers with defaulted federal student loans. In addition to Fresh Start, the President announced that the Department is instituting a 12-month "on-ramp" to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies. These actions resulted in an upward modification cost of \$3.2 billion. There was a net negative \$0.2 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$3.0 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 during the Fresh Start period. 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 \$0.7 billion.
- IDR Saving on a Valuation Education (SAVE) Plan. The Department published a Final Rule to revise the existing Revised Pay-As-You-Earn (REPAYE) repayment plan, which may also be referred to as the SAVE plan. The SAVE plan is available to student borrowers with a FFEL loan that has been converted into a Direct Consolidation Loan that is in good standing. These changes resulted in an upward modification cost of \$2.6 billion. There was a net negative \$0.2 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$2.4 billion.

**Net Upward/Downward Subsidy Re-Estimates.** The total FFEL subsidy re-estimate increased subsidy expense in FY 2023 by \$11.7 billion. The net upward re-estimates in the FFEL Program were due primarily to increased non-IDR discharges in the Loan Purchase Commitment and Loan Participation Purchase programs.

### Other Credit Programs for Higher Education

#### TEACH Program.

**Loan Modifications.** Loan modifications for the TEACH Program for FY 2023 included the following:

- Loan Deferral Extension. In FY 2023, the administration extended the student loan repayment deferrals through August 31, 2023. The extended relief for borrowers resulted in an upward modification cost of \$9.2 million in the TEACH Program. There was a net positive \$0.1 million modification adjustment transfer associated with this modification, bringing the total modification cost to \$9.3 million.
- Broad Based Debt Relief Reversal. A downward modification was calculated to reverse the inclusion of student loan debt relief from the baseline subsidy cost as a result of the Supreme Court's ruling on *Biden v. Nebraska* on June 30, 2023. These changes resulted in a downward modification cost of \$51.1 billion. There was a net positive \$1.8 billion modification adjustment transfer associated with this modification, bringing the total modification cost (savings) to \$49.3 billion.
- Fresh Start/On Ramp. Fresh Start is a one-time temporary program that offers special benefits for borrowers with defaulted federal student loans. In addition to Fresh Start, the President announced that the Department is instituting a 12-month “on-ramp” to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies. These actions resulted in an upward modification cost of \$1.9 billion. There was a net negative \$0.4 billion modification adjustment transfer associated with this modification, bringing the total modification cost to \$1.5 billion.

- IDR Saving on a Valuation Education (SAVE) Plan. The Department published a Final Rule to revise the existing Revised Pay-As-You-Earn (REPAYE) plan, which may also be referred to as the SAVE plan. The SAVE plan, which is available to student borrowers with a Direct Loan in good standing, will replace the existing Revised Pay-As-You-Earn (REPAYE) plan which is the most generous existing IDR plan for most borrowers. These changes resulted in an upward modification cost of \$0.9 billion.

### HEAL Program.

**Loan Modifications.** Loan modifications for the HEAL Program for FY 2023 included the following:

- Loan Deferral Extension. In FY 2023, the administration extended the student loan repayment deferrals through August 31, 2023. The extended relief for borrowers resulted in an upward modification cost of \$0.9 million in the HEAL Program.

## NOTE 14. Roll-Forward of Debt Associated with Loans

(Dollars in Millions)

	2023 (Unaudited)				
	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
<b>Debt to the Bureau of Public Debt</b>					
Direct Loan Program	\$ 837,440	\$ 445,038	\$ (155,467)	\$ -	\$ 1,127,011
FFEL Program	66,995	15,438	(21,537)	-	60,896
Other Credit Programs for Higher Education	641	98	(61)	-	678
<b>Total Debt to the Bureau of Public Debt</b>	<b>905,076</b>	<b>460,574</b>	<b>(177,065)</b>	<b>-</b>	<b>1,188,585</b>
<b>Debt to the Federal Financing Bank</b>					
Other Credit Programs for Higher Education	271	134	(33)	6	378
<b>Total Debt Associated with Loans</b>	<b>\$ 905,347</b>	<b>\$ 460,708</b>	<b>\$(177,098)</b>	<b>\$ 6</b>	<b>\$ 1,188,963</b>

Most of the \$445.0 billion new Direct Loan Program borrowing activity for the year was designated for funding downward modifications. Principal repayments during FY 2023 for the Direct Loan Program totaled \$155.5 billion.

During FY 2023, TEACH net borrowing was used for the advance of new grants and repayments of principal made to Treasury.



**NOTE 15. 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 16)

Program Offices	Strategic Goal	Net Cost Program
<b>Net Cost Statement Program Alignment with Strategic Plan</b>		
OESE OSERS Other: OCTAE IES OELA OCR	<b>Goal 1:</b> Promote equity in student access to educational resources, opportunities, and inclusive environments.  <b>Goal 2:</b> Support a diverse and talented educator workforce and professional growth to strengthen student learning.  <b>Goal 3:</b> Meet students’ social, emotional, and academic needs.	Promote equity for prekindergarten through grade 12 students with access to educational resources, opportunities, and inclusive environments
FSA OSERS Other: OCTAE IES OPE OCR	<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.	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)

	2023 (Unaudited)					
	FSA	OESE	OSERS	COVID-19	Other	Total
<b>PROMOTE EQUITY FOR PREKINDERGARTEN THROUGH GRADE 12 STUDENTS WITH ACCESS TO EDUCATIONAL RESOURCES, OPPORTUNITIES, AND INCLUSIVE ENVIRONMENTS</b>						
Gross Cost						
Grants	\$ -	\$ 26,124	\$ 13,868	\$ 56,576	\$ 2,496	\$ 99,064
Other	-	89	1	16	923	1,029
Earned Revenue	-	-	-	-	(104)	(104)
<b>Net Program Costs</b>	<b>-</b>	<b>26,213</b>	<b>13,869</b>	<b>56,592</b>	<b>3,315</b>	<b>99,989</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	28,234	-	-	-	-	28,234
Subsidy Expense	179,712	-	-	(288,504)	-	(108,792)
Administrative Expenses	1,777	-	-	-	-	1,777
Earned Revenue						
Subsidy Expense	(1,739)	-	-	(5,944)	-	(7,683)
Interest & Administrative Fees	(9,444)	-	-	-	-	(9,444)
Subsidy Amortization	(18,790)	-	-	-	-	(18,790)
<b>Net Cost (Surplus) of Direct Loan Programs</b>	<b>179,750</b>	<b>-</b>	<b>-</b>	<b>(294,448)</b>	<b>-</b>	<b>(114,698)</b>
<u>FFEL Program</u>						
Gross Cost						
Credit Program Interest Expense	3,261	-	-	-	-	3,261
Subsidy Expense	14,324	-	-	(6,404)	-	7,920
Subsidy Amortization (Guaranteed Loans)	(88)	-	-	-	-	(88)
Guaranty Agencies	580	-	-	-	-	580
Administrative Expenses	175	-	-	-	-	175
Earned Revenue						
Subsidy Expense	(145)	-	-	(213)	-	(358)
Interest & Administrative Fees	(1,306)	-	-	-	-	(1,306)
Subsidy Amortization (Acquired FFEL Loans)	(1,867)	-	-	-	-	(1,867)
Guaranty Agencies	(463)	-	-	-	-	(463)
<b>Net Cost of FFEL Program</b>	<b>14,471</b>	<b>-</b>	<b>-</b>	<b>(6,617)</b>	<b>-</b>	<b>7,854</b>
<u>Other Credit Programs for Higher Education</u>						
Gross Cost						
Credit Program Interest Expense	17	-	-	-	15	32
Subsidy Expense	53	-	-	(37)	35	51
Administrative Expenses	1	-	-	-	-	1
Earned Revenue						
Interest & Administrative Fees	(14)	-	-	-	(15)	(29)
Subsidy Amortization	(3)	-	-	-	-	(3)
Other	(874)	-	-	-	(1)	(875)
<b>Net Cost (Surplus) of Other Credit Programs for Higher Education</b>	<b>(820)</b>	<b>-</b>	<b>-</b>	<b>(37)</b>	<b>34</b>	<b>(823)</b>
<u>Non-Credit Programs</u>						
Gross Cost						
Grants	32,011	5	4,092	7,705	4,750	48,563
Other	130	-	6	59	326	521
Earned Revenue	-	-	-	-	(10)	(10)
<b>Net Cost of Non-Credit Programs</b>	<b>32,141</b>	<b>5</b>	<b>4,098</b>	<b>7,764</b>	<b>5,066</b>	<b>49,074</b>
<b>Net Program Costs (Surplus)</b>	<b>225,542</b>	<b>5</b>	<b>4,098</b>	<b>(293,338)</b>	<b>5,100</b>	<b>(58,593)</b>
<b>Total Program Gross Costs</b>	<b>260,187</b>	<b>26,218</b>	<b>17,967</b>	<b>(230,589)</b>	<b>8,545</b>	<b>82,328</b>
<b>Total Program Earned Revenues</b>	<b>(34,645)</b>	<b>-</b>	<b>-</b>	<b>(6,157)</b>	<b>(130)</b>	<b>(40,932)</b>
<b>Net Cost</b>	<b>\$ 225,542</b>	<b>\$ 26,218</b>	<b>\$ 17,967</b>	<b>\$ (236,746)</b>	<b>\$ 8,415</b>	<b>\$ 41,396</b>

### Credit Program Interest Expense and Revenues (Dollars in Millions)

	2023 (Unaudited)						
	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	Other than Intragovernmental		Intragovernmental	Other than Intragovernmental	Other than Intragovernmental	
Direct Loan Program	\$ 28,234	\$ -	\$ 28,234	\$ 6,266	\$ 3,178	\$ 18,790	\$ 28,234
FFEL Program	3,261	(88)	3,173	2,276	(970)	1,867	3,173
Other Credit Programs for Higher Education	32	-	32	12	17	3	32
<b>Total</b>	<b>\$ 31,527</b>	<b>\$ (88)</b>	<b>\$ 31,439</b>	<b>\$ 8,554</b>	<b>\$ 2,225</b>	<b>\$ 20,660</b>	<b>\$ 31,439</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 until August 31, 2023, new interest revenues were only recognized for part of FY 2023. Interest adjustments and reapplication activities are also 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 2023 interest revenues for the FFEL Program.

## Grant Expenses by Appropriation

(Dollars in Millions)

	2023 (Unaudited)	
<b>PROMOTE EQUITY FOR PREKINDERGARTEN THROUGH GRADE 12 STUDENTS WITH ACCESS TO EDUCATIONAL RESOURCES, OPPORTUNITES, AND INCLUSIVE ENVIRONMENTS</b>		
COVID-19	\$	56,576
Education for the Disadvantaged		17,840
Special Education – IDEA Grants		13,868
School Improvement Programs		6,099
Impact Aid		1,736
Innovation and Improvement		1,036
English Language Acquisition		829
Career, Technical, and Adult Education		431
Hurricane Education Recovery		30
Institute of Education Sciences		213
Other		406
<b>Subtotal</b>		<b>99,064</b>
<b>INCREASE POSTSECONDARY VALUE BY FOCUSING ON EQUITY STRATEGIES TO ADDRESS ACCESS TO AFFORDABILITY, COMPLETION, AND POST-ENROLLMENT SUCCESS</b>		
COVID-19	\$	7,705
Student Financial Assistance		
Pell Grants		29,714
Federal Work-Study Program		1,214
Federal Supplemental Educational Opportunity Grants		1,083
Rehabilitation Services		3,682
Higher Education		2,877
Career, Technical, and Adult Education		1,572
Special Education – IDEA Grants		123
Hurricane Education Recovery		5
Institute of Education Sciences		47
Other		541
<b>Subtotal</b>		<b>48,563</b>
<b>Total Grant Costs</b>	<b>\$</b>	<b>147,627</b>

The Department has more than 100 grant programs. Descriptions of COVID-19 grant programs are provided in Note 16. 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. 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 16. 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 145. 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 during FY 2023 for student loan borrowers by suspending nearly all federal student loan payments through August 31, 2023, interest free. Additionally, support for student loan borrowers was provided in previous fiscal years by the following COVID-19 relief legislation and administrative actions.

- 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 13)

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 2023. Unobligated CARES Act balances as of the end of FY 2022 totaling \$564 million were carried forward to FY 2023 and are reported in the FY 2023 COVID-19 schedule as Unobligated Balance from Prior Year Budget Authority (Net) together with \$40 million of downward adjustments recorded in FY 2023 to prior years' CARES Act obligations. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end of FY 2023 totaled \$75.3 billion. (See Note 3 and 17)

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

2023 (Unaudited)							
	Unobligated Balance from Prior Year Budget Authority (Net)	Appropriations	New Obligations and Upward Adjustments of Prior Year Obligations	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 15)
<b>COVID-19 Direct Appropriations</b>							
Education Stabilization Fund							
Elementary and Secondary School Emergency Relief Fund							
Allocations to States	\$ 1	\$ -	\$ -	\$ 1	\$ 54,470	\$ -	\$ 52,656
Assistance for Homeless Children and Youth	1	-	-	1	176	-	176
Higher Education Emergency Relief Fund							
Higher Education Funds to Students	84	-	-	84	881	-	880
Higher Education Funds to Institutions	19	-	4	15	4,868	-	4,830
Proprietary Institutions Grant Funds for Students	238	-	-	238	25	-	25
Schools Serving Low-Income Students, HBCUs, and Minority Serving Institutions (MSIs)							
MSIs	28	-	-	28	387	-	387
HBCUs	1	-	-	1	672	-	669
Tribally Controlled Colleges and Universities (TCCUs)	1	-	-	1	57	-	57
Strengthening Institutions Program	55	-	-	55	173	-	171
Fund for the Improvement of Postsecondary Education	112	-	-	112	2	-	2
Supplemental Assistance and Support	(113)	-	-	(113)	215	-	217
Governor's Emergency Education Relief Fund							
Emergency Education Relief Grants	-	-	-	-	780	-	780
Emergency Assistance to Non-Public Schools Program	-	-	-	-	1,418	-	1,574
Outlying Areas							
Bureau of Indian Education	-	-	-	-	322	-	322
Discretionary Grants	-	-	-	-	84	-	84
<b>Total Education Stabilization Fund</b>	<b>427</b>	<b>-</b>	<b>4</b>	<b>423</b>	<b>64,530</b>	<b>-</b>	<b>62,830</b>
<i>Individuals with Disabilities Education Act Grants</i>							
School Improvement Programs	27	-	21	6	48	-	48
American Indian Resilience in Education	13	-	13	-	4	-	4
Gallaudet University	-	-	-	-	5	-	5
Howard University	-	-	-	-	11	-	11
National Technical Institute for the Deaf	-	-	-	-	8	-	8
HBCU Loan Deferment	30	-	-	30	-	-	-
Student Aid Administration	26	-	23	3	57	-	57
Program Administration	9	-	5	4	7	-	7
Inspector General	7	-	3	4	3	-	3
Institute of Education Sciences	65	-	20	45	22	-	23
<b>Total COVID-19 Direct Appropriations</b>	<b>604</b>	<b>-</b>	<b>89</b>	<b>515</b>	<b>66,054</b>	<b>-</b>	<b>64,357</b>
<b>COVID-19 Indirect Appropriations (See Note 5)</b>							
Loan Deferral Extension	-	26,084	26,084	-	26,084	197	25,887
Broad Based Debt Relief Reversal	-	5,318	5,318	-	5,318	338,176	(332,858)
Fresh Start	-	6,047	6,047	-	6,047	849	5,198
Support for FSLRF	-	670	670	-	670	-	670
<b>Total COVID-19 Indirect Appropriations</b>	<b>-</b>	<b>38,119</b>	<b>38,119</b>	<b>-</b>	<b>38,119</b>	<b>339,222</b>	<b>(301,103)</b>
<b>Total COVID-19 Activity</b>	<b>\$ 604</b>	<b>\$ 38,119</b>	<b>\$ 38,208</b>	<b>\$ 515</b>	<b>\$ 104,173</b>	<b>\$ 339,222</b>	<b>\$ (236,746)</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 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.

**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 17. Statement Of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2023, budgetary resources were \$850.2 billion, and net agency outlays were \$41.1 billion.

### Net Adjustments to Unobligated Balances Brought Forward, October 1 (Dollars in Millions)

	2023 (Unaudited)	
	Budgetary	Nonbudgetary Credit Reform Financing Accounts
<b>Prior Year Unobligated Balance, End of Year (Total)</b>	<b>\$ 22,711</b>	<b>\$ 65,579</b>
Recoveries of Prior Year Unpaid Obligations	2,362	10,174
Borrowing Authority Withdrawn	-	(6,966)
Actual Repayments of Debt, Prior-Year Balances	-	(41,216)
Actual Capital Transfers to the Treasury General Fund	(11)	-
Canceled Authority	(523)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	3	202
Other Differences	2	3
<b>Unobligated Balance from Prior Year Budget Authority (Net)</b>	<b>\$ 24,544</b>	<b>\$ 27,776</b>

During the year ended September 30, 2023, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2022. These adjustments included, among other things, recoveries of prior year unpaid obligations that resulted from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

### Unused Borrowing Authority (Dollars in Millions)

	2023 (Unaudited)
<b>Beginning Balance – Unused Borrowing Authority</b>	<b>\$ 42,109</b>
Current Year Borrowing Authority	472,659
Funds Drawn from Treasury	(460,708)
Borrowing Authority Withdrawn	(6,966)
<b>Ending Balance - Unused Borrowing Authority</b>	<b>\$ 47,094</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)

	2023 (Unaudited)	
	Intragovernmental	With the Public
Unpaid	\$ 336	\$ 211,050
Paid	146	916
<b>Undelivered Orders</b>	<b>\$ 482</b>	<b>\$ 211,966</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)

	2023 (Unaudited)
Negative Subsidies and Downward Re-estimates of Subsidies:	
Direct Loan Program	\$ 332,029
FFEL Program	14,546
TEACH Program	63
Facilities Loan Programs	39
<b>Total Negative Subsidies and Downward Re-estimates of Subsidies</b>	<b>346,677</b>
Repayment of Perkins Loans and Capital Contributions	548
Other	388
<b>Distributed Offsetting Receipts</b>	<b>\$ 347,613</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, downward modifications, and negative subsidies.

### Reconciliation of the SBR to 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>\$ 901,996</b>	<b>\$ 813,706</b>	<b>\$ 29,086</b>	<b>\$ 639,369</b>
Expired Funds	(5,638)	(1,509)	-	-
Distributed Offsetting Receipts	-	-	-	29,086
Other	-	(1)	-	(3)
<b>Budget of the United States Government<sup>1</sup></b>	<b>\$ 896,358</b>	<b>\$ 812,196</b>	<b>\$ 29,086</b>	<b>\$ 668,452</b>

<sup>1</sup> Amounts obtained from the Appendix, Budget of the United States Government, FY 2024

The FY 2025 President's Budget, which presents the actual amounts for the year ending September 30, 2023, has not been published as of the issue date of these financial statements. The FY 2025 President's Budget is scheduled for release in February 2024 and will be made available on OMB's website. The table above reconciles the FY 2022 SBR to the FY 2024 President's Budget (FY 2022 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.

### Budgetary Status of Fund Balance with Treasury (Dollars in Millions)

	2023 (Unaudited)		
	COVID-19 Funds	All Other Funds	Total
Unobligated Balance			
Available	\$ 486	\$ 12,973	\$ 13,459
Unavailable	29	59,280	59,309
Obligated Balance, Not Disbursed	74,748	145,359	220,107
Authority Temporarily Precluded from Obligation	-	(2,507)	(2,507)
Borrowing Authority Not Yet Converted to Fund Balance with Treasury	-	(47,094)	(47,094)
Other	-	755	755
<b>Total Fund Balance with Treasury</b>	<b>\$ 75,263</b>	<b>\$ 168,766</b>	<b>\$ 244,029</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 (\$59.3 billion) differs from unapportioned and expired amounts on the SBR (\$59.9 billion) due to the Guarantee Agencies' Federal Funds (\$0.6 billion).

**NOTE 18. Reconciliation of Net Cost to Net Outlays**  
(Dollars in Millions)

	2023 (Unaudited)		
	Intragovernmental	Other than Intragovernmental	Total
<b>Net Cost</b>	<b>\$ 23,596</b>	<b>\$ 17,800</b>	<b>\$ 41,396</b>
<b>Components of Net Cost Not Part of Budgetary Outlays:</b>			
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	(66,061)	(66,061)
Loan Modification Adjustment Transfers	-	688	688
Property and Equipment Disposals and Revaluations	-	(4)	(4)
Increase/(Decrease) in Assets:			
Loans Receivables, Net (Non-FCRA)	-	204	204
Other Assets	60	5	65
(Increase)/Decrease in Liabilities:			
Accounts Payable	-	(168)	(168)
Loan Guarantee Liabilities (Non-FCRA)	-	137	137
Other Liabilities	(271)	(398)	(669)
Financing Sources:			
Imputed Costs	(64)	-	(64)
<b>Total Components of Net Cost Not Part of Budgetary Outlays</b>	<b>(275)</b>	<b>(65,597)</b>	<b>(65,872)</b>
<b>Components of Budget Outlays Not Part of Net Cost:</b>			
Effect of Prior-Year Credit Reform Subsidy Re-estimates	-	(16,954)	(16,954)
<b>Total Components of Budget Outlays Not Part of Net Cost</b>	<b>-</b>	<b>(16,954)</b>	<b>(16,954)</b>
<b>Miscellaneous Items:</b>			
Other Loan Activities (Non-FCRA)	(1)	-	(1)
Non-Entity Activity	325	-	325
Non-Exchange Revenues	(3)	-	(3)
<b>Total Miscellaneous Items</b>	<b>321</b>	<b>-</b>	<b>321</b>
<b>Budgetary Agency Outlays, Net</b>			<b>\$ (41,109)</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 19. **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, 2022 FR can be found on Treasury's website, and a copy of the September 30, 2023 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 Government-wide Statement of Net Cost for the Year Ended September 30, 2023** (Dollars in Millions)

FY 2023 Department Statement of Net Cost (Unaudited)		Line Items Used to Prepare FY 2023 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
<b>Total Gross Cost</b>	\$ 82,328	\$ 50,175	Non-Federal Gross Cost
		163	Benefit Program Costs
		64	Imputed Costs
		380	Buy/Sell Cost
		31,527	Borrowing and Other Interest Expense
		19	Other Expenses (Without Reciprocals)
<b>Total Gross Cost</b>	<b>\$ 82,328</b>	<b>\$ 82,328</b>	<b>Department Total Gross Cost</b>
<b>Total Earned Revenue</b>	\$ (40,932)	\$ (32,375)	Non-Federal Earned Revenue
		(3)	Buy/Sell Revenue (Exchange)
		(8,554)	Borrowing and Other Interest Revenue (Exchange)
<b>Total Earned Revenue</b>	<b>(40,932)</b>	<b>(40,932)</b>	<b>Department Total Earned Revenue</b>
<b>Net Cost</b>	<b>\$ 41,396</b>	<b>\$ 41,396</b>	<b>Net Cost</b>



**Reclassification of Statement of Changes in Net Position to Line Items Used for the Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2023**  
(Dollars in Millions)

FY 2023 Department Statement of Changes in Net Position (Unaudited)		Line Items Used to Prepare FY 2023 Government-wide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	\$ 231,216	\$ 231,216	Net Position, Beginning of Period
Appropriations Received	255,795	254,166	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(1,629)		
Appropriations Transferred	4	4	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Appropriations Used	(313,824)	(313,824)	Appropriations Used
<b>Unexpended Appropriations, Ending Balance</b>	<b>171,562</b>	<b>171,562</b>	
Cumulative Results of Operations			
Beginning Balance	(9,487)	(9,487)	Net Position, Beginning of Period
Appropriations Used	313,824	313,824	Appropriations Expended
Nonexchange Revenue	3	3	Collections Transferred into a TAS Other Than the General Fund of the U.S. Government – Nonexchange
Imputed Financing from Costs Absorbed by Others	64	64	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(330,204)	(355,384)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		25,178	Accrual for Non-Entity Amounts to Be Collected and Transferred to the General Fund of the U.S. Government
		2	Other Taxes and Receipts
Net Cost	(41,396)	(41,396)	Net Cost
<b>Cumulative Results of Operations, Ending Balance</b>	<b>\$ (67,196)</b>	<b>\$ (67,196)</b>	
<b>Net Position</b>	<b>\$ 104,366</b>	<b>\$ 104,366</b>	<b>Net Position, End of Period</b>

**NOTE 20. 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.

## Required Supplementary Information (Unaudited)

### U.S. Department of Education Combining Statement of Budgetary Resources For the Year Ended September 30, 2023

(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 17)	\$ 19,342	\$ 27,552	\$ 2,682
Appropriations (Discretionary and Mandatory)	190,593	7,355	27,370
Borrowing Authority (Discretionary and Mandatory) (Note 17)	-	472,192	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	437	69,940	(1)
<b>Total Budgetary Resources</b>	<b>\$ 210,372</b>	<b>\$ 577,039</b>	<b>\$ 30,051</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total)	\$ 196,156	\$ 522,896	\$ 27,750
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	11,193	-	885
Unapportioned, Unexpired Accounts	526	54,143	-
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 11,719</b>	<b>\$ 54,143</b>	<b>\$ 885</b>
Expired Unobligated Balance, End of Year	2,497	-	1,416
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 14,216</b>	<b>\$ 54,143</b>	<b>\$ 2,301</b>
<b>Total Budgetary Resources</b>	<b>\$ 210,372</b>	<b>\$ 577,039</b>	<b>\$ 30,051</b>
<b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>			
Outlays, Net (Discretionary and Mandatory)	\$ 188,368		\$ 25,786
Distributed Offsetting Receipts (-) (Note 17)	(347,189)		-
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 17 &amp; 18)</b>	<b>\$ (158,821)</b>		<b>\$ 25,786</b>
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ 296,603</b>	

Other Information (Unaudited)

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	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
\$ 618	\$ 422	\$ 1,480	\$ 224	\$ 24,544	\$ 27,776	\$ 52,320		
19,623	(389)	10,137	-	247,334	7,355	254,689		
-	-	-	467	-	472,659	472,659		
-	-	59	82	495	70,022	70,517		
<b>\$ 20,241</b>	<b>\$ 33</b>	<b>\$ 11,676</b>	<b>\$ 773</b>	<b>\$ 272,373</b>	<b>\$ 577,812</b>	<b>\$ 850,185</b>		
\$ 19,588	\$ 4	\$ 9,969	\$ 490	\$ 253,467	\$ 523,386	\$ 776,853		
298	-	1,083	-	13,459	-	13,459		
-	-	-	283	526	54,426	54,952		
<b>\$ 298</b>	<b>\$ -</b>	<b>\$ 1,083</b>	<b>\$ 283</b>	<b>\$ 13,985</b>	<b>\$ 54,426</b>	<b>\$ 68,411</b>		
355	29	624	-	4,921	-	4,921		
<b>\$ 653</b>	<b>\$ 29</b>	<b>\$ 1,707</b>	<b>\$ 283</b>	<b>\$ 18,906</b>	<b>\$ 54,426</b>	<b>\$ 73,332</b>		
<b>\$ 20,241</b>	<b>\$ 33</b>	<b>\$ 11,676</b>	<b>\$ 773</b>	<b>\$ 272,373</b>	<b>\$ 577,812</b>	<b>\$ 850,185</b>		
\$ 19,228	\$ 64,530	\$ 8,592		\$ 306,504		\$ 306,504		
-	-	(424)		(347,613)		(347,613)		
<b>\$ 19,228</b>	<b>\$ 64,530</b>	<b>\$ 8,168</b>		<b>\$ (41,109)</b>		<b>\$ (41,109)</b>		
			<b>\$ 65</b>		<b>\$ 296,668</b>	<b>\$ 296,668</b>		

# Memorandum from the Office of the Inspector General




## UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 9, 2023

TO: The Honorable Miguel Cardona  
Secretary of Education

FROM: Sandra D. Bruce   
Inspector General

SUBJECT: Management Challenges for FY 2024

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. These reports include an 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. We also considered the accomplishments and implementation status reported by the Department and applied an assessment framework to determine a progress score for each challenge.

Our FY 2024 report identifies seven 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 retained all five management challenges from our FY 2023 report with some modification. Specifically, our FY 2023 Management Challenges report identified "Implementing Pandemic Relief Laws" and "Oversight and Monitoring" as broader management challenges for the Department. For FY 2024, we divided both challenges into two distinct areas. Implementing pandemic relief laws includes separate challenges for elementary and secondary education and higher education. Oversight and monitoring includes separate challenges for student financial assistance programs and grantees.

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

Page 2 – Management Challenges for FY 2024

Although the Department made progress in addressing these challenges, our work continues to identify some 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 <https://oig.ed.gov/reports/list>.






We look forward to working with the Department to address the FY 2024 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.

# Office of Inspector General’s (OIG) Management and Performance Challenges for Fiscal Year 2024

## New Framework for Assessing Fiscal Year 2024 Management Challenges Reporting

We developed a new framework for evaluating the Department’s activities in response to individual challenges as shown in Table 4 below. We also improved communication throughout the year regarding the activities performed by the Department to address each management challenge.

**Table 4.** Framework for Assessing Department Progress in Addressing Challenge Areas

Description of Response to the Challenge	Score
New challenge, not rated	N/A
<p>A comprehensive plan has not been developed in response to the challenge, or a plan has been developed but it requires significant improvement to increase the likelihood that its risk management practices and internal controls would provide reasonable assurance of effectively mitigating the challenge.</p>	 <p>Level 1—Beginning Progress</p>
<p>A comprehensive plan has been developed in response to the challenge, however, some improvement is needed to increase the likelihood that its risk management practices and internal controls would provide reasonable assurance of effectively mitigating the challenge.</p>	 <p>Level 2—Limited Progress</p>
<p>A comprehensive plan has been developed in response to the challenge. The plan includes risk management practices and internal controls that would provide reasonable assurance of effectively mitigating the challenge. However, the plan has not been substantially implemented or the plan has been substantially implemented but limited or no results have been demonstrated.</p>	 <p>Level 3—Established Progress</p>
<p>A comprehensive plan has been developed in response to the challenge. The plan includes risk management practices and internal controls that would provide reasonable assurance of effectively mitigating the challenge. The plan has been substantially implemented and partial results have been demonstrated.</p>	 <p>Level 4—Significant Progress</p>
<p>A comprehensive plan has been developed in response to the challenge. The plan includes risk management practices and internal controls that would provide reasonable assurance of effectively mitigating the challenge. The plan has been implemented and substantial results have been demonstrated, but continued efforts are needed to fully mitigate the challenge.</p>	 <p>Level 5—Demonstrated Progress</p>

In applying this framework, challenge areas that receive an assessment of “Level 5—Demonstrated Progress” in consecutive years will be considered for removal or modification in subsequent management challenges reporting.

Our implementation of the assessment framework for fiscal year FY 2024 reporting was limited by several factors. Most of the information provided by the Department on its progress occurred during August 2023, which included presentations made by Department leadership for each FY 2023 management challenge. These presentations focused on the Department’s priority corrective actions, rationale for identifying priority corrective actions, current implementation status, and expected implementation status by the end of FY 2023.

We reviewed the information provided by the Department to gain an understanding of its approach to address the underlying causes associated with each management challenge. We assessed whether the action items identified by the Department collectively provided a reasonable framework to address and reduce major risks relating to each challenge. We also considered the identified implementation status and any related outcomes that would support achievement of results within each challenge.

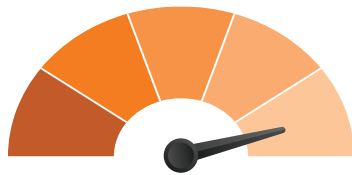
Our approach for FY 2024 reporting considered the initiatives and outcomes specifically identified by the Department and information in some readily assessable documentation such as strategic plans, annual reports, policies, templates, and training materials. Our work to validate the information presented by the Department was limited because of the timing of its presentations in relation to management challenge reporting requirements. Our validation efforts predominately focused on follow-up with the Department to obtain additional information supporting implementation status and the impact of judgmentally selected action items.

For FY 2024, we included a brief narrative and a related progress score using the framework identified in Table 4 above. The outcomes of audit and investigative activity were factors in the identification of challenge areas and were considered as part of the assessment of the Department’s progress. The overall progress score considers the Department’s activities in response to the individual challenges. This includes the effectiveness of the Department’s efforts to identify root causes, develop and implement corrective actions, and assess the results of its efforts. Additional details on the Department’s activities and their responsiveness to the individual challenge areas are included under “Progress in Meeting the Challenge” that appears near the end of each management challenge section.

## Management Challenge 1—Implementing Pandemic Relief Laws for Elementary and Secondary Education

The U.S. Department of Education (Department) was provided with more than \$200 billion under three major pandemic relief laws to assist states, public and nonpublic schools, and school districts in meeting their needs and the needs of students impacted by the pandemic. This included the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), enacted in March 2020; the *Coronavirus Response and Relief Supplemental Appropriations Act, 2021* (CRRSA), enacted in December 2020; and the *American Rescue Plan Act* (ARP), enacted in March 2021. With respect to elementary and secondary education, these laws established new emergency relief programs that included the Elementary and Secondary School Emergency Relief (ESSER) program, the Governor’s Emergency Education Relief (GEER) program, and the Emergency Assistance to Nonpublic Schools (EANS) program.<sup>5</sup>

### FY 2024 Assessment: Level 5—Demonstrated Progress



We found that the Department developed a comprehensive plan and implemented activities that achieved several positive outcomes. The Office of Elementary and Secondary Education (OESE) took significant actions to improve technical assistance, monitoring, and data quality that were responsive to this challenge.

While progress has been demonstrated, the Department needs to continue its implementation efforts given the large amount of funding for these programs, the number of entities receiving funds, and the ongoing need to administer other programs in its elementary and secondary education grants portfolio.

#### *Why This Is a Challenge*

The implementation of the pandemic relief laws for elementary and secondary education poses challenges for the Department as it must effectively oversee and monitor new grant programs and ensure that quality data are reported. In addition to its pandemic relief-related oversight responsibilities, the Department must also oversee more than 100 other grant programs.

#### *Oversight and Monitoring*

The pandemic relief laws provided funding for state and local agencies, nonpublic schools, and other education-related entities to prevent, prepare for, and respond to the impact of the coronavirus on our nation’s students. This included \$190 billion for ESSER, \$5.5 billion for EANS, and \$4.3 billion for GEER. Collectively, these programs were intended to support a wide range of activities that included purchasing and using technology for online learning, implementing summer learning and supplemental after-school programs, providing childcare and early childhood education, and protecting education-related jobs.

The pandemic relief programs continue to involve large outlays of Federal funds. For FY 2022, the Department reported pandemic-related grant expenses of \$78.3 billion, an amount several times more than its largest traditional grant programs. The Department,

<sup>5</sup> Our FY 2023 Management Challenges report identified “Implementing Pandemic Relief Laws” as a challenge for the Department. In developing our FY 2024 report, we separated this challenge into two distinct areas; this challenge relating to elementary and secondary education and a second challenge relating to higher education (see Management Challenge 2).



its grant recipients and subrecipients, and other program participants must design and implement effective controls that collectively help ensure that pandemic relief program funds are used as intended and that the envisioned benefits are achieved.

**Data Quality**

The pandemic relief laws included reporting provisions that were intended to provide transparency regarding the use of funds. The Department considered certain quarterly reporting requirements to be met through monthly reporting made under the *Federal Funding Accountability and Transparency Act of 2006*. The Department also developed and implemented data collection tools to facilitate annual reporting by grantees. Administering the programs 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.

**Recent Work Performed by the Office of Inspector General**

**Audit, Inspection, and Quick Response Activities**

With respect to the Department’s implementation of pandemic relief laws for elementary and secondary education, the Office of Inspector General (OIG) has issued reports relating to ESSER, GEER, data quality and reporting, and Department operations. A summary of major audit, inspection, and quick response<sup>6</sup> activity within each area is shown in Table 5.

**Table 5.** OIG’s Recent Reports Relating to Implementing Pandemic Relief Laws for Elementary and Secondary Education

Area	Summary of Major Audit, Inspection, and Quick Response Activity
ESSER	<p>We found that a grantee did not have an adequate review and approval process to ensure that subrecipients’ mandatory ESSER plans met all applicable requirements. We also found that the grantee could strengthen its monitoring of subrecipients to provide additional assurance that ESSER funds are used for allowable purposes and followed applicable regulations.</p> <p>We also performed a nationwide survey of LEAs about their experiences in using ESSER funds to purchase educational technology. We found that LEAs generally reported using ESSER funds to purchase hardware, software, connectivity, or related products or services to continue instruction remotely during the coronavirus. Our report further identified challenges and benefits of ESSER-funded technology that were identified by LEAs.</p>
GEER	<p>We identified concerns with multiple grantees’ subaward processes, multiple grantees’ subgrantee monitoring processes, a grantee’s use of funds for expenses that did not appear to be education related, and a grantee’s compliance with Federal cash management terms and conditions.</p>
Department Operations	<p>We found the Department had allocated nearly 100 percent of its pandemic assistance program administration funds and that it was on track to obligate all its program administration funds prior to the dates the funds are set to expire. We also determined that the Department provided its initial spend plan within the specified timeframe to Congress, but it did not provide updates every 60 days as required.</p>

<sup>6</sup> Quick response activities are narrow in focus and generally used in areas that include communicating urgent risks, sharing significant information, communicating interim assessments, and summarizing lessons learned.

**Investigation Activity**

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

**Table 6.** OIG’s Recent Investigative Activity Relating to Pandemic Relief Funding for Elementary and Secondary Education

Area	Related Investigative Activity
Program Participants	Pursuant to an OIG investigation, a school district voluntarily returned ESSER funds that were used in a non-bid contract.

**Ongoing and Planned Work**

Our ongoing work in this area includes reviews of a state educational agency’s (SEA) oversight and use of ESSER funds and reviews of two SEAs’ oversight of EANS funds. Our planned projects within this area for FY 2024 include additional reviews of SEAs’ oversight and local educational agencies’ (LEA) use of ESSER funds and SEAs’ oversight of EANS funds.

**Progress in Meeting the Challenge**

We assessed the Department’s actions in response to this challenge at Level 5, or “Demonstrated Progress.” OESE developed a comprehensive plan and implemented activities that produced several positive outcomes. Plans to address this Management Challenge included activities to provide effective technical assistance, advance grantee monitoring, improve data quality, and enhance its operational ability to support grantees. Its implementation of related action items resulted in demonstrated progress towards addressing this management challenge.

**Technical Assistance**

OESE’s plans for technical assistance included issuing guidance and providing interactive opportunities to exchange information. OESE’s related results included issuing multiple forms of guidance to assist recipients in their implementation of the ESSER, GEER, and EANS programs. This included publishing Dear Colleague Letters, Frequently Asked Questions, and announcements in areas such as reporting resources and expectations and maintenance of equity requirements. The Department also published information on promising practices for SEAs and LEAs to use in addressing the impact of the pandemic on their students.

OESE, in partnership with the Office of Acquisition, Grants, and Risk Management’s Grants Management Policy Division, held a *Federal Funding and Transparency Act* (FFATA) webinar that covered required reporting. In addition, OESE held a Grantee Learning Series, consisting of five webinars for recipients and subrecipients of its pandemic relief programs that covered topics such as technical assistance, grant administration, monitoring, performance reporting, Maintenance of Effort and Maintenance of Equity. According to information provided by the Department, a total of 470 participants attended the live webinars. The Department further noted that the sessions were recorded and made available on its website for asynchronous viewing.

OESE reported that it created state mailboxes to help ensure the delivery of timely technical assistance and held monthly calls to address questions from grantees and provide additional assistance. The Department noted that the monthly ‘check in’ calls are intended to take place with individual grantees and be facilitated through a common agenda. We reviewed a sample agenda and found it included standard questions that covered areas such as subaward processes, monitoring activities (to include a section for monitoring

and anticipated document review processes), and whether the grantee required technical assistance in areas such as allowable uses of funds and reporting requirements.

The Department stated that its Grants Management Policy Division established a computer-based grants administration training for grantees that included a course dedicated to FFATA reporting requirements in support of pandemic relief programs. The Department further stated that this training was a vital component to support its technical assistance efforts.

### *Monitoring*

OESE's monitoring plans included the use of targeted, comprehensive, and consolidated monitoring.<sup>7</sup> OESE's related efforts included performing focused biannual reviews of grantees as a form of targeted monitoring, conducting additional formal monitoring, publishing resources for grantees, and communicating regularly with grantees on relevant subject matter.

OESE stated that biannual reviews are intended to be less intensive for both the program office and the grantee than OESE's formal monitoring activities. It added that the subject matter for biannual reviews is based on emerging issues and where a review of compliance is critical to assess what support, if any, a grantee may need to be successful. OESE stated that is currently conducting targeted reviews of ESSER grantees that are focused on subrecipient oversight and each grantee's use of data, and other information, to continuously improve it and its subrecipients' uses of ESSER funds spent to address learning loss.

OESE issues determination letters, rather than reports, at the conclusion of its biannual reviews that identify any areas of required corrective action. According to OESE, its FY 2023 biannual reviews focused on the awarding of GEER funds and grantee monitoring of subrecipients and required seven states to complete corrective actions. We reviewed one of the determination letters issued in FY 2023 and found OESE required the grantee to provide the Department with a description of the processes used to award funds and review requests for funds for allowability, along with a subrecipient monitoring plan

OESE stated that grantees are identified for formal monitoring through a risk assessment process involving a review of fiscal data, drawdown patterns, timeliness and quality of performance reporting, and audit information. As of September 30, 2023, OESE's formal monitoring resulted in reports to 16 States that included coverage of one or more pandemic relief programs. Ten of these reports included findings related to pandemic relief programs that required corrective action. We reviewed these reports and noted that the findings included areas related to grantees' processes to identify internal risk, processes to evaluate internal controls, development of subrecipient monitoring plans, fiscal management policies, and cash management. OESE stated that it will conduct formal monitoring reviews of 11 additional locations in 2024.

As part of its overall monitoring plan, OESE also published tools that included grantee and subrecipient self-assessment protocols for the ESSER and GEER programs and a grantee self-assessment for the EANS program. Additionally, as a part of its monitoring plan for FY 2023, OESE implemented standardized monthly calls with grantees that

<sup>7</sup> Targeted monitoring focuses on specific areas of compliance with Federal requirements, such as maintenance of effort. Comprehensive monitoring consists of a full programmatic and fiscal review focused on the grantee's implementation of the pandemic relief programs. Consolidated monitoring is a cross-program review of the grantee's implementation of its K-12 formula grants for both pandemic relief funding and *Elementary and Secondary Education Act of 1965* formula grant programs administered by OESE.

covered programmatic and fiscal topics. OESE stated that these engagements were important opportunities to provide technical assistance to grantees, as well as identify issues related to program compliance that may result in determining that a grantee requires more formal, intensive monitoring.

### *Data Quality*

OESE and its partners in other Department offices, most notably the Office of the Chief Data Officer within the Office of Planning, Evaluation and Policy Development, developed plans to improve data quality that included targeted efforts to identify data abnormalities, provide support to grantees, and work collaboratively with other Federal stakeholders. OESE's results included specific focus on addressing data quality issues for information reported to USAspending.gov and addressing grantee access issues to the FFATA reporting system, where data are input or uploaded.

OESE stated that it dedicated staff resources to identify data issues and work with grantees to correct and address access issues. It further stated that it has also worked with Office of Management and Budget (OMB), the Executive Office of the President, and the General Services Administration (GSA) to enhance support of the FFATA site, which GSA manages.

We noted that OESE started outreach to grantees regarding FFATA in 2020, when it published information on CARES Act quarterly reporting requirements. OESE has continued to provide information and assistance since that time. This included communicating on reporting requirements; conducting multiple webinars on FFATA reporting; and providing resources in conjunction with the Office of the Chief Data Officer that include videos, instructions, and fact sheets to assist grantees in ESSER, GEER, and EANS reporting. OESE stated that it also provides one-on-one technical assistance to grantees when needed to resolve identified issues. We reviewed OESE's communications with one state regarding reporting training opportunities and data quality issues identified in its ESSER, GEER, and EANS reporting. These issues included subrecipients being included twice, negative value subawards, blank subaward amounts, and subaward dates occurring before the grant award date.

The Department also stated that it has reduced the number of states reporting overallocations as well as "0" allocations and is working to address inaccurate FFATA reporting findings in 18 states.

### *Operational Ability to Support Grantees*

The Department's Grants Management Policy Division regularly communicates on subject areas and training opportunities that can help build the Department's internal capacity to oversee grants. This includes, but is not limited to, the following.

- "Table Talk" sessions that are designed to allow grants professionals to share experiences and address questions in areas such as grants administration, effective communication and monitoring efforts, and technical assistance.
- "Monitoring Moments" courses that are intended to provide Department staff with greater insight into the strategies and tools that can support grantees in achieving their goals and objectives.

- Other targeted subject matter such as single audits and assessing grantee risk, budget reviews, and costs analyses.

The Grants Management Policy Division also communicated on updates to policy, templates, and tools that could be used in grantee oversight, such as its Large Available Balances report.

In addition to the above, the Office of Acquisition, Grants, and Risk Management’s Risk Management Services Division conducts “Grant Risk Management Meetings” that are structured to provide information on risk concentrations and other issues based on a review of financial risk indicators and other relevant information.

In our work relating to the Department’s use of pandemic assistance program administration funds, we noted that OESE had used a portion of these funds for 23 additional full-time equivalent personnel to help perform oversight activities. These personnel worked on items related to GEER, ESSER, and other pandemic recovery-related OESE grants. At the time of our review, OESE planned to use additional funds for 19 more full-time equivalents in subsequent years.

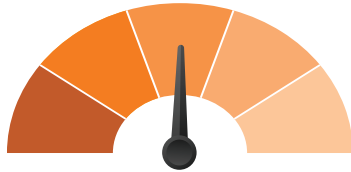
#### **What the Department Needs to Do**

As noted above, the Department has demonstrated progress toward addressing this challenge, and should continue its efforts and tracking its outcomes.

## Management Challenge 2—Implementing Pandemic Relief Laws for Higher Education

With respect to higher education, the pandemic relief laws established and provided more than \$76 billion for a new emergency relief program, the Higher Education Emergency Relief (HEER) program, and included multiple provisions intended to provide postsecondary students and borrowers with emergency relief.

### FY 2024 Assessment: Level 3—Established Progress



Our assessment within this challenge area considered the Department's plans to implement the HEER program and provisions intended to provide relief to students and borrowers. We found that the Department developed plans and implemented activities that demonstrated some results. The Department

needs to continue its efforts given the amount of funding provided for the HEER program, significance of the student financial assistance program requirements, and the overall value of the Federal student loan portfolio.

#### *Why This Is a Challenge*

Implementation of the pandemic relief laws for higher education poses challenges for the Department as it must effectively oversee and monitor the HEER program, implement additional student financial assistance program requirements, and ensure that quality data are reported. In addition to these responsibilities, the Department must oversee existing higher education grant programs, Federal student loan programs, and the Federal student loan portfolio that now surpasses \$1.6 trillion.

#### *HEER Program and Funding*

HEER funds were awarded to institutions of higher education (IHE) to respond to the coronavirus and prepare for future pandemic emergencies. 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. The pandemic relief laws provided more than \$76 billion for the HEER program.

The HEER program must be effectively implemented and monitored by the Department to ensure that the legislation is followed, and that postsecondary institutions and students receive support in response to the pandemic.

#### *Student Financial Assistance Program Requirements and Flexibilities*

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 actions taken by the Department included pausing eligible Federal student loan payments and setting the interest rate on those loans at 0 percent, effective

March 13, 2020. The initial pause in student loan repayments was extended through multiple executive actions and ended with the passage of the *Fiscal Responsibility Act of 2023*, with payments restarting in October 2023.

The Department had to provide guidance to and rely on postsecondary institutions, contracted servicers, collection agencies, guaranty agencies, and accrediting agencies to effectively implement student financial assistance program requirements and flexibilities. While the pandemic relief laws provided more than \$161 million to the Department for student aid administration, the Department may be challenged to provide adequate oversight of existing programs while it resumes collections on Federal student loans and implements additional plans to provide debt relief to eligible borrowers.

### ***Data Quality***

The pandemic relief laws included HEER reporting provisions that were intended to provide transparency regarding the use of funds to alleviate the impact of the pandemic. The Department established additional reporting requirements that included providing information on awards made to students and submitting annual performance reports. Administering higher education-related pandemic relief programs, requirements, and flexibilities requires the Department to collect, analyze, and report on data for many purposes, such as providing insight into HEER expenditures; ensuring compliance; evaluating performance; and informing management decisions. For this reason, the Department and its grant recipients must have effective systems, processes, and procedures in place to ensure that the reported data are accurate and complete.

### **Recent Work Performed by the OIG**

#### ***Audit, Inspection, and Quick Response Activities***

With respect to the Department's implementation of pandemic relief laws for higher education, the OIG has issued reports relating to HEER, implementation of student financial assistance program requirements and flexibilities, data quality and reporting, and Federal Student Aid (FSA) operations. A summary of major audit, inspection, and quick response activity within each area is shown in Table 7.

**Table 7.** OIG's Recent Reports Relating to Pandemic Relief Laws for Higher Education

Area	Summary of Major Audit, Inspection, and Quick Response Activity
<b>HEER</b>	<p>Our work relating to the Department's implementation and oversight of the HEER program identified \$73 million in duplicate HEER grant awards and shared observations on closed schools that received or had access to HEER funds. We also found that OPE did not perform or document several activities essential to effective program oversight and did not establish performance goals or metrics that would provide a basis to monitor individual grantee performance or report on outcomes at the program level.</p> <p>Our work on three postsecondary schools' use of HEER funds found that all three schools generally used the Student Aid portion of their HEER funds for allowable and intended purposes, but two schools did not always use the Institutional portion of their funds in accordance with Federal requirements. We identified other compliance issues relating to documentation of eligibility requirements (one school), cash management (three schools), and competitive procurement requirements (one school).</p>
<b>Flexibilities</b>	<p>We found that FSA had adequate processes for waiving the return to Title IV (R2T4) requirements, cancelling borrowers' obligation to repay William D. Ford Federal Direct Loans (Direct Loan), and excluding Pell disbursements from Pell lifetime usage for impacted students. We also found that FSA also designed adequate processes for schools to report the number and amounts of R2T4 waivers applied.</p> <p>We identified weaknesses in FSA's implementation of CARES Act flexibilities relating to the Teacher Education Assistance for College and Higher Education (TEACH) Grant that may have resulted in inappropriate denials of flexibilities to some eligible recipients and may have provided benefits to recipients who were not entitled to them.</p>
<b>Student Financial Assistance Program Requirements</b>	<p>We found that FSA implemented processes that generally achieved positive results in suspending and refunding most involuntary collections on defaulted Department-held loans. However, it did not reprocess all refunds returned to Treasury, did not refund all wage garnishments and Treasury offsets collected, or 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>
<b>Data Quality and Reporting</b>	<p>Our work on three postsecondary schools' use of HEER funds found that one school's reporting was not always accurate and publicly available. The school reported \$4.1 million of scholarships awarded to students in the wrong expenditure category and did not post all required HEER program quarterly reports on its public website.</p> <p>In 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.</p>
<b>Department Operations</b>	<p>We found that FSA obligated nearly 100 percent of the \$161.1 million in appropriations it received for pandemic assistance student aid administration funds from the three major coronavirus response and relief laws. The pandemic assistance student aid administration funds were used for personnel compensation and benefits, information technology systems and services contracts, and contractual services contracts.</p>

### *Investigation Activity*

The OIG's recent investigative activity within this area is shown in Table 8.

**Table 8.** OIG's Recent Investigative Activity Relating to Pandemic Relief Funding for Higher Education

Area	Related Investigative Activity
<b>Institutions</b>	<p>OIG Investigations identified institutions that drew down funds when not entitled to them, when knowingly closing, or with no intent to provide them to students. OIG made a referral to OPE describing observations and suggestions to improve OPE's use of Department policies, procedures, and governance in pursuing administrative recoveries associated with the HEER program.</p> <p>OIG Investigations made an additional referral regarding an institution that used pandemic funds to pay off a pre-existing school loan.</p>

### *Ongoing and Planned Work*

Our ongoing work in this area includes reviews of FSA's processes to transition Federal student loan borrowers back into repayment and the Department's HEER audit resolution activities. We have no additional planned work within this area.

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

We assessed the Department's actions in response to this challenge at Level 3, or "Established Progress." Overall, the Department developed plans and implemented activities that demonstrated some results. As shown in Table 7 above, our audit and



inspection work relating to selected pandemic relief-related program requirements and flexibilities found that FSA's processes were adequate or achieved positive results in some instances. The Department developed plans to address this Management Challenge that included improved oversight of HEER grantees, returning borrowers to repayment, and implementing other program flexibilities.

### ***OPE Is Enhancing its Oversight of HEER Grantees***

OPE developed plans to address this challenge that included developing and implementing internal guidance to monitor HEER grant recipients, improving its system of controls to ensure better and more effective oversight, and communicating HEER program auditing requirements to grantees. OPE has implemented some related activities but did not provide information that clearly identified outcomes of these activities.

With respect to internal guidance and internal controls, OPE finalized its HEER monitoring plan in March 2023. We reviewed the plan and found that it included some positive aspects, such as the use of a structured rubric to determine the level of potential risk each grant recipient could face. Risk factors considered included placement on a Heightened Cash Monitoring payment method; the presence of HEER program findings in Single Audit reports, financial audit findings, or failure to implement corrective actions; problems with award balances, drawdowns, or unallowable expenditures; and late reporting or failure to submit required reports. The monitoring plan emphasizes using the risk assessment to inform the type and frequency of monitoring reviews and support provided to a grantee to help ensure successful performance. It included some specific tools and techniques that could be utilized based on the type of monitoring to be performed such as desk reviews or on-site/virtual reviews. It references additional guidance, OPE's Monitoring Plan for On-Site/Virtual Review Protocol, as the standard operating procedures for planning and conducting a review and preparing a written report.

OPE reported that it planned to conduct enhanced monitoring of HEER grantees, focusing on ensuring the appropriate use of funds. OPE also reported that targeted monitoring is an ongoing activity and that they are beginning the grant closeout process for grantees found to be in compliance.

OPE has issued multiple memoranda to grantees outlining audit requirements for public, private, nonprofit, and proprietary institutions. The communications stressed that audits are a critical component of oversight and include information on what must be audited, due dates, and submission processes.

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, coordinating with the OIG, establishing processes for regular communication with grantees, and implementing structured data collection processes.

### ***FSA's Plans for the Return to Repayment Initiative and Other Program Flexibilities***

FSA stated that it developed return to repayment plans that included multiple activities. FSA specifically anticipated (1) performing borrower outreach and communications; (2) coordinating with contractors to hire, onboard, and train staff to perform loan servicing activities; (3) developing and implementing policy enhancements; (4) increasing data analysis and reporting; and (5) heightening oversight and monitoring of vendors. These activities are being implemented in FY 2024 and require unprecedented effort by FSA.

During discussions related to this initiative, FSA stated that the return to repayment effort presented a significant challenge. It further stated that potential obstacles included financial and human resources, competing priorities, and borrower apathy.

FSA also stated that as it implements return to repayment it will monitor trends in borrower behavior and responsiveness, begin assessing borrower repayment statuses, and direct interventions accordingly. FSA further said it will monitor and oversee servicers to ensure all borrower accounts are accurate, including loan types, interest rates, payment counts, repayment plans, and outstanding balances.

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.

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

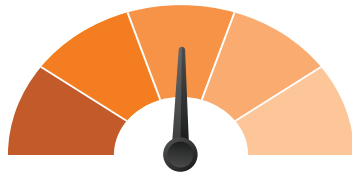
The Department has developed and begun to implement a plan to improve oversight of the HEER program. For this year, the Department should follow through on its plan and track the outcomes of its efforts. FSA will begin its efforts to return borrowers to repayment during FY 2024. Both the OIG and the GAO plan to evaluate aspects of FSA's implementation of its return to repayment initiative.

### Management Challenge 3—Oversight and Monitoring of Student Financial Assistance Programs

Within the Department, FSA administers the Federal student assistance programs and OPE develops Federal postsecondary education policy and regulations for the Federal student assistance programs. OPE 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.

FSA directly manages or oversees a loan portfolio of more than \$1.6 trillion, representing about 219.4 million student loans to more than 45 million borrowers. FSA oversees the disbursement of more than \$27 billion in grants to more than 6 million recipients.<sup>8</sup> FSA also oversees approximately 5,500 postsecondary institutions that participate in the Federal student aid programs. In FY 2022, FSA performed these functions with an administrative budget of about \$1.9 billion and about 1,350 employees, along with contractors that provide outsourced business operations. From FY 2018 to FY 2022, FSA delivered an average of \$116.7 billion in Federal student aid to an average of 10.8 million students. In comparing volumes from FY 2018 to 2022, the total amount of Federal student aid delivered declined by about 5 percent and the total number of students receiving aid declined by about 18 percent.<sup>9</sup>

#### FY 2024 Assessment: Level 3—Established Progress



The Department identified actions in response to this challenge for FY 2024 that focused on the implementation of the Unified Servicing and Data Solution (USDS) as a method to improve its oversight and monitoring of loan servicers. As of October 2023, USDS contracts had been awarded and implementation work

was ongoing, but transitions from legacy servicers have not taken place. The Department described additional activities that were intended to improve oversight and monitoring activities relating to the student financial assistance programs in its response to our prior management challenge report, its *FY 2022 Annual Report* and its *Strategic Plan, Fiscal Year 2023–2027*. Collectively these activities identified a comprehensive framework with the potential to mitigate this challenge. The Department provided information that identified outcomes relating to the activities of its Office of Enforcement but did not provide information on the outcomes of other activities.

#### 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, accrediting agencies, guaranty agencies, and lenders.

<sup>8</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 2022.

<sup>9</sup> Our FY 2023 Management Challenges report identified "Oversight and Monitoring" as a challenge for the Department. In developing our FY 2024 report, we separated this challenge into two distinct areas—this challenge relating to student financial assistance programs and a second relating to grants (see Management Challenge 4).

## Recent Work Performed by the OIG

### *Audit and Inspection Activities*

With respect to oversight and monitoring of student financial assistance programs, the OIG has recently issued reports relating to areas including 90/10 revenue requirements, the experimental sites initiative, the Next Gen Loan Servicing Environment, and school's use of professional judgement. A summary of major audit and inspection activity within each area is shown in Table 9.

**Table 9.** OIG's Recent Reports Relating to the Oversight and Monitoring of Student Financial Assistance Programs

Activities Reviewed	Summary of Major Audit and Inspection Activity
90/10	We found that FSA had several processes for overseeing proprietary institutions' compliance with 90/10 revenue requirements. However, found the Department's reports to Congress were not always timely and complete and the Department did not always publish 90/10 revenue information as required to best reach the public.
Accreditation	We determined that the Department did not comply with all regulatory requirements during a review of an accrediting agency's petition for recognition renewal. We also determined that the Department implemented a process to assess the accrediting agency's compliance with recognition criteria following a court remand that was permitted under applicable policies and regulations. We did not identify any evidence that contradicted the Department's conclusions but found that its guidelines allowed for areas of reviewer subjectivity.
Experimental Sites Initiative	We found that the Department is not complying with reporting requirements and had not published a comprehensive Experimental Sites Initiative report since the 2010–2011 award year report.
Next Generation Loan Servicing Environment	We found that although FSA had processes in place for planning and managing the transition to the Next Gen loan servicing environment, FSA did not perform key steps within those processes or follow best practices for acquisition planning that could have better ensured the proper planning and managing of the transition.
Private Collection Agencies	We found that the decision to terminate the Private Collection Agency contracts was part of an ongoing, multiyear Departmental strategy to overhaul student loan servicing and default collections. FSA made the decision for Business Process Operations vendors to handle future default collections primarily due to efficiencies and cost savings identified through market research, as well as the belief that doing so would improve customer service and the customer experience.
Professional Judgment	We performed a series of audits at three schools. Overall, we found two schools did not always apply professional judgement in accordance with the Higher Education Act of 1965 and all three schools did not always adequately document the application of professional judgment.
Sales of Postsecondary Schools	We found that the Department did not take actions sufficient to mitigate significant financial responsibility and administrative capability risks posed by a nonprofit company and the 13 for-profit postsecondary schools that it purchased. We also found that the Department did not follow several of its procedures relating to subsequent activities involving those schools.

*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 10.

**Table 10.** OIG's Recent Investigative Activity Relating to the Student Financial Assistance Programs

Area	Related Investigative Activity
<b>Institutions</b>	OIG investigated an owner who purchased a school to obtain Title IV aid for another school he owned that was denied Title IV eligibility.
<b>School Officials</b>	OIG Investigations identified improper activities of school officials that included falsifying their eligibility to obtain Federal student aid for personal gain.
<b>Program Participants</b>	OIG Investigations identified schemes where students underreported income and assets to obtain Federal student aid that they were not eligible to receive.  A woman submitted fraudulent school enrollment documents and FAFSAs on behalf of her deceased husband to receive aid in his name.
<b>Distance Education Fraud Rings</b>	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. In two separate investigations, subjects targeted underserved native students or homeless populations.
<b>Collaboration with FSA</b>	OIG and FSA established a Memorandum of Understanding to collaborate where appropriate on Title IV violations and institutional fraud, waste, and abuse.

*Ongoing and Planned Work*

Our ongoing work in this area includes three schools' compliance with career pathways and ability to benefit provisions, FSA's oversight of contractor's acceptability review process for proprietary school annual audits, FSA's transition plans for Business Process Operations vendors, and FSA's Student Aid and Borrower Eligibility Reform initiative.

Additional planned projects for FY 2024 include FSA's oversight of Section 117 foreign gift and contract reporting requirements, the Department's assessment and recoupment of liabilities from closed colleges, and the implementation of FSA's Unified Servicing and Data Solution.

**Progress in Meeting the Challenge**

We assessed the Department's actions in response to this challenge at Level 3, or "Established Progress." Overall, the Department communicated plans to address this Management Challenge that focused on USDS implementation and an oversight and monitoring framework that included activities such as improving contact center and loan servicing operations, using available monitoring tools, utilizing enforcement capabilities, and expanding operational capacity. Collectively these activities have the potential to mitigate this challenge. However, the Department did not provide significant information that clearly identified outcomes of these initiatives.

*USDS Implementation*

FSA stated that it plans to improve its oversight and monitoring of loan servicers by implementing USDS. FSA described USDS as a long-term strategy to replace legacy servicing contracts for Direct Loans and Department-held Federal Family Education Loan Program loans. FSA stated that USDS will enable FSA to transition from the current loan servicing contracts into a more stable servicing environment that ensures borrowers can continue to manage repayment.

FSA stated that USDS shares the goals of prior loan servicing efforts, including providing all federally managed borrowers with complete account management capabilities on StudentAid.gov, reducing the disruption of account transfers, and increasing accountability for servicers via clear and measurable service-level agreements.

According to FSA, the implementation of USDS will improve customer experiences, provide better borrower outcomes, improve cybersecurity, hold servicers to a high level of performance, and enable the Department to focus on impactful objectives like reducing delinquency and default.

FSA stated the scope of transition requires a strategic, phased approach that greatly enhances the likelihood of successful implementation while mitigating the risks of failure. FSA further stated that the USDS contract was awarded on April 24, 2023, and it plans to begin transitioning from legacy loan servicers to USDS in the spring of 2024.

### ***Monitoring and Oversight Framework***

FSA described additional activities intended to strengthen its monitoring and oversight capabilities in its response to our prior management challenge report, its *FY 2022 Annual Report*, and its *Strategic Plan, Fiscal Year 2023–2027*. Collectively these activities identified a comprehensive framework with the potential to mitigate this challenge. FSA's goals under this framework included improving customer service and outcomes for students and borrowers, strengthening engagement and accountability for educational and financial institutions, increasing workforce and workplace capabilities, and boosting operational efficiencies. A summary of selected focus areas follows.

### **Monitoring Tools**

FSA described monitoring activities that are performed with the intention of reducing program risk. This framework includes Comprehensive Compliance Reviews, Title IV compliance audits, Title IV program reviews, and analyses of the institutions' financial capability. In July 2023, FSA published a report on the most frequently occurring findings resolved by FSA during FY 2022. The report summarized over 5,000 compliance audit deficiencies and over 700 program review deficiencies. FSA intended for the information to be used by IHEs to improve their awareness of compliance deficiencies so they can take proactive measures to self-assess and prevent similar compliance deficiencies from occurring.

### **Outreach, Training, and Technical Assistance**

FSA stated that it planned to use a data-centric approach to engage in effective outreach and technical assistance efforts with entities participating in the Title IV programs. This included identifying opportunities to provide targeted support and training through virtual and in-person technical assistance. FSA further stated that it provides training and technical assistance services through the FSA Training Center and state, regional, and national conferences.

### **Enforcement Capabilities**

FSA established an Office of Enforcement in October 2021 to strengthen its oversight of postsecondary schools participating in the Title IV programs. FSA stated that the Office of Enforcement is focused on schools that pose the most risk to students and taxpayers and reinforces other school oversight and compliance efforts through identifying and addressing serious wrongdoing.

FSA stated that it has grown the Office of Enforcement to about 90 total staff since its inception, including 23 new hires made during FY 2023. The team includes 19 staff members in its Investigations Group, which specifically evaluates indicators of potential misconduct or high-risk conduct by postsecondary institutions and third-party servicers, and investigates institutions' compliance with federal laws, regulations, and terms of program participation.

The Office of Enforcement's efforts resulted in numerous outcomes during FY 2023, including the items listed below.

- Reaching settlement agreements with five law schools after an investigation revealed that the schools improperly disbursed Title IV funds to students enrolled in unaccredited Master of Laws programs. Under the agreements, schools will stop disbursing Federal student aid funds to students in ineligible programs and reimburse the amount of improperly disbursed funds to the Department.
- Denying a school's application to continue participation in the federal student aid programs following an investigation that identified violations of ability-to-benefit regulations, fiduciary standards of conduct, and standards of administrative capacity.
- Concluding that substantial misrepresentations were made by multiple schools that borrowers relied upon to their detriment. This resulted in the approval of about \$239 million in relief to about 10,900 borrowers.
- Reaching decisions on borrower defense applications subject to a settlement agreement entered in November 2022. As of August 2023, nearly 12,000 relief decisions were made and more than 2,000 revise and resubmit notices were issued.
- Instituting a secret shopper program as an additional tool to monitor schools' Title IV compliance. FSA stated that secret shoppers will evaluate recruitment, enrollment, financial aid, and institutions' other practices to help identify potentially deceptive or predatory practices used to recruit and enroll students.
- Creating a website and email address for knowledgeable sources to submit tips directly to the Enforcement Office about potential violations of the laws and regulations governing the Federal student aid programs.
- Issuing at least five enforcement bulletins to help ensure a consistent understanding among participating institutions. The bulletins served to raise awareness of potential violations of the HEA, the Office of Enforcement's role in reviewing allegations, and corrective measures that could be applied. The subject matter of the bulletins included allegations of misrepresentations by school personnel in the recruitment of military-connected students, the Office of Enforcement's use of secret shoppers to evaluate school's compliance with Title IV regulations, and how the attempted use of nondisclosure agreements to prevent school personnel from communicating with the Department on its administration of the Title IV programs violates cooperation requirements.

FSA stated that, from October 2022 until late August 2023, its Administrative Actions and Appeals Services Group completed 43 administrative actions. This included 18 fine actions, 7 recertification denials, 4 debarments, 3 suspension actions, and 2 program participation agreement revocations.

FSA also made substantial improvements to borrower defense loan discharge website in response to user feedback. The changes improved the overall layout and provided

critical information on the misconduct that qualifies for debt relief, what borrowers should include in their claims, and what happens after a borrower submits an application for relief.

### Operational Capacity

FSA described goals relating to its workforce; data analytics and information management; and systems, structure, and operations. FSA also planned improve its hiring processes to better recruit needed talent, strategically align skills to organizational mission requirements, and analyze human capital systems and processes.

### What the Department Needs to Do

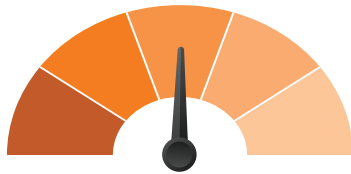
As the Department implements USDS this year, it will be important that it ensures it realizes and can demonstrate improvement to customer service, borrower outcomes, cybersecurity, and servicer performance. It will also be important for the Department to continue its efforts to improve its monitoring, oversight, and technical assistance of participants in the Title IV programs and to track and report on the results of those efforts.



## Management Challenge 4—Oversight and Monitoring of 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.

### FY 2024 Assessment: Level 3—Established Progress



For FY 2024 we assessed the Department's actions in response to this challenge at Level 3, or "Established Progress." Overall, the Department developed plans to address this Management Challenge that included improving its training and technical assistance, supporting equitable access, broadening

consolidated monitoring efforts, and incorporating lessons learned into planning programmatic monitoring activities for FY 2024. Collectively these activities have the potential to mitigate this challenge. However, the Department did not provide significant information that clearly identified outcomes of these initiatives.

#### *Why This Is a Challenge*

The Department administers more than 100 grant programs that annually serve about 55 million elementary and secondary students attending 98,000 public schools and 30,000 private schools, as well as about 9 million postsecondary students attending 5,500 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 provides supplemental education funding, especially in communities of concentrated poverty, for local programs that provide educational opportunities and additional academic support to help students in schools with high rates of poverty meet challenging state academic standards. In FY 2023, this program provided about \$18.3 billion to serve an estimated 25 million students in nearly 90 percent of school districts and nearly 60 percent of all public schools. Another key program is Individuals with Disabilities Education Act, Part B Grants to states, which provided more than \$14.2 billion in FY 2023 to help states and school districts meet the special educational needs of an estimated 7.5 million students with disabilities.

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.

***Audit, Inspection and Quick Response Activities***

Our recent reports related to 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. A summary of major audit, inspection, and quick response activity within each area is shown in Table 11.

**Table 11. OIG’s Recent Reports Relating to the Department’s Oversight and Monitoring of Federal Education Grant Programs**

Activities Reviewed	Summary of Major Audit, Inspection, and Quick Response Activity
<b>Charter Schools</b>	We completed a series of work on charter school programs. We found that the Department designed processes to provide reasonable assurance that grantees reported reliable information and spent grant funds only on allowable activities and in accordance with program requirements, but the Charter School Program office did not always implement those processes as designed. We also found that the Department did not track and report on whether charter schools opened by grant recipients and expanded with Federal funds remained open after the grant performance period ended. Finally, we found that grant recipients did not always open or expand the number of charter schools committed to in their approved grant applications.
<b>Disaster Recovery</b>	We found that the Department designed policies and procedures that should have provided reasonable assurance that it awarded and monitored disaster recovery 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.
<b>Every Student Succeeds Act</b>	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.  Our work on state plans required under the <i>Every Student Succeeds Act</i> 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.
<b>Individuals with Disabilities Education Act</b>	We found that the Office of Special Education Programs provided general guidance and technical assistance for SEAs, to assist them in implementing significant disproportionality regulatory requirements. It also performed ongoing monitoring of SEAs’ compliance with <i>Individuals with Disabilities Education Act</i> requirements and program results. However, it had not performed a risk assessment to determine if the change in the regulation affects the control activities that it has established for monitoring significant disproportionality, particularly regarding data reliability.

Our recent reports relating to grantee implementation of Federal education grant programs identified weaknesses that 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 12.

**Table 12.** OIG's Recent Reports Relating to Grantee Implementation of Federal Education Grant Programs

Activities Reviewed	Summary of Major Audit, Inspection, and Quick Response Activity
<b>Charter Schools</b>	We issued two audit reports that found both nonprofit charter management organizations reviewed did not fully comply with Federal grant reporting requirements and did not charge only adequately documented and allowable expenditures to their grants.
<b>Disaster Recovery</b>	<p>We issued 11 reports relating to disaster recovery funding authorized under the <i>Bipartisan Budget Act of 2018</i>.</p> <p>Our work at SEAs relating to internal controls over the Immediate Aid to Restart School Operations (Restart) program identified weaknesses in programmatic monitoring processes, processes to assess fraud risks, internal controls over procurement, and segregation of duties. Our work relating to SEAs relating to Restart allocations and uses of funds also identified instances of noncompliance that included charging unallowable personnel expenditures to the program. We also identified opportunities to improve recordkeeping and processes for ensuring that LEAs use program funds for allowable and intended purposes.</p> <p>Our work at SEAs relating to the Temporary Emergency Impact Aid for Displaced Students (EIA) program found that all four SEAs reviewed 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.</p> <p>We issued a Flash Report on the risk of a 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>We also 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>
<b>Individuals with Disabilities Education Act</b>	We 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 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.

### *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 13.

**Table 13.** OIG's Recent Investigative Activity Relating to Federal Education Grant Programs

Area	Related Investigative Activity
<b>LEA Officials</b>	OIG investigated a former school district bookkeeper who misapplied school income to the benefit of herself and relatives.
<b>Grantees</b>	<p>OIG Investigations identified a nonprofit executive who diverted funds intended for youth scholarships by using program credit and bank cards to make personal purchases for himself and relatives.</p> <p>Another OIG investigation identified a Chief Executive Officer of a nonprofit organization that provides educational and anti-poverty programs paid for unauthorized expenses and misapplied funds towards a relative's tutoring expenses.</p>
<b>Charter School Officials</b>	An OIG investigation identified a charter school owner who personally enriched herself by making payments from a school account to an educational company she owned to fund personal purchases.

### *Ongoing and Planned Work*

Ongoing work in this area includes reviews of a SEA's use of Restart program funds; selected SEAs' implementation of their statewide accountability systems; selected SEAs' oversight of Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-Risk; the Rehabilitation Services Administration's oversight of the State Vocational Rehabilitation Services program; and the Department's approval of alternate assessment waivers and extensions.

Planned projects for FY 2024 include the Department’s oversight of the School-Based Mental Health Services program, the Department’s oversight of the Stronger Connections Grant program, the Department’s Risk Assessment and Monitoring of the Student Service Programs, and Department’s oversight of statewide accountability systems.

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

We assessed the Department’s actions in response to this challenge at Level 3, or “Established Progress.” Overall, the Department developed plans to address this Management Challenge that included improving its training and technical assistance, supporting equitable access, broadening consolidated monitoring efforts, and incorporating lessons learned into planning programmatic monitoring activities for FY 2024. Collectively, these activities have the potential to mitigate this challenge. However, the Department did not provide significant information that clearly identified outcomes of these initiatives.

#### ***Training and Technical Assistance***

As noted in Management Challenge 1, the Department’s Grants Management Policy Division regularly communicates on subject areas and training opportunities that can help build the Department’s internal capacity to oversee grants. This included “Table Talk” sessions, “Monitoring Moments” courses, “Grant Risk Management Meetings,” and other targeted training subject matter. In its response to this challenge for FY 2023, the Department stressed plans to provide data driven training and technical assistance for Department staff and grantees. The Department stated that its overall expectations were to continue to build capacity and knowledge sharing on monitoring within the grants administration community internally and externally.

#### ***Supporting Equitable Access***

The Department noted that it updated the General Education Provisions Act, Section 427 form for state plans and applications, which is used by grant applicants to describe the steps that they propose to take to ensure equitable access to and participation in their Federal grant project. The Department stated that the updated form would improve its ability to identify and address barriers to equitable access. It specifically expected to improve state-administered grantees’ oversight of subgrantees’ compliance with applicable requirements, reduce barriers to participation by beneficiaries, and learn how subgrantees are addressing barriers.

#### ***Consolidated Monitoring***

OESE stated that it has broadened its consolidated monitoring efforts for formula grants, expanded the number of states to be monitored from two to four, and begun transitioning from virtual to on-site reviews.

#### ***Incorporating Lessons Learned***

The Department stated that given operational constraints, it is important to learn from grantees and identify both what is working and what is not working with respect to the Department’s programs. It further stated that it has begun to identify key topics for discussion with program offices and expects to support those offices in an effort to include relevant topics in programmatic monitoring for FY 2024.

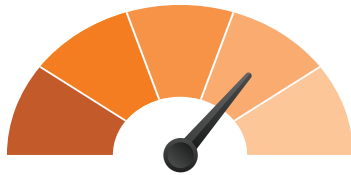
### **What the Department Needs to Do**

It will be important for the Department to develop measures to track the outcomes of its various efforts to improve monitoring and oversight.

## Management Challenge 5—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 13,000 public school districts and 99,000 public schools; about 5,700 postsecondary institutions, including colleges, universities, and institutions offering technical and vocational education at or beyond the high school level; and surveys of private schools, public elementary and secondary schools, students, teachers, and principals.

### FY 2024 Assessment: Level 4—Significant Progress



For FY 2024 we assessed the Department’s actions in response to this challenge at Level 4, or “Significant Progress.” Overall, the Department identified root causes of the challenge and developed responsive activities through the design and implementation of data quality-related policies, training, and strategies.

We found that this represented a comprehensive plan and that the planned activities have the potential to mitigate this challenge. The Department has partially implemented aspects of the plan and demonstrated some results that showed a positive effect on improving the quality of key data.

### 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, Inspections, and Quick Response Activities*

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 14.

Table 14. OIG's Recent Data Quality-Related Reports

Area Reviewed	Summary of Major Audit, Inspection, and Quick Response Activity
90/10	We found that FSA had several processes for overseeing proprietary institutions' compliance with 90/10 revenue requirements. However, we found the Department's reports to Congress were not always timely and complete and the Department did not always publish 90/10 revenue information as required to best reach the public.
Charter Schools	<p>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 found that two 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	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.
Digital Accountability and Transparency Act (DATA Act)	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 governmentwide 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.
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 when students who did not change schools or 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.
Experimental Sites Initiative	We found that the Department is not complying with reporting requirements and had not published a comprehensive Experimental Sites Initiative report since the 2010–2011 award year report. This created a situation where the success or failure of the experiments conducted under the ESI has not been reported to those in Congress and the Department who could use the information to enhance higher education policy to better serve students.
Pandemic Relief	<p>We found that grantees and subgrantees were not consistently reporting expenditures in the Federal Audit Clearinghouse. This included instances where grantees and subgrantees did not identify subprograms that their expenditures were awarded under. We also identified widespread variations of information used by other grantees and subgrantees to identify subprograms that their expenditures were awarded under.</p> <p>In our work relating to HEER reporting requirements, we were unable to locate Institutional portion reports on the websites for 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 selected SEAs' implementation of their statewide accountability systems, selected SEAs' oversight of EANS funds, and SEAs' oversight of spending and educational outcomes of the Prevention and Intervention Program for Children and Youth Who Are Neglected, Delinquent, or At Risk.

Our planned work for FY 2024 includes FSA's oversight of section 117 foreign gift and contract reporting requirements and the Department's oversight of Stronger Connections Grant reporting. Additional work will be performed based on the results of ongoing reviews and programmatic and grantee related risk assessments.

### Progress in Meeting the Challenge

We assessed the Department's actions in response to this challenge at Level 4, or "Significant Progress." Overall, the Department identified root causes of the challenge and

identified responsive activities through the design and implementation of data quality-related policies, training, and strategies. We found that this represented a comprehensive plan and that the planned activities have the potential to mitigate this challenge. The Department has partially implemented aspects of the plan and demonstrated some results that showed a positive effect on improving the quality of key data.

### *Data Quality Policies*

The Department's priority corrective actions included updating and reissuing its Information Quality Guidelines in FY 2023. We reviewed the Information Quality Guidelines and found it requires significant activities in advance of data collection, including preparation of a data quality plan. The Information Quality Guidelines further require that plans address major aspects of data quality, such as utility, objectivity, and integrity. The data quality plans are required to identify primary uses and requirements for data collection, specify key data quality measures and targets, and address security and privacy controls. The Department has published a Data Quality Plan Template to help ensure that the quality of a data asset is planned for, documented, and addressed throughout the data management lifecycle. We reviewed the template and found it included fields that required respondents to identify aspects including the purpose of the data; data quality dimensions, measures, and targets; how related data standards are documented; and data quality assessments and timelines.

The Department prepared additional guidance to assist its offices in data quality efforts. This included a Data Quality Playbook which outlines strategies to consider in planning data collections associated with grant programs' processes. We reviewed the document and found that it included specific elements relating to understanding limitations, identifying standards, providing technical assistance, and addressing data quality errors. We also noted the Department issued a Data Quality Planning and Implementation Checklist. We reviewed that document and found it included reflection questions on areas such as data collection, data quality, and internal data control and governance.

The Department stated that it has applied this framework to data quality in its 2023 data collection for the Education Stabilization Fund (ESF) and plans to apply this to new data collections starting in 2024 when it implements its Data Quality Policy. The Department also reported outcomes that showed its ESF data collection improved. According to the Department, the number of ESSER-related business rules (which identify systematic errors and warnings to prevent incorrect or incomplete data reporting by grantees) was increased by 25 percent. Also, the Department stated that a total of 283 data quality issues were flagged across all states, compared to 183 data quality issues in the prior year.

### *Data Quality Training, Technical Assistance, and Shared Resources*

The Department has also developed training on data quality and has plans to train grants personnel and eventually all staff on data quality practices. The Department specifically created training for its grant staff that is accessible through an online portal with subject matter that includes the Data Quality Playbook, Data Quality Projects, Data Quality Management, and the Data Quality Template. The Department's plans also included developing basic-level training for all Department staff that would provide information on data quality concepts, principles, tools, techniques, and best practices. Collectively, the training would serve to enhance operational capabilities and increase knowledge in this critical area.

The Department stated that it initiated activities in FY 2023 to provide data quality technical assistance that included consultations on the development of data quality plans

and other support as needed. The Department also planned to develop rubrics that could be applied to assess data quality plans, provide a feedback mechanism on opportunities for improvement, and identify best practices that could be shared as a resource across the Department. Finally, the Department planned to develop and maintain additional data quality responses that will be accessible through a shared location.

### *Data Quality Strategies*

The Department described additional data quality strategies that included updating collection forms; developing reporting templates, data dictionaries, and business rule guides; dedicating time for grantee contact to address data quality questions; and operating a help desk with contractor support. Successful implementation of these items would provide an additional opportunity to improve the quality of collected data.

### *Measurement and Desired Outcomes*

In developing and implementing the plan, the Department demonstrated application of risk management principles and designed internal controls that should ensure the sustainability of its actions. The Department has plans to continue to implement its changes in FY 2024. The Department stated that outcomes would be assessed, in part, against goals relating to the Department's Fiscal Years 2022–2026 Strategic Plan. It also identified additional desired outcomes that included reduction in the number and scope of data quality-related audit findings, more efficient use of resources in supporting data collection, and increased confidence in and use of data to inform decision making.

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

It will be important for the Department to fully implement its enterprise-wide initiatives and to demonstrate results of these efforts.

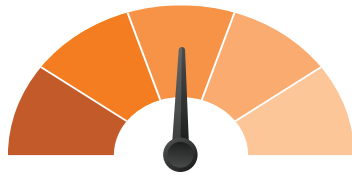


## Management Challenge 6—Improper Payments

“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 and consolidated those laws’ requirements. PIIA requires Federal agencies to reduce improper payments and to report annually on their efforts. PIIA also requires each agency’s Inspector General to determine the agency’s compliance with the statute for each fiscal year.

### FY 2024 Assessment: Level 3—Established Progress



For FY 2024, we assessed the Department’s actions in response to this challenge at Level 3, or “Established Progress.” Overall, the Department has developed a plan with the potential to mitigate major elements of this challenge. The plan included activities intended to help develop reliable estimates and reduce its

estimates to less than 10 percent for each program where a rate is published and issuance of guidance intended to improve its payment integrity efforts. However, the Department did not provide significant information that clearly identified outcomes of its initiatives.

### Why This Is a Challenge

The Department must ensure that the billions of dollars entrusted to it reach the intended recipients. In FY 2022, the Department identified the Federal Pell grant, Direct Loan, Title I, ESF, and Special Education Grants to States for Education of Children with Disabilities (Special Education) programs as being susceptible to significant improper payments.

We found that the Department published unreliable improper payment estimates for the Title I, Special Education, ESF, Pell, and Direct Loan programs for FY 2022. 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.

### Audit Activity

The OIG’s review of the Department’s compliance with improper payment reporting requirements for FY 2022 found that the Department did not comply with PIIA because it did not meet one of the six compliance requirements. Specifically, the Department reported improper payment estimates for the Title I, Special Education, and ESF programs that exceeded 10 percent. As shown in Table 15, our recent improper payment audits identified opportunities for improvement in multiple areas.

**Table 15.** Results of Recent OIG Statutorily Required Improper Payment Audits

FY of Department's Reporting	Complied with Reporting Requirements	Identified Concerns
2022	No	The Department did not comply with the PIIA because it did not meet one of its six compliance requirements. Specifically, the Department reported improper payment and unknown payment estimates for the Title I, Special Education, and ESF programs that exceeded 10 percent. The Department also published unreliable improper payment and unknown payment estimates for the Title I, Special Education, ESF, Pell, and Direct Loan programs. Specifically, for the Title I and Special Education programs, the improper payment and unknown payment estimates were based on inaccurate sampling populations. Further, for the Title I, Special Education, and ESF programs, the Department's testing results were inaccurate. Finally, the improper payment sampling and estimation plan for the Pell and Direct Loan programs included nonrandom student-level sampling.
2021	No	The Department did not comply with the PIIA because it did not meet one of its six compliance requirements. Specifically, the Department reported improper payment and unknown payment estimates for the Title I program that exceeded 10 percent. The Department also published unreliable improper payment estimates for the Title I, Pell, and Direct Loan programs. We found that the Department's improper payment sampling and estimation plan for the Title I 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 because they included nonrandom student-level sampling.
2020	No	The Department did not comply with the PIIA because it did not meet two of the six compliance requirements. Specifically, the Department did not demonstrate improvement in reducing improper payments in the Direct Loan Program and reported improper payment rates that exceed 10 percent for the EIA and Restart programs. The Department also published unreliable improper payment estimates for the Pell, Direct Loan, EIA, Restart, and Emergency Assistance to Institutions of Higher Education programs. 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 needed 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.

### ***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**

We assessed the Department's actions in response to this challenge at Level 3, or "Established Progress." Overall, the Department has developed a plan with the potential to mitigate major elements of this challenge. The plan included activities intended to help develop reliable estimates and reduce its estimates to less than 10 percent for each program where a rate is published and the issuance of guidance intended to improve its payment integrity efforts. However, the Department did not provide significant information that clearly identified outcomes of its initiatives.

### ***Direct Loan and Pell Programs***

The Department's plans included strategies to help produce appropriate estimates in accordance with PIIA requirements. This specifically focused on activities that would resolve differences between the OIG and FSA regarding the methodology used to develop improper payment estimates for the Direct Loan and Pell programs. Specifically, the Department noted that differences continue to exist between the OIG's conclusion that random sampling is required for a statistically valid sample for use in improper payment estimates and FSA statisticians' conclusion that sampling of *Single Audit Act* compliance audits of public and private, nonprofit institutions nationwide, which do not always use random sampling, provide quality data for statistically valid results.

In response, the Department noted that PIIA provides OMB the authority to approve agencies' improper payment estimation methodologies as appropriate given program characteristics and resources. The Department stated that it is seeking OMB approval to have its methodology approved as statistically valid.

The Department also stated that it continues to seek approval for changes to Single Audit Act guidance that would ensure that statistically valid data are provided by non-Federal auditors to support the Department's estimates. Either approach, if approved and effectively implemented, could address the reliability issues with the Direct Loan and Pell program improper payment estimates that our recent reports have identified.

### ***Title I, Special Education, and ESF Programs***

The Department's plans also included strategies to help ensure it can develop reliable estimates for its Title I, Special Education, and ESF programs. The Department stated that it initiated efforts to address weaknesses identified in previous audits. This would help ensure timely reporting of information provided by grantees that the Department uses in the development of improper payment estimates. The Department specifically stated that it categorized a large number and volume of payment samples as unknown payments because of difficulties in obtaining appropriate documentation from grantees. The Department further noted that this was a significant reason why it reported improper payment estimates exceeding 10 percent for each of these three programs and for the Department's overall noncompliance with PIIA. The Department stated that it is revising processes to provide more time for all grantees to respond to documentation requests, considering different approaches to test payments for a large grantee because of its advanced payment processes, providing technical assistance, and consulting with OMB on categorizing certain sampled payments. Collectively, these activities have the potential to mitigate this challenge.

Successful implementation of the actions identified for each of these programs, along with the effective execution of its sampling and estimation plans, could address this management challenge. We will audit the Department's compliance with PIIA in FY 2024, to include an assessment of the effectiveness and outcomes of its corrective actions. We note that the Department is repeating its previously unsuccessful attempts to address sampling issues with its Direct Loan and Pell grant programs. Should these efforts not succeed, we encourage the Department to consider other alternatives to addressing our findings as laid out in the 2022 PIIA report.

### **Payment Integrity Policy**

The Department issued a new directive on payment integrity during FY 2023. We reviewed the directive and found it provides a framework that can help improve payment integrity in the Department's programs and administrative payment activities if effectively implemented. The directive specifically identified pre-payment controls that can help prevent improper payments from occurring. This included activities to help ensure that potential grantees understand critical payment integrity elements such as allowable use of funds, internal controls, payment documentation requirements, financial and cash management, cost principles, and traceability. Other identified pre-payment controls focused on Department staff using available Federal information systems to verify eligibility of a vendor, grantee, loan recipient, or beneficiary to receive Federal payments.

The directive also identified potentially beneficial during-payment and post-payment control activities. This included monitoring payments against approved budgets, applying special terms and conditions, and reviewing grant management system reports relating to

large available balances and excessive drawdowns. The directive also required Department offices to establish and maintain effective internal controls over payments. Finally, it required development of a structured and systematic approach to recognize areas where the potential for improper payments may arise and to subsequently address the risk, as appropriate.

**What the Department Needs to Do**

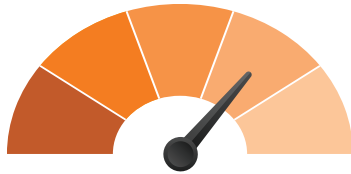
Successful implementation of the Department's planned actions should address this management challenge. The Department stated that because of its efforts the improper payment rate estimates for the Title I, Special Education, and ESF programs will significantly improve for FY23 reporting. We will audit the Department's Improper Payment initiatives, as required, again in 2024.

## Management Challenge 7—Information Technology Security

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.

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. 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.

### FY 2024 Assessment: Level 4—Significant Progress



We assessed the Department’s actions in response to this challenge at Level 4, or “Significant Progress.” The Department’s actions and plans included activities intended to improve IT security and expand related operational capabilities. This framework establishes a comprehensive plan that may

effectively mitigate key elements of the challenge. Implementation is ongoing and partial results have been demonstrated as shown in the results of our FISMA work.

### Why This Is a Challenge

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 requested more than \$1 billion for FY 2024 information technology (IT) related spending.

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*

Recent FISMA work has been performed under changing requirements. Specifically, the FY 2023 review required an assessment of 20 core and 20 supplemental reporting metrics, the FY 2022 review required an assessment of 20 core metrics, and the FY 2021 review required an assessment of 66 metrics.

As shown in Table 16, our recent reports, performed by a contractor with OIG oversight or by the OIG with contractor assistance, noted that the Department and FSA have made progress in strengthening their information security programs. Our FY 2021 FISMA review concluded that the Department and FSA were not effective<sup>10</sup> in any of the nine FISMA metric domains. However, in FY 2022, based on the revised metric scoring, the Department and FSA were found to be effective in five of the nine FISMA metric domains. In FY 2023, again based on the revised metric scoring, the Department and FSA were found to be effective in eight of the nine FISMA metric domains.

**Table 16.** Results of FISMA Audits and Inspections—FY 2021–2023 Metric Domain Maturity Levels

Security Function and Metric Domain	FY 2021 Maturity Level	FY 2022 Maturity Level	FY 2023 Maturity Level
<b>Identify: Risk Management</b>	Level 3 Consistently Implemented	Level 3 Consistently Implemented	Level 4 Managed and Measurable
<b>Identify: Supply Chain Risk Management</b>	Level 2 Defined	Level 3 Consistently Implemented	Level 4 Managed and Measurable
<b>Protect: Configuration Management</b>	Level 3 Consistently Implemented	Level 4 Managed and Measurable	Level 4 Managed and Measurable
<b>Protect: Identity and Access Management</b>	Level 2 Defined	Level 3 Consistently Implemented	Level 3 Consistently Implemented
<b>Protect: Data Protection and Privacy</b>	Level 2 Defined	Level 3 Consistently Implemented	Level 4 Managed and Measurable
<b>Protect: Security Training</b>	Level 3 Consistently Implemented	Level 4 Managed and Measurable	Level 4 Managed and Measurable
<b>Detect: Information Security Continuous Monitoring</b>	Level 3 Consistently Implemented	Level 4 Managed and Measurable	Level 4 Managed and Measurable
<b>Respond: Incident Response</b>	Level 3 Consistently Implemented	Level 4 Managed and Measurable	Level 4 Managed and Measurable
<b>Recover: Contingency Planning</b>	Level 3 Consistently Implemented	Level 4 Managed and Measurable	Level 4 Managed and Measurable

<sup>10</sup> FISMA maturity ratings are defined as Level 1: Ad-Hoc, Level 2: Defined, Level 3: Consistently Implemented, Level 4: Managed and Measurable, and Level 5: Optimized. A maturity rating of level 3 or below is considered not effective.

However, as shown in Table 17, our recent FISMA audits and inspection included a range of findings across the cybersecurity framework security functions and their related metric domains.

**Table 17.** Results of OIG FISMA Audits and Inspections—Cybersecurity Framework Security Functions and Metric Domains with New Findings

Security Function and Metric Domain	FY 2021	FY 2022	FY 2023
<b>Identify: Risk Management</b>	Audit Finding	-	Audit Finding
<b>Identify: Supply Chain Risk Management</b>	Audit Finding	-	-
<b>Protect: Configuration Management</b>	Audit Finding	Inspection Finding	Audit Finding
<b>Protect: Identity and Access Management</b>	Audit Finding	Inspection Finding	Audit Finding
<b>Protect: Data Protection and Privacy</b>	Audit Finding	Inspection Finding	Audit Finding
<b>Protect: Security Training</b>	Audit Finding	-	-
<b>Detect: Information Security Continuous Monitoring</b>	Audit Finding	-	Audit Finding
<b>Respond: Incident Response</b>	Audit Finding	Inspection Finding	Audit Finding
<b>Recover: Contingency Planning</b>	Audit Finding	-	-

The Department's overall IT security program and practices were assessed to be effective in FY 2022 and FY 2023 based on review of the required FISMA metrics. However, recommendations were made 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. 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 2022 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.

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.

#### ***Ongoing and Planned Work***

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. Planned projects for FY 2024 include the

Department's oversight and monitoring of IT inventory and the Department's oversight and management of its websites.

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

We assessed the Department's actions in response to this challenge at Level 4, or "Significant Progress." The Department's actions and plans included activities intended to improve IT security and expand related operational capabilities. Overall, the framework establishes a comprehensive plan that may effectively mitigate key elements of the challenge. Implementation is ongoing and partial results have been demonstrated as shown in the results of our FISMA work.

#### ***Improving IT Security***

The Department's *Fiscal Years 2022–2026 Strategic Plan* includes an IT-related objective and identifies implementation strategies that include strengthening its management of value-added technologies and evolving its cybersecurity capabilities. The Department also developed an *Information Resources Management Strategic Plan FY 2022–2026* that established how the Department will use information management resources to support its mission. This includes goals of strengthening the Department's ability to protect and safeguard data housed within its systems, optimizing its risk posture, and maturing its ability to identify, protect, detect, respond, and recover from cybersecurity threats. This plan includes objectives relating to enhancing capacity to manage cybersecurity risk, implementing enterprise controls to reduce risk, and maturing the Department's Security Operations Centers.

The Department identified implementation of a full Zero-Trust Architecture as a priority corrective action in response to this challenge. The Department stated it will adopt modern security best practices through this objective, including improving multi-factor authentication and encryption for data at rest and in transit. The Department further stated that this program will improve its security infrastructure, increase visibility across the security environment, and enhance data protection. The Department reported progress that included onboarding a Zero-Trust Architecture program manager and developing a project schedule for full implementation by the end of FY 2024.

The Department continues to make progress in fully implementing its enterprise identity, credential, and access management program (ICAM). For instance, it instituted multifactor authentication deployment across the Department by integrating personal identity verification validation for its personnel that resulted in improved deployment compliance. The Department also continues to modernize and enhance its Enterprise ICAM solution to align with OMB Memorandum M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*, by integrating with the ED Cyber Data Lake to develop a centralized identity dashboard to improve transparency into identity related metrics. In addition, Enterprise ICAM has integrated Login.gov authentication services for external users (i.e., public) to leverage a single secure sign-on authenticator to Department applications.

The Department reported additional plans to establish an IT Asset Management program, begin a transition to a new IT system hosting contract with increased security capabilities, and expand the Department's Continuous Diagnostics and Mitigation capabilities.

The Department also reported that it completed multiple initiatives in response to recent FISMA work. This included amending the vulnerability and patch management process to facilitate more timely resolution; establishing additional controls to update, remove, or



replace obsolete or unsupported solutions and encryption protocols for operating systems; implementing a review process to improve management of the active directory user accounts and access termination; and enhancing oversight of privileged accounts.

### *Expanding Operational Capacity*

The Department identified establishing and protecting dedicated lines of funding and personnel for the enterprise cyber and IT program as a second priority corrective action in response to this challenge. The Department stated that this effort would address the inadequate funding for IT and cybersecurity along with the staffing cuts, lack of adequate recruitment and retention, and lack of incentive pay flexibilities that hamper its efforts to compete with the Federal enterprise and private sector for cyber workforce. The Office of the Chief Information Officer stated that it was coordinating with the Department's budget services on this effort.

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


As the Department continues its efforts to develop and implement an effective system of IT security controls, it will be important that it continues to focus on the timely and successful implementation of corrective actions in response to our audit work. It will also be important for the Department to continue its efforts to advance its Zero Trust Architecture capabilities, as well as fully implement its identity, credential, and access management strategy.



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

November 8, 2023

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

FROM: Denise L. Carter   
Delegated the Duties of the Assistant Secretary  
Office of Finance and Operations

SUBJECT: Response to Office of Inspector General Draft Report,  
"FY 2024 Management Challenges Facing the U.S. Department of Education"

We appreciate the opportunity to provide input on the Office of Inspector General (OIG) draft report, *FY 2024 Management Challenges Facing the U.S. Department of Education* and would like to thank OIG for its communication and collaboration on management challenges during FY 2023.

The Department values the OIG's perspective on risks and vulnerabilities related to programs and operations. Overall, the seven challenges identified by OIG are well-aligned with the Department's own assessment of enterprise risks and respective targeted management efforts. In addition, we appreciate OIG's development of a new framework for assessing Department progress in addressing challenge areas and concur with the assessment levels reported.

The Department implemented a new coordination strategy in FY 2023 to address OIG management challenges. This coordinating strategy focused on identifying and implementing priority corrective actions in response to last year's report and tracking corresponding progress, all while proactively communicating with OIG. We believe this new strategy was instrumental in achieving and demonstrating the progress recognized in the draft report. Going forward, we plan to build on this success and leverage it in our FY 2024 coordination efforts, with modifications based on lessons learned from the initial year of implementation. These modifications will include earlier engagement with OIG in FY 2024 as to our planned corrective actions in response to the final report and periodic status updates at agreed-upon intervals.

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

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[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.*

## 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 100 and the Department's management assurances on page 41.

### 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: Modified

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

The Department had 1 material weakness in the design and 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: Modified

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Nonconformances	0	2	0	0	0	2

#### Compliance with Federal Financial Management Improvement Act of 1996 (FFMIA)

	Agency	Auditor
1. System Requirements	Lack of compliance noted	Lack of compliance noted
2. Federal Accounting Standards	Lack of compliance noted	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

All program outlays can be categorized as 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 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 payments to ensure that the billions of dollars in federal funds it disburses annually are considered proper payments. 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. Low amounts 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 rely on 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 refine 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 sound financial stewardship to the American taxpayer.

## Description of Risk-Susceptible and High-Priority Programs

In FY 2023, the Federal Pell Grant, William D. Ford Federal Direct Loan, Title I, Part A, Education Stabilization Fund (ESF), Special Education Grants to States, and the *Individuals with Disabilities Education Act* (IDEA) 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 remains an OMB-designated high-priority program. The William D. Ford Federal Direct Loan program was considered a high-priority program during the year based on FY 2022 reporting, but based on FY 2023 improper payment and unknown payment results described in this Payment Integrity reporting section, the Direct Loan program no longer meets the threshold and is not considered a high-priority program for FY 2023.

The Department continues to place additional emphasis on ensuring payment integrity and minimizing 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. Grant funds can be disbursed directly to the school to be applied towards a student’s costs, directly to the student, or a combination of both. A student is eligible to receive a Pell Grant if the student meets the requirements of an eligible student under 34 Code of Federal Regulations (CFR) Part 668. Students may use their grants at any participating postsecondary institution as established by 34 CFR Part 690 and further updated by the *Higher Education Reconciliation Act of 2005* (HERA) and the *Higher Education Opportunity Act of 2008* (Public Law 110-315) (HEOA).

### 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. A student is eligible to receive a Direct Loan if the student enrolls in a school that provides Direct Loans, and the student meets the requirements of an eligible student under 34 CFR Part 668. Eligible students may receive a Direct Loan in accordance with the annual and aggregate loan limits as established by 34 CFR Part 685.203 and further updated by HERA and HEOA.

### 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 IDEA.

### Education Stabilization Fund

The Education Stabilization Fund (ESF) was established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in March 2020, with subsequent allocations to the Fund codified through the *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSA Act), and the *American Rescue Plan Act* (ARP Act). The ESF is an investment of more than \$263 billion and is composed of relief funds that support state and institutional efforts to prevent, prepare for, and respond to the coronavirus impacts on our nation's students. Programs created under the ESF investment include: 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 the *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 2023, 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 2023 and prior years, please visit <https://paymentaccuracy.gov>.

### Risk Assessments

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program and activity with annual outlays of more than \$10 million that is not reporting an improper payment estimate. In FY 2023, the Department assessed improper payment risk for ten grant programs and two administrative activities. These risk assessments did not identify any additional Education programs or activities as being susceptible to significant improper payments. Additionally, the Department also conducted risk assessments of all FSA-managed programs. There were no additional programs identified as susceptible to significant improper payments.

### 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 payments. For detailed information on identified and recovered improper payments in FY 2023, readers can visit <https://paymentaccuracy.gov>.

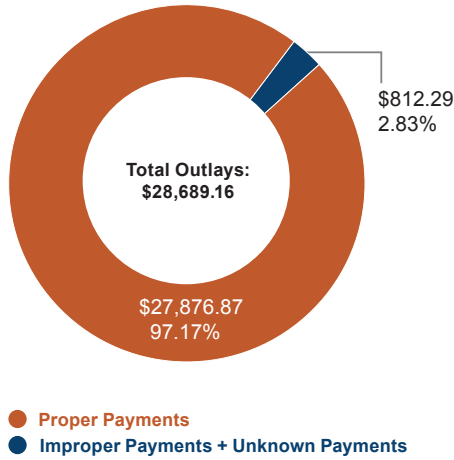
### High Priority Programs—Sampling and Estimation Methodology Plan (S&EMP)

For FY 2023 AFR reporting, the Department used a statistically valid S&EMP to estimate improper and unknown payments for the Pell Grant and Direct Loan programs. The Department submitted the statistically valid S&EMP to OMB on June 29, 2023. This statistical methodology uses a random sample of annual compliance audits, with associated final audit determination (FAD) letters, if applicable, that cover approximately 5,400 eligible schools. A small population of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA accounts for these disbursements through a statistically valid sampling process. In addition to the compliance audits and related data, the methodology also uses the Free Application for Federal Student Aid (FAFSA) Internal Revenue Service (IRS) Data Statistical Study ("Study") and the results of tests of Federal Family Education Loan to Direct Loan consolidations and Direct Loan refunds. A plain language description of the methodology used and the results obtained for each of these programs is available on the Department's **improper payments website**.

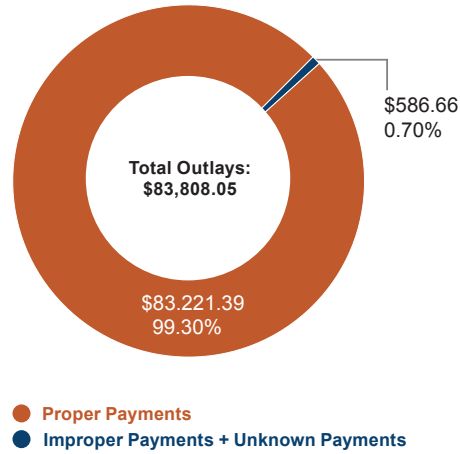
## High-Priority Programs—Improper and Unknown Payment Payment Estimates

Readers can obtain more detailed information on reporting improper payment and unknown payment estimates in FY 2023 and prior years at <https://paymentaccuracy.gov>.

**Figure 14.** FY 2023 Pell Grant Estimates  
(Dollars in Millions)



**Figure 15.** FY 2023 Direct Loan Estimates  
(Dollars in Millions)



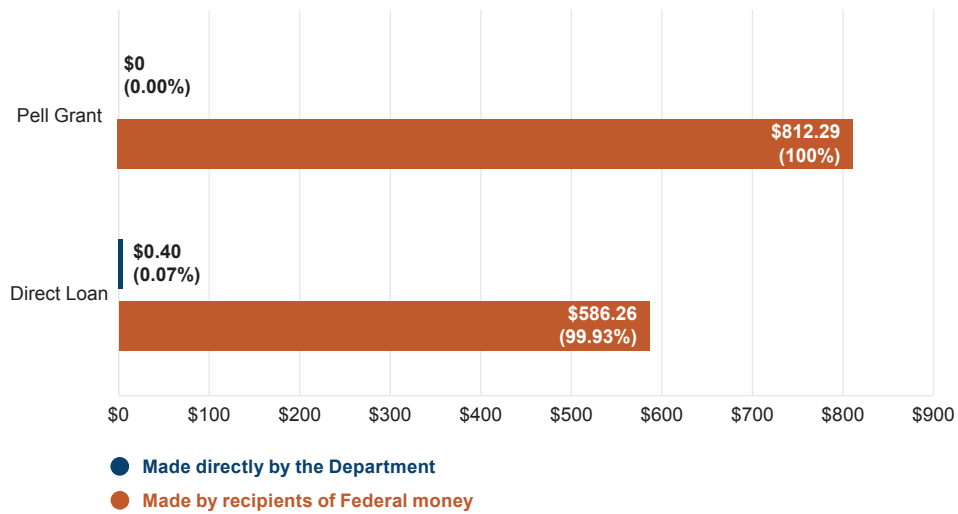
Note: The source of the FY 2023 Pell Grant and Direct Loan outlay amounts is FSA's Financial Management System (FMS).

The FY 2023 Pell Grant estimates include results from the Study which estimates Pell Grant improper payment rates based on a comparison between information reported by recipients of Pell Grant funds on the FAFSA and income details reported to the IRS. Rates from the Study are included in the Pell Grant improper payment estimate and categorized as a misreported income root cause. The misreported income root cause accounts for approximately 75 percent of the estimated FY 2023 Pell Grant improper payments.

Figure 16 summarizes the estimated amount of improper payments and unknown payments made directly by the Department and the amount of improper payments made by recipients of federal money. For additional details, please refer to the **High Priority Programs—Root Cause Categories** section.



**Figure 16.** FY 2023 Sources of Improper Payments & Unknown Payments  
(Dollars in Millions)



### High Priority Programs—Insufficient or Lack of Documentation

Of the \$812.29 million and \$586.66 million in estimated improper payments and unknown payments for the Pell Grant and Direct Loan programs, respectively, approximately 0.01 percent and 0.00 percent are categorized as unknown due to inability to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

### High Priority Programs—Monetary Loss and Non-Monetary Loss

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

- **Monetary loss to the Federal Government:** An amount that should not have been paid and in theory should/could be recovered.
- **Non-monetary loss to the Federal Government:** Either an underpayment or a payment to the correct recipient for the correct amount where the payment process fails to follow applicable regulation and/or statute.

The monetary loss and non-monetary loss amounts reported in Table 18 are estimates; not all monetary loss is recoverable.

**Table 18:** FY 2023 Monetary and Non-Monetary Loss for High-Priority Programs\*

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Improper Payment and Unknown Payment Estimate
Pell Grant	Estimated Monetary Loss to the Government	\$403.92	49.72%
	Estimated Non-Monetary Loss to the Government	\$405.23	49.89%
	Estimated Unknown Improper Payments	\$3.15	0.39%
	<b>Total</b>	<b>\$812.29</b>	<b>100.00%</b>
Direct Loan	Estimated Monetary Loss to the Government	\$67.82	11.56%
	Estimated Non-Monetary Loss to the Government	\$518.84	88.44%
	Estimated Unknown Improper Payments	\$0.00	0.00%
	<b>Total</b>	<b>\$586.66</b>	<b>100.00%</b>

\*Numbers may not add up due to rounding.

Of the estimated monetary loss for the Pell Grant and Direct Loan programs, the majority is outside of the agency's control. As explained previously, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. These "third-party" controls are outside of the Department's operational control. Examples of root causes outside of the Department's operational control are defined further in the following section. The amounts of monetary loss within and outside of the agency's control are reported in Table 19.

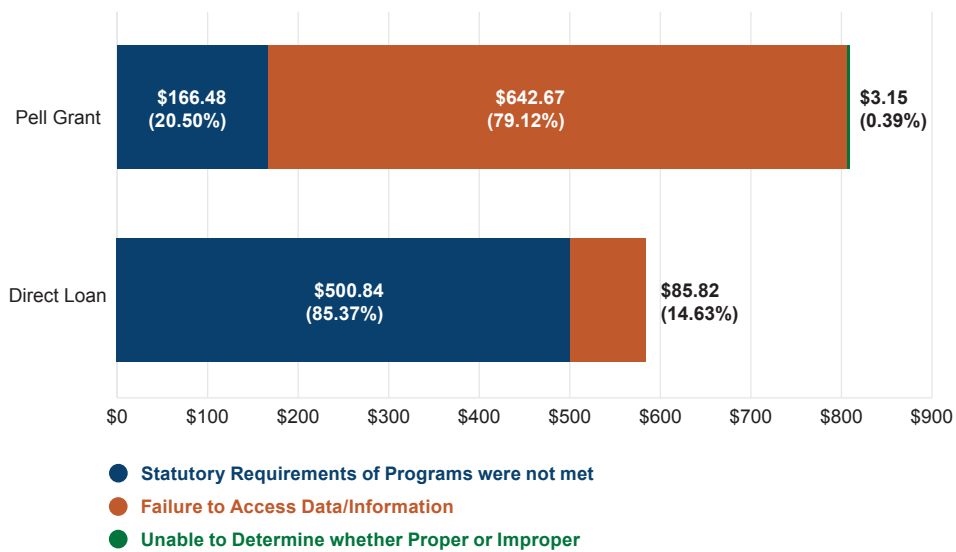
**Table 19:** FY 2023 Monetary Loss Within and Outside Agency Control for High-Priority Programs

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Monetary Loss
Pell Grant	Estimated Monetary Loss Within Agency Control	\$381.57	94.47%
	Estimated Monetary Loss Outside Agency Control	\$22.35	5.53%
	<b>Total</b>	<b>\$403.92</b>	<b>100.00%</b>
Direct Loan	Estimated Monetary Loss Within Agency Control	\$0.00	0.00%
	Estimated Monetary Loss Outside Agency Control	\$67.82	100.00%
	<b>Total</b>	<b>\$67.82</b>	<b>100.00%</b>

### High Priority Programs—Root Cause Categories

FY 2023 root cause categories of error, as defined in OMB Circular A-123, Appendix C (OMB Memorandum M-21-19), were “Statutory Requirements of Program Were Not Met,” “Failure to Access Data/Information,” and “Unable to Determine Whether Proper or Improper.” Specific root causes associated with the “Statutory Requirements of Program Were Not Met” category include, but are not limited to, a school’s failure to perform or properly complete verification, a school’s failure to provide disbursement notifications to the student in a timely manner, untimely credit balance return to the Department, and inadequate documentation for meeting Satisfactory Academic Progress (SAP) standards. Specific root causes associated with the “Failure to Access Data/Information” category include, but are not limited to, misreported income, incorrect academic level or enrollment status used, a school’s failure to observe annual eligibility limits, a school’s failure to properly complete verification, incorrect financial aid determination, and incorrect decision to complete return of Title IV funds calculation. Specific root causes associated with the “Unable to Determine Whether Proper or Improper” category may include, but are not limited to, inaccurate and/or inadequate tracking of attendance, lack of supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

**Figure 17.** FY 2023 Root Causes of Improper Payments\*  
(Dollars in Millions)



\* Numbers may not add up due to rounding.

## High Priority Programs—Corrective Actions

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. FSA's Office of Partner Participation and Oversight (PPO) annually initiates more than 100 program reviews of the approximately 5,400 eligible schools to assess institutions' compliance with Title IV regulations. PPO evaluates a school's compliance with federal requirements, assesses liabilities for errors in performance, and identifies actions the school must take to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for noncompliance.

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

FSA continues to work with Treasury to implement the authorities provided in the FUTURE Act. Implementation of the authorities provided in the FUTURE Act will significantly improve data authentication by enabling FSA to automatically receive certain federal tax information (FTI) from the IRS through a direct-data exchange with applicant approval and enabling customers to automatically report their income for the total and permanent disability (TPD) discharge post-monitoring, income-driven repayment (IDR), and FAFSA processes. Implementation of the authorities provided in the FAFSA Simplification Act will improve reporting through, for example, modifying and simplifying the questions that students and their families have to answer on the FAFSA form.

The corrective actions listed below are specific to the root causes of improper payments identified from the FY 2023 improper payment fieldwork, and are tailored to reflect the unique processes, procedures, and risks involved with the Pell Grant and Direct Loan programs.

**Table 20.** Pell Grant and Direct Loan Improper Payment Corrective Actions

Corrective Action	Description of Actions Taken in FY 2023 and Planned for FY 2024	OMB Root Cause Category
<p>Implement the authorities provided in the FUTURE Act to improve verification of applicants' and borrowers' income data.</p>	<p>In FY 2023, the Department continued to work diligently and collaboratively with the IRS to implement and operationalize changes to its programs as a result of the FUTURE Act and amendments to section 6103 of the Internal Revenue Code (IRC). FSA and the IRS implemented the FUTURE Act IDR Solution on July 30, 2023.</p> <p>In FY 2024, through the Student Aid and Borrower Eligibility (SABER) Initiative, FSA will continue to implement the authorities and provisions provided in the FUTURE Act and FAFSA Simplification Act which ultimately will streamline and strengthen the collection of data used to determine eligibility for student financial assistance. Implementation of the authorities provided in the FUTURE Act will significantly improve data authentication by enabling FSA to automatically receive certain FTI from the IRS through a direct-data exchange with applicant approval and enabling customers to automatically report their income for the TPD discharge post-monitoring, IDR, and FAFSA processes. Implementation of the authorities provided in the FAFSA Simplification Act will improve reporting through, for example, modifying the questions that students and their families have to answer on the FAFSA form and requiring ED to conduct early awareness and outreach of student aid eligibility. Full implementation of the FUTURE Act is planned for FY 2025. FSA expects that full implementation of the authorities provided in the FUTURE Act will significantly reduce, or eliminate, improper payments due to applicants misreporting income on the FAFSA.</p>	<p>Failure to Access Data/Information</p>
<p>Continue to utilize and promote the IRS Data Retrieval Tool (DRT). Enhance verification procedures.</p>	<p>In FY 2023, FSA monitored the IRS DRT usage on a weekly basis and continued to work diligently and collaboratively to implement the Federal Tax Information Module (FTI-M). The FTI-M was successfully implemented and recorded an initial usage rate of 91%. FSA is encouraged by the high usage rate of the FTI-M.</p> <p>In FY 2024, FSA will continue to promote the IRS DRT until full implementation of the authorities provided in the FUTURE Act is completed. Full implementation of the authorities provided in the FUTURE Act is scheduled for FY 2025, which FSA expects will significantly reduce, or eliminate, improper payments due to applicants misreporting income on the FAFSA. See the status of the corrective action titled <i>"Implement the authorities provided in the FUTURE Act to improve verification of applicants' and borrowers' income data"</i> for additional information.</p>	
<p>Publish and deliver guidance, training, and other resources for institutions processing financial aid that address (1) verification errors; (2) administrative and process errors; and (3) documentation errors frequently made by schools.</p>	<p>In FY 2023, FSA published and delivered various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and other frequently identified compliance issues. For example, in FY 2023 Q1, FSA published the 2022-2023 FSA Handbook and FSA Assessments, which provide guidance on FAFSA and verification requirements. FSA also published updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. In FY 2023 Q1, FSA held the FSA Training Conference for Financial Aid Professionals, which received positive feedback from financial aid administrators.</p> <p>In FY 2024, FSA will continue to publish and deliver various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and unknown payments and other frequently identified compliance issues. For example, FSA will continue to publish the FSA Handbook, FSA Assessments, and updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. FSA is coordinating internally to ensure relevant offices within FSA participate in the planning for the FY 2024 FSA Training Conference to ensure key objectives and milestones are met. FSA will host the FY 2024 FSA Training Conference in FY 2024 Q1.</p>	<p>(1) Failure to Access Data/Information</p> <p>(2) Statutory Requirements of Program Were Not Met</p>
<p>Evaluate schools' compliance with federal student aid requirements, assess liabilities for errors in performance, and identify actions schools must take to make the Title IV, HEA programs (Pell Grant and Direct Loan program), or the recipients, whole for any funds that were improperly managed as part of the program review, Single Audit, and/or audit process conducted in accordance with the Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs.</p>	<p>In FY 2023, FSA evaluated schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and assessed liabilities for errors in performance. For improper payments identified through oversight activities, such as compliance audits and program reviews, FSA established accounts receivable and pursued collection for those deemed collectible, including applicable overpayments. For additional information on actions taken to recover overpayments, please see <a href="https://www.fsa.ed.gov/paymentaccuracy">paymentaccuracy.gov</a>.</p> <p>In FY 2024, FSA will continue to evaluate schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and will assess liabilities for errors in performance. For future improper payments identified through oversight activities, such as compliance audits and program reviews, FSA will continue to establish accounts receivable and pursue collection for those deemed collectible, including applicable overpayments.</p>	<p>(3) Unable to Determine Whether Proper or Improper</p>

## 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/2023/01/30/2023-01596/adjustment-of-civil-monetary-penalties-for-inflation>

*Table 21*

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)	04-20-22	01-30-23	\$ 45,429
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	04-20-22	01-30-23	37,839
Violation of Title IV of the HEA	20 USC 1082(g)	04-20-22	01-30-23	67,544
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	04-20-22	01-30-23	67,544
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	04-20-22	01-30-23	1,993
Improper lobbying for government grants and contracts	31 USC 1352(c)(1) and c(2)(A)	04-20-22	01-30-23	23,727 to 237,268
False claims and statements	31 USC 3802(a)(1) and (a)(2)	04-20-22	01-30-23	13,508

## Climate Related Financial Risk

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 White House currently requires that federal agencies publish various plans and reports regarding climate, sustainability, and environmental justice. The Department is developing its next Climate Adaptation and Environmental Justice plans, using White House guidance. Both are expected to be released in 2024. The most up to date plans and reports are posted on the ED Infrastructure and Sustainability page, under Reporting.

## 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 (GONE) Act of 2016* (Pub. L. No. 114-117) was to close out grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances and whose period of performance has exceeded two years. 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 22 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 October 1, 2023, the Department had 3,560 grants and cooperative agreements totaling approximately \$97.9 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 [S19U0002 - Risk Assessment of the Department's Grant Closeout Process](#)

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 August 2023, 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 22**

Category	2–3 Years	3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	3,197	6	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	342	15	-
Total Amount of Undisbursed Balances	\$77,621,010	\$20,279,108	-

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.





APPENDICES  
(UNAUDITED)



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

### College Completion Toolkit

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

### College Cost Lists

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

### College 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 of 2014* (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. <https://oig.ed.gov/>

For a list of recent reports, go to <https://oig.ed.gov/reports/list>

### 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 the 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

<b>ABCP</b>	Asset-Backed Commercial Paper
<b>AFR</b>	<i>Agency Financial Report</i>
<b>AGA</b>	Association of Government Accountants
<b>AP</b>	Acquisition Plan
<b>APGs</b>	Agency Priority Goals
<b>APR</b>	Annual Performance Report
<b>ARP</b>	<i>American Rescue Plan Act of 2021</i>
<b>ARP ESSER</b>	American Rescue Plan Elementary and Secondary School Emergency Relief
<b>BIE</b>	Bureau of Indian Education
<b>BOD</b>	Binding Operational Directive
<b>BPO</b>	Business Process Operations
<b>CARES</b>	<i>Coronavirus Aid, Relief, and Economic Security Act of 2020</i>
<b>CISA</b>	Cybersecurity and Infrastructure Security Agency
<b>COVID-19</b>	Coronavirus Disease 2019
<b>CPSS</b>	Contracts and Purchasing Support System
<b>CRRSAA</b>	<i>Coronavirus Response and Relief Supplemental Appropriations Act of 2021</i>
<b>CSF</b>	Cyber Security Framework
<b>CSRS</b>	Civil Service Retirement System
<b>CTE</b>	Career and Technical Education
<b>DATA Act</b>	<i>Digital Accountability and Transparency Act of 2014</i>
<b>DCC</b>	Digital and Customer Care
<b>DCIA</b>	<i>Debt Collection Improvement Act of 1996</i>
<b>DDB</b>	Death, Disability, and Bankruptcy
<b>Department</b>	U.S. Department of Education
<b>DGB</b>	Data Governance Board
<b>DHS</b>	U.S. Department of Homeland Security
<b>Direct Loan</b>	William D. Ford Federal Direct Loan
<b>DL</b>	Direct Loan
<b>DLP</b>	Data Loss Prevention
<b>DMA</b>	Data Maturity Assessment
<b>DOL</b>	U.S. Department of Labor
<b>DQP</b>	Data Quality Plan
<b>EAI</b>	Emergency Assistance to Institutions of Higher Education
<b>EANS</b>	Emergency Assistance to

	Non-Public Schools
<b>ECASLA</b>	<i>Ensuring Continued Access to Student Loans Act of 2008</i>
<b>EDARM</b>	Division of Enterprise Data Analytics and Risk Management
<b>EDCAPS</b>	Education Central Automated Processing System
<b>EGP</b>	Education Grants Platform
<b>EIA</b>	Emergency Impact Aid
<b>ELG</b>	Evidence Leadership Group
<b>Emergency Impact Aid</b>	Temporary Emergency Impact Aid for Displaced Students
<b>EO</b>	Executive Order
<b>ERIC</b>	Education Resources Information Center
<b>ERM</b>	Enterprise Risk Management
<b>ERMWG</b>	Enterprise Risk Management Working Group
<b>ESEA</b>	<i>Elementary and Secondary Education Act</i>
<b>ESF</b>	Education Stabilization Fund
<b>ESSA</b>	<i>Every Student Succeeds Act</i>
<b>ESSER</b>	Elementary and Secondary School Emergency Relief
<b>FAFSA®</b>	Free Application for Federal Student Aid
<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FCRA</b>	<i>Federal Credit Reform Act of 1990</i>
<b>FECA</b>	<i>Federal Employees' Compensation Act</i>
<b>FERS</b>	Federal Employees Retirement System
<b>FFB</b>	Federal Financing Bank
<b>FFEL</b>	Federal Family Education Loan
<b>FFMIA</b>	<i>Federal Financial Management Improvement Act of 1996</i>
<b>FIPSE</b>	Fund for the Improvement of Postsecondary Education
<b>FISMA 2014</b>	<i>Federal Information Security Modernization Act of 2014</i>
<b>FMFIA</b>	<i>Federal Managers' Financial Integrity Act of 1982</i>
<b>FMSS</b>	Financial Management Support System
<b>FR</b>	Financial Report of the U.S. Government
<b>FSA</b>	Federal Student Aid
<b>FUTURE Act</b>	<i>Fostering Undergraduate Talent by Unlocking Resources for Education Act</i>
<b>FY</b>	Fiscal Year
<b>G5</b>	Grants Management System
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GAO</b>	Government Accountability Office
<b>GEER</b>	Governor's Emergency Education Relief
<b>GONE Act</b>	<i>Grants Oversight and New Efficiency Act of 2016</i>
<b>GPO</b>	Grants Policy Office



<b>GPRA</b>	<i>Government Performance and Results Act of 1993</i>
<b>GSA</b>	General Services Administration
<b>HBCUs</b>	Historically Black Colleges and Universities
<b>HEA</b>	<i>Higher Education Act of 1965</i>
<b>HEAL</b>	Health Education Assistance Loan
<b>HEERF</b>	Higher Education Emergency Relief Fund
<b>HHS</b>	U.S. Department of Health and Human Services
<b>HTTPS</b>	Hypertext Transfer Protocol Secure
<b>IDEA</b>	<i>Individuals with Disabilities Education Act</i>
<b>IDR</b>	Income-Driven Repayment
<b>IEP</b>	Individualized Education Program
<b>IES</b>	Institute of Education Sciences
<b>IHE</b>	Institutions of Higher Education
<b>IPP</b>	Invoice Processing Platform
<b>IPERA</b>	<i>Improper Payments Elimination and Recovery Act of 2010</i>
<b>IPERIA</b>	<i>Improper Payments Elimination and Recovery Improvement Act of 2012</i>
<b>IQA</b>	Information Quality Act
<b>IRS</b>	Internal Revenue Service
<b>IT</b>	Information Technology
<b>LEAs</b>	Local Educational Agencies
<b>LINCS</b>	Literacy Information and Communication System
<b>MSIs</b>	Minority Serving Institutions
<b>NAEP</b>	National Assessment of Educational Progress
<b>NCES</b>	National Center for Education Statistics
<b>Next Gen FSA</b>	Next Generation Federal Student Aid
<b>NIST</b>	National Institute of Standards and Technology
<b>NSLDS®</b>	National Student Loan Data System
<b>OAGRM</b>	Office of Acquisition, Grants, and Risk Management
<b>OCDO</b>	Office of the Chief Data Officer
<b>OCIO</b>	Office of the Chief Information Officer
<b>OCR</b>	Office for Civil Rights
<b>OCTAE</b>	Office of Career, Technical, and Adult Education
<b>ODP</b>	Open Data Platform
<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>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPE</b>	Office of Postsecondary Education
<b>OPEN</b>	Open, Public, Electronic and Necessary
<b>OPEPD</b>	Office of Planning, Evaluation, and Policy Development
<b>OPM</b>	Office of Personnel Management
<b>OS</b>	Office of the Secretary
<b>OSERS</b>	Office of Special Education and Rehabilitative Services
<b>P-12</b>	Prekindergarten Through 12th Grade
<b>Pell</b>	Federal Pell Grant
<b>PEPS</b>	Postsecondary Education Participants System
<b>PIIA</b>	<i>Payment Integrity Information Act of 2019</i>
<b>PIMA</b>	Payment Integrity Monitoring Application
<b>PIV</b>	Personal Identity Verification
<b>PLUS</b>	Parent Loan for Undergraduate Students
<b>POC</b>	Principal Office Component
<b>POA&amp;M</b>	Plan of Actions & Milestones
<b>President's Budget</b>	<i>Budget of the United States Government</i>
<b>PSLF</b>	Public Service Loan Forgiveness
<b>REL</b>	Regional Educational Laboratory
<b>Report and Plan</b>	Annual Performance Report and Annual Performance Plan
<b>RESTART</b>	Immediate Aid to Restart School Operations
<b>SBR</b>	Statement of Budgetary Resources
<b>SEAs</b>	State Educational Agencies
<b>SSA</b>	Social Security Administration
<b>STEM</b>	Science, Technology, Engineering, and Mathematics
<b>TCUs</b>	Tribal Colleges and Universities
<b>TCCUs</b>	Tribally Controlled Colleges and Universities
<b>TEACH</b>	Teacher Education Assistance for College and Higher Education Grant
<b>TEPSLF</b>	Temporary Expanded Public Service Loan Forgiveness
<b>Title I</b>	Title I, Part A
<b>Title IV</b>	Title IV of the Higher Education Act of 1965
<b>TOP</b>	Treasury Offset Program
<b>TPD</b>	Total and Permanent Disability
<b>Treasury</b>	U.S. Department of Treasury
<b>USDS</b>	Unified Servicing and Data Solution

<b>VDP</b>	Vulnerability Disclosure Policy
<b>VM</b>	Vulnerability Management
<b>WIOA</b>	<i>Workforce Innovation and Opportunity Act</i>

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

The Office of Budget Service has lead responsibility for multiple functions, including developing and implementing the Department's Budget. The Office of Acquisition, Grants, and Risk Management (OAGRM) is responsible for developing, managing, and providing policy guidance and oversight of the Department's acquisition, grant, and risk management activities and operations.

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

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