

# **Management's Discussion and Analysis**

## Management's Discussion and Analysis Overview

### **Department at a Glance** (See p. 5.)

Our mission, our customers, our work to ensure civil rights, our history and organization, our efforts in integrating performance and financial information, and our scorecard on the *President's Management Agenda*.

### **Performance Highlights** (See p. 27.)

Overview of each of our six strategic goals with net cost, key FY 2005 results, and areas of focus.

### **Financial Highlights** (See p. 42.)

Overview of our financial position, future trends, challenges, and issues relating to improper payments, along with management assurances under the *Federal Managers' Financial Integrity Act*.

## Department at a Glance

### Our Mission

To ensure equal access to education and to promote educational excellence throughout the nation.

#### **No Child Left Behind Is Working to Close the Achievement Gap**

The progress of racial/ethnic minority students, students with disabilities, limited English proficient students, and low-income students on fourth-grade reading and eighth-grade mathematics state assessments between 2003 and 2004 shows that *No Child Left Behind* is working to address the largest and most persistent achievement gaps. [More](#), see p. 6.

#### **Evidence-Based Research Focuses on Promoting Educational Excellence**

In 2005, the Department established new priorities for federal education research—priorities that ensure that our research will provide teachers and policymakers with evidence of what works in the classroom. [More](#), see p. 9.

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#### **Federal Civil Rights Laws Protect Equal Access**

The Department enforces civil rights laws that prohibit discrimination on the basis of race, color, national origin, sex, disability, and age in programs that receive federal financial assistance. [More](#), see p. 10.

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#### **ESEA Celebrates 40 Years of Access and Excellence**

The *Elementary and Secondary Education Act of 1965* marked its 40th anniversary in 2005.

Eight reauthorizations of the act have continued to uphold its initial mission: equal access and educational excellence for all. [More](#), see p. 12.

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**No Child Left Behind Is Working to Close the Achievement Gap**

By requiring states to conduct annual assessments in grades 3 through 8 by 2006, *No Child Left Behind* has pushed schools to measure the achievement of all students and to improve performance where gaps exist. The progress of targeted students on state fourth-grade reading and eighth-grade mathematics assessments between SY 2002–03 and SY 2003–04 shows that *No Child Left Behind* is working to address the largest and most persistent achievement gaps.

A comparison of state-reported proficiency data for SY 2002–03 and SY 2003–04 for states testing fourth-grade reading and eighth-grade mathematics shows increases in the percentages of targeted students who are proficient in a majority of those states. Of these targeted groups, the largest increases in reading proficiency were reported for limited English proficient students, African-American students, and low-income students; the largest increases in mathematics proficiency were reported for low-income students and Hispanic students. The tables below reflect results from states that conducted assessments in SY 2002–03 and SY 2003–04; states are not required to assess each of grades 3 through 8 until SY 2005–06.

**Reading Results—Grade 4**

The Percentage of Reporting States That Showed an Increase in Proficiency on Fourth-Grade State Reading Assessments Between SY 2002–03 and SY 2003–04		
Disaggregated Category	Percentage of Reporting States Showing an Increase in Proficiency	Number of States Assessing and Reporting For Both Years
African-American Students	75	32
Hispanic Students	59	32
Students with Disabilities	75	32
Limited English Proficient Students	81	32
Low-income Students	76	33

Note. In Puerto Rico, Limited Spanish Proficient is used in lieu of Limited English Proficient.  
 Source. U.S. Department of Education, Consolidated State Performance Report, official state submissions.

**Mathematics Results—Grade 8**

The Percentage of Reporting States That Showed an Increase in Proficiency on Eighth-Grade State Mathematics Assessments Between SY 2002–03 and SY 2003–04		
Disaggregated Category	Percentage of Reporting States Showing an Increase in Proficiency	Number of States Assessing and Reporting For Both Years
African-American Students	68	40
Hispanic Students	73	41
Students with Disabilities	62	42
Limited English Proficient Students	63	43
Low-income Students	76	41

Note. In Puerto Rico, Limited Spanish Proficient is used in lieu of Limited English Proficient.  
 Source. U.S. Department of Education, Consolidated State Performance Report, official state submissions.

The gains in proficiency for students with disabilities, low-income students, and minority students are shown because they demonstrate a narrowing of the gap at important learning milestones for reading and mathematics. The development of good reading skills in early grades provides a good

foundation for later academic success in higher grades. In particular, the skills required for fourth-grade reading proficiency are necessary for understanding and applying concepts in other subjects such as mathematics and science. The measure of eighth-grade mathematics proficiency demonstrates the understanding of mathematical concepts, procedures, and problem-solving skills; such proficiency is necessary for students before they begin advanced mathematics courses such as calculus.

The following chart reflects state-by-state performance at the grades for which the Department set performance measures for reading and mathematics (see pp. 85 and 89) and is not necessarily a reflection of each state's overall assessment system. For SY 2002–03 and SY 2003–04, states were only required to assess one grade between grades 3 and 5, inclusive; one grade between grades 6 and 9, inclusive; and once in high school. States are not required to assess each of grades 3 through 8 until SY 2005–06. For more complete information on a state's assessment system, visit the state educational agency's Web site.

Comparison of Percentage of Students Proficient on State Assessments From SY 2002-03 to SY 2003-04 for Selected Grades, Subjects, and Student Groups												
 means the state increased the percentage of proficient students	Fourth-Grade Reading						Eighth-Grade Mathematics					
	All Students	African-American Students	Hispanic Students	Students With Disabilities	Limited English Proficient Students	Low-Income Students	All Students	African-American Students	Hispanic Students	Students With Disabilities	Limited English Proficient Students	Low-Income Students
Alabama	↑	↑	↑	—	↑	↑	—	—	—	—	—	—
Alaska	↓	↓	↓	↓	↓	↓	↓	↓	↑	↓	↓	↑
Arizona	—	—	—	—	—	—	↑	↑	↑	↑	~	—
Arkansas	↑	↑	↑	↑	↑	↑	↑	↓	—	↑	↑	↑
California	↑	↑	↑	↑	↑	↑	~	↑	↑	↓	~	~
Colorado	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Connecticut	—	—	—	—	—	—	~	~	~	—	↓	~
Delaware	—	—	—	—	—	—	↑	↑	↓	↑	↓	↑
District of Columbia	↓	↓	↓	↓	↓	↓	↓	↓	↑	↓	↓	↓
Florida	↑	↑	↑	↑	↑	↑	~	↑	↑	↑	↑	↑
Georgia	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Hawaii	—	—	—	—	—	—	↑	↑	↑	—	↑	↑
Idaho	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Illinois	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Indiana	—	—	—	—	—	—	~	~	~	—	~	~
Iowa	↑	↑	↓	↑	↑	↑	↑	↑	↓	↑	↑	↑
Kansas	—	—	—	—	—	—	—	—	—	—	—	—
Kentucky	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑
Louisiana	↑	↑	↑	↑	↑	↓	↑	↑	↑	↑	↑	↑
Maine	↑	↓	↓	↑	↓	↓	↑	↓	↑	—	↓	↑
Maryland	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Massachusetts	↑	↑	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑
Michigan	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Minnesota	—	—	—	—	—	—	—	—	—	—	—	—
Mississippi	↑	↑	↓	↓	↓	↑	↑	↑	↓	↑	↑	↑
Missouri	—	—	—	—	—	—	↓	—	—	—	↓	—
Montana	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
Nebraska	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Nevada	↓	↓	↑	↑	↑	~	—	—	—	—	—	—
New Hampshire	—	—	—	—	—	—	—	—	—	—	—	—
New Jersey	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
New Mexico	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
New York	↓	↓	↓	↑	↑	↓	↑	↑	↑	↑	↑	↑
North Carolina	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
North Dakota	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑	↑
Ohio	↑	↑	↓	↑	↑	↑	—	—	—	—	—	—
Oklahoma	—	—	—	—	—	—	↑	↓	↓	↑	↑	↓
Oregon	—	—	—	—	—	—	~	↓	↑	↑	↓	↑
Pennsylvania	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Puerto Rico	—	—	—	—	—	—	~	—	↑	↓	~	↓
Rhode Island	↑	↑	↑	—	↑	↑	↑	↑	↑	↑	↑	↑
South Carolina	↑	↑	↑	↓	↑	↑	↑	↑	—	↑	↑	↑
South Dakota	↑	↓	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
Tennessee	—	—	—	—	—	—	—	—	—	—	↑	—
Texas	↓	↑	~	↓	↑	↑	↓	↓	↓	↓	↓	↓
Utah	↓	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑
Vermont	—	—	—	—	—	—	—	—	—	—	—	—
Virginia	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Washington	↑	↑	↑	↑	↑	↑	—	—	—	—	—	—
West Virginia	—	—	—	↑	—	↑	—	—	—	—	—	↑
Wisconsin	↑	↑	~	↑	↑	↑	↓	↓	↓	↓	↓	↓
Wyoming	↑	↑	↓	↑	↑	↑	↑	↑	↑	—	↑	↑

 Increase from SY 2002-03 to 2003-04   
  Decrease from SY 2002-03 to 2003-04   
 ~ No increase or decrease from SY 2002-03 to 2003-04  
 — State did not submit data for these grades for both years; assessments are not required in all grades 3 through 8 until SY 2005-06.  
 Note. In Puerto Rico, Limited Spanish Proficient is used in lieu of Limited English Proficient.  
 Source. U.S. Department of Education, Consolidated State Performance Report, official state submissions.

### **Evidence-Based Research Focuses on Promoting Educational Excellence**

To support educational excellence, the Department is committed to providing teachers and policymakers with useful information on effective educational practices. In 2005, the Department established the following priorities for federal education research:

- To develop or identify a substantial number of programs, practices, policies, and approaches that enhance academic achievement and that can be widely deployed.
- To identify what does not work and what is problematic or inefficient, and thereby encourage innovation and further research.
- To gain fundamental understanding of the processes that underlie variations in the effectiveness of education programs, practices, policies, and approaches.
- To develop delivery systems for the results of education research that will be routinely used by policymakers, educators, and the general public when making education decisions.

The National [Board for Education Sciences](#), an advisory board to the Department's main research arm, approved these priorities as part of its responsibility to provide independent advice on the research funded and conducted by the Department.

The Department grounds its expectations for education excellence in scientifically based research to ensure that practitioners have the tools needed to achieve the best teaching and learning in our nation's schools. The recently approved research priorities ensure that the projects funded reflect the Department's dedication to transforming education into an evidence-based field.

## Federal Civil Rights Laws Protect Equal Access

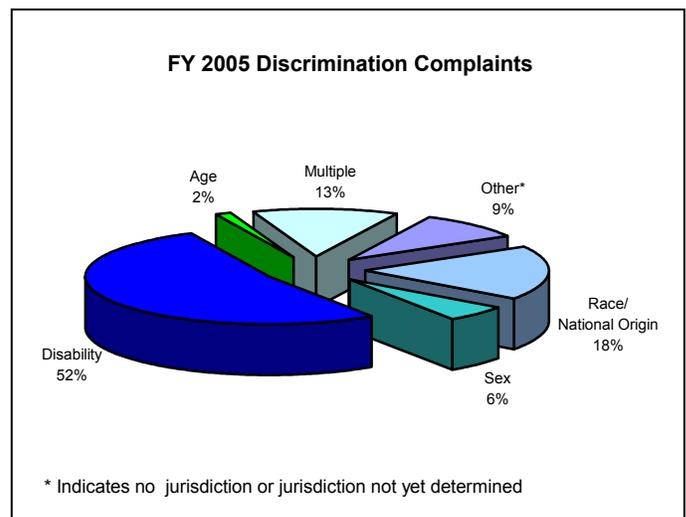
The Department is responsible for enforcing a series of laws to ensure civil rights in the following ways:

- To prohibit discrimination based on race, color, and national origin—[Title VI of the Civil Rights Act of 1964](#). (See "Race/national origin" wedge of graph.)
- To prohibit sex discrimination in education programs—[Title IX of the Education Amendments of 1972](#). (See "Sex" wedge of graph.)
- To prohibit discrimination based on age—[Age Discrimination Act of 1975](#). (See "Age" wedge of graph.)
- To prohibit discrimination based on disability—Section 504 of the [Rehabilitation Act of 1973](#). (Included in "Disability" wedge of graph.)
- To prohibit discrimination based on disability by public entities, whether or not they receive federal financial assistance—Title II of the [Americans with Disabilities Act of 1990](#). (Included in "Disability" wedge of graph.)

In addition, we enforce the *Boy Scouts of America Equal Access Act*, enacted in 2002. This law addresses equal access for the Boy Scouts of America and other designated youth groups to meet in public schools receiving funds from the Department.

These antidiscrimination laws protect more than 54 million students attending elementary and secondary schools and more than 16 million students attending colleges and universities (U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2013* (NCES 2004-013), Washington, DC: 2003, Tables 1 and 10).

The [Office for Civil Rights](#) (OCR), a law enforcement agency within the Department, executes the Department's civil rights enforcement responsibilities through a variety of activities. The Department conducts complaint investigations with the dual objectives of promptly investigating complainants' allegations of discrimination and accurately determining whether the civil rights laws and regulations have been violated. In FY 2005, the Department received 5,531 complaints alleging discrimination and resolved 5,360. As reflected in the chart, the majority of complaints received by the Department allege discrimination on the basis of disability.



In addition to complaint investigations, the Department initiates compliance reviews and other proactive initiatives to focus on specific civil rights compliance problems in education that are particularly acute or national in scope. Seventy-three compliance reviews were initiated in FY 2005 on issues including access for students with physical disabilities to postsecondary schools and the overrepresentation of minority and national origin limited English proficient students in special

education. The Department also conducted compliance reviews of universities and school districts to ensure that Title IX coordinators were designated and trained and that the Title IX non-discrimination policy and other information were published in accordance with regulations.

The Department also pursues compliance by federal funds recipients by promulgating regulations implementing the civil rights laws, developing clear policy guidance interpreting those laws, and broadly disseminating this information to educational institutions, parents, students, and others. This information is conveyed using a variety of media and by the direct provision of technical assistance. To assist the public, the Department provides [civil rights information](#), including policy documents and technical assistance publications; tools that recipients can use to assess their own compliance with the civil rights laws; and information to help students and parents understand their rights. The Department provides an online [complaint form](#) through which it now receives over 50 percent of its discrimination complaints.

## ESEA Celebrates 40 Years of Access and Excellence

For 40 years and through eight reauthorizations, the *Elementary and Secondary Education Act of 1965 (ESEA)* has kept public school education focused on access and equity. The first act included these words: "In recognition of the special educational needs of low-income families and the impact that concentrations of low-income families have on the ability of local educational agencies to support adequate educational programs, the Congress hereby declares it *to be the policy of the United States* to provide financial assistance ... to local educational agencies serving areas with concentrations of children from low-income families ... " (Section 201).

The [No Child Left Behind Act of 2001](#), the most recent reauthorization of the celebrated act of 1965, continues to be guided by the same mission. *No Child Left Behind* maintains the original premise of access and equity and combines it with widespread accountability for achievement. *No Child Left Behind* requires states to have [standards and assessments](#), including clear designations of student proficiency levels in reading and mathematics, and prescribes strong consequences for schools that do not make [adequate yearly progress](#). Science assessment requirements begin in SY 2007–08. Schools designated as in need of improvement are mandated to offer parents the [choice](#) of sending their children to higher-performing schools or receiving [supplemental educational services](#) from state-approved providers for their children. The supplemental services provision applies for schools in the second year of improvement. *No Child Left Behind* also requires all public school teachers of core academic subjects to be highly qualified by the end of SY 2005–06.

*No Child Left Behind* guides the Department's operations relating to elementary and secondary public school education. Other major laws control the Department's work in areas of special education, postsecondary education, adult education, and vocational education.

- The [Individuals with Disabilities Education Act](#), originally enacted in 1975 and reauthorized December 3, 2004, mandates that children with disabilities be provided with a free and appropriate public education.
- The [Higher Education Act](#), originally enacted in 1965 and currently in the process of reauthorization by the Congress, provides need-based grants and loans for undergraduates as well as a variety of programs to improve postsecondary education.
- The [Adult Education and Family Literacy Act](#), which is Title II of the [Workforce Investment Act](#), authorized in 1998, provides grants to state agencies for family literacy services, English literacy programs, and adult education and literacy services, which may include workplace literacy services.
- The [Carl D. Perkins Vocational and Technical Education Act](#) provides secondary and postsecondary vocational and technical education programs with federal assistance.
- The [Rehabilitation Act of 1973](#) authorizes programs to provide and improve vocational rehabilitation and independent living services for individuals with disabilities.

## Department at a Glance

### Our Customers

Every American has a stake in the nation's education success.

#### Meeting the Needs of Katrina Evacuees

Hurricane Katrina left Gulf Coast schools about to begin a new school year in disarray. Elementary, secondary, and postsecondary students and their teachers spread out across the nation to find new schools to attend. The Department commends the many communities that welcomed displaced students and their families. [More](#), see p. 14.

#### Minority Students Increase Participation in Public Education

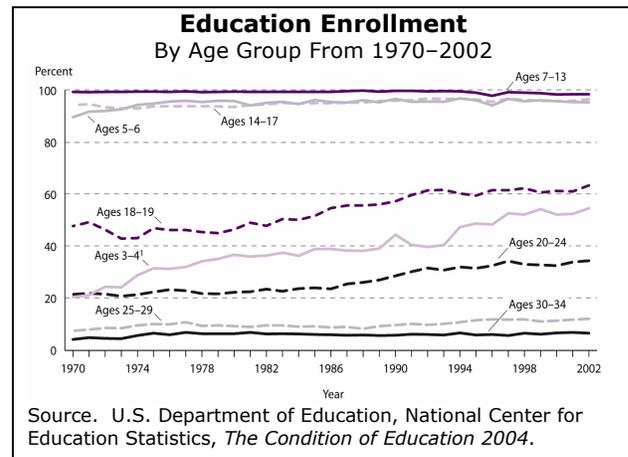
As enrollment in schools and colleges increases, cohorts of students are more diverse:

- The percentage of public school students who are racial/ethnic minorities increased from 22 percent in 1972 to 42 percent in 2003.
- The number of children aged 5 through 17 who spoke a language other than English at home more than doubled between 1979 and 2003.
- Twenty-nine percent of all students enrolled in degree-granting, postsecondary institutions in 2002 were racial/ethnic minorities.

[More](#), see p. 17.

#### Elementary/Secondary and Postsecondary Education Benefit From Public Revenues

As the graph below shows, significant numbers of U.S. residents aged 3 through 34 are enrolled in our many public education institutions: prekindergarten, elementary, secondary, postsecondary, and adult education. [More](#), see p. 15.



#### Parental Information and Options

*No Child Left Behind* requires schools to provide parents with information about the performance of schools against grade-level standards and provides options to parents whose children attend underperforming schools. Options include school choice, supplemental educational services (e.g. tutoring), and charter schools. [More](#), see p. 20.

## Meeting the Needs of Katrina Evacuees

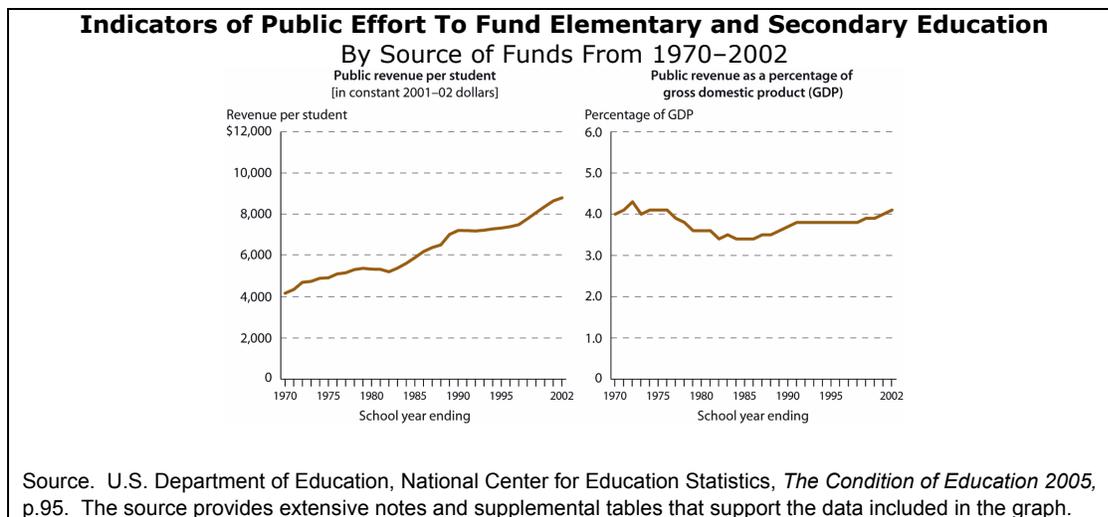
After Hurricane Katrina, disaster reports from the Gulf Coast education community estimated that 372,000 students from Louisiana and Mississippi were not able to return to class in their local public or private school. The Department focused on [every potential resource for relief](#) to meet the needs of those students and proposed to Congress targeted funding to ensure states, districts, and parents had the resources they needed to educate the displaced students.

- The Department proposed up to \$1.9 billion in funding to school districts, including charter schools, that enrolled at least 10 displaced children. This targeted funding would reimburse districts at a maximum annual payment of \$7,500 per child for the unexpected cost of educating these displaced children for the SY 2005-06. The Department offered charter schools the opportunity to request statutory and regulatory waivers of various requirements to assist them in serving displaced students. We also identified \$20.9 million in FY 2005 Charter School funds and made these funds available to meet the immediate needs of states affected by Hurricanes Katrina and Rita. (See [Key Policy Letters](#) signed in September 2005.)
- The Department proposed up to \$488 million in funding for children enrolled in private schools, with a maximum annual payment of \$7,500 per child.
- Colleges and universities were encouraged to admit students from affected institutions in a manner that [permits them to receive federal student aid](#). Under the Department's proposal, postsecondary institutions enrolling displaced students would receive \$1,000 for each displaced student. To help colleges and universities in severely damaged areas to resume operations, the Department proposed that these institutions be allowed to retain student aid already received for the new academic year. The Department proposed to forgive six months of interest on all student loans for borrowers in the severely impacted areas of Alabama, Louisiana and Mississippi.
- Under the [waiver authority](#) in the *Elementary and Secondary Education Act of 1965*, the Department solicited and negotiated requests from affected areas for waivers of maintenance-of-effort and fiscal and administrative requirements. The Department provided help to states and school districts as they sought to manage the impacts of the hurricane on students, schools, and programs.
- The [Assistance for Individuals with Disabilities Affected by Hurricanes Katrina and Rita Act of 2005](#) became law on September 30, granting the Department authority to permit hurricane-affected Gulf Coast states access to \$25.9 million in federal funds for vocational rehabilitation services without the states having to provide matching funds. These services may include education, training, assistive technology or various supports necessary for employment of individuals with disabilities affected by the hurricanes. Additional support for children and adults with disabilities who evacuated because of the hurricanes is described in the Department's [fact sheet](#).
- The Department's Office of Safe and Drug-Free Schools (OSDFS) committed \$7 million for [states affected by Hurricane Katrina](#): \$2.75 million for Louisiana, \$1.75 million for Mississippi, \$1.75 million for Texas, and \$750,000 for Alabama. Each state was contacted and provided with instructions on how to apply for funding and with an OSDFS contact to assist with the application process. On September 15, 2005, the Department sponsored a listening session on the health and welfare of children following Hurricane Katrina. The session included national experts in child trauma and mental health who provided input on children's long- and short-term recovery issues.

## Elementary/Secondary and Postsecondary Education Benefit From Public Revenues

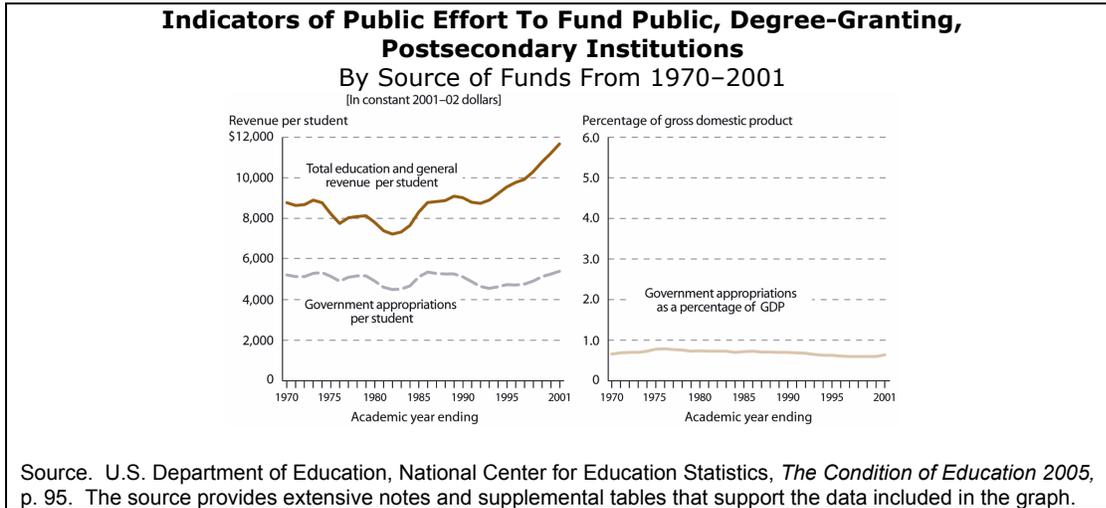
**Elementary and Secondary Education Financing.** The public revenue that supports public school education can be assessed in two ways: by measuring the level of public investment per student and by measuring the level of public investment in relation to the total value of goods and services produced in the domestic economy. In the elementary and secondary graph below, local, state, and federal fiscal support are summed and equal the level of public investment. The first measure in the graph shows the average level of public resources devoted to the education of each public school student; the second measure represents public revenue for education as a percentage of the gross domestic product (GDP).

Public revenue per student at the elementary and secondary levels generally increased between the SY 1969-70 and SY 2001-02 school years in constant dollars. The general increases in revenue per student over recent decades took place in both periods of declining enrollment and periods of rising enrollment. While public revenues per student increased substantially from SY 1969-70 to SY 2001-02 (109 percent), public revenue as a percentage of GDP did not.



**Postsecondary Education Financing.** Public investment in postsecondary public two- and four-year degree granting institutions equals the sum of federal, state and local government appropriations and the sum of tuition and fees, private gifts and endowments, and government contracts. The graph below plots these two groups of revenues, labeling them “government appropriations per student” and “total education and general revenue per student,” and shows the level of funding per student for each revenue source from SY 1969-70 to SY 2000-01. One observation that can be drawn from the graph is that revenues per student from sources other than government appropriations, sources such as student tuition and fees, increased substantially more than did government appropriations per student during the time period represented in the graph.

The second indicator in the graph shows government appropriations for postsecondary public two- and four-year degree granting institutions as a percentage of gross domestic product (GDP). In SY 2000-01 government appropriations were 0.64 percent of GDP, approximately the same percentage as in SY 1969-70 when the index was 0.66 percent of GDP. (Revenues are in constant SY 2001-02 dollars, adjusted using the Consumer Price Index.)



## Minority Students Increase Participation in Public Education

Analyzing trends in enrollment helps educators and policymakers gain insight into the scope of public education. Rising immigration (the immigrant population nearly tripled from 1970 to 2000) is one of the trends that had a role in boosting school enrollment and in changing the face of our schools. Another trend involves limited English proficient students. Between 1979 and 2003, the number of school-aged children (aged 5–17) who spoke a [language other than English at home](#) grew from 3.8 million to 9.9 million. Enrollment numbers for limited English proficient students in kindergarten through grade 12 grew 65 percent between SY 1993–94 and SY 2003–04. (See table below.) Larger numbers of students with disabilities participating in public education and increases in the size of racial/ethnic groups of students have also contributed to growing enrollment numbers and broader diversity in elementary and secondary schools across the United States. (See graph below.)

**The Growing Numbers of Limited English Proficient Students:  
SY 1993–94 Through SY 2003–04**

School Year	Total K–12 Enrollment <sup>1,2,4</sup>	K–12 Growth Since 1993–94 (Percent)	ELL Enrollment <sup>1,3,4</sup>	ELL Growth Since 1993–94 (Percent)
1993–94	45,443,389	0	3,037,922	0
1994–95	47,745,835	5.07	3,184,696	4.83
1995–96	47,582,665	4.71	3,228,799	6.28
1996–97	46,714,980	2.80	3,452,073	13.63
1997–98	46,023,969	1.28	3,470,268	14.23
1998–99	46,153,266	1.56	3,540,673	16.55
1999–00	47,356,089	4.21	4,416,580	45.38
2000–01	47,665,483	4.89	4,584,947	50.92
2001–02	48,296,777	6.28	4,750,920	56.39
2002–03	49,478,583	8.88	5,044,361	66.05
2003–04	49,619,117	9.19	5,014,437	65.06

ELL = English language learner    K–12 = kindergarten through 12th grade

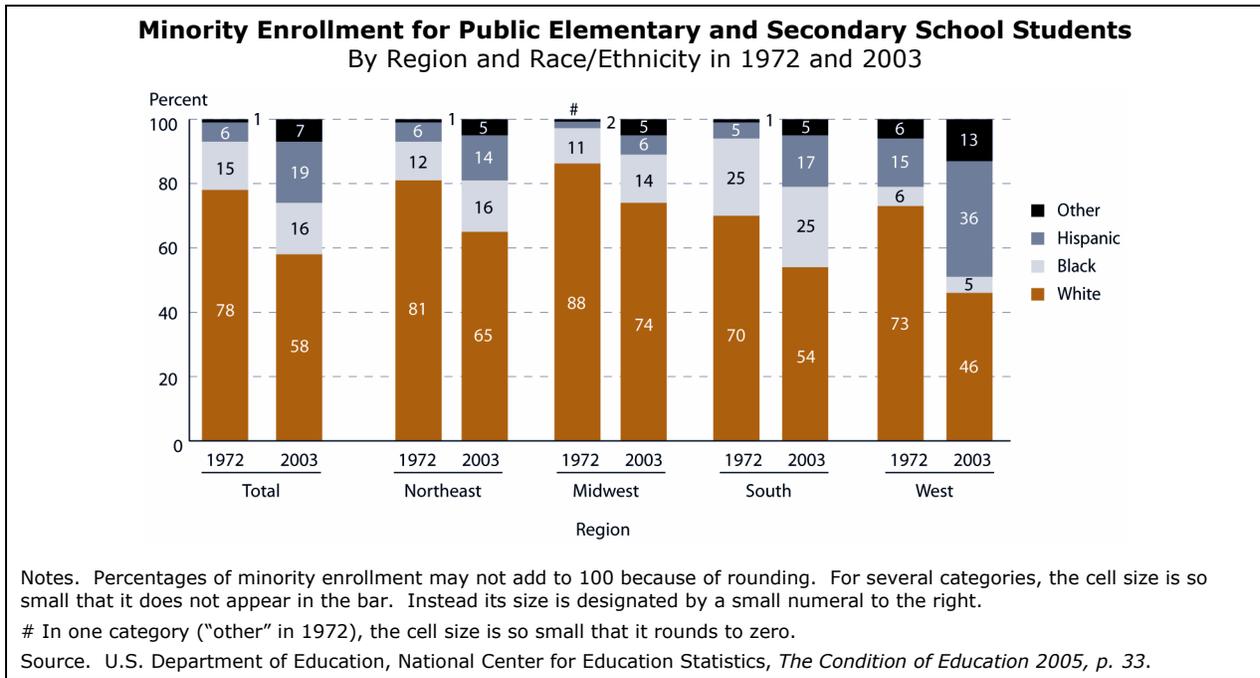
Sources.

<sup>1</sup> U.S. Department of Education's Survey of the States, Limited English Proficient Students and Available Educational Programs and Services, 1993–1994 through 2003–2004.

<sup>2</sup> National Center for Education Statistics, Common Core of Data, 1998–1999 through 2003–2004.

<sup>3</sup> FY 2002 Consolidated State Applications for State Grants under Title IX, Part C, § 9302 of the *Elementary and Secondary Education Act*.

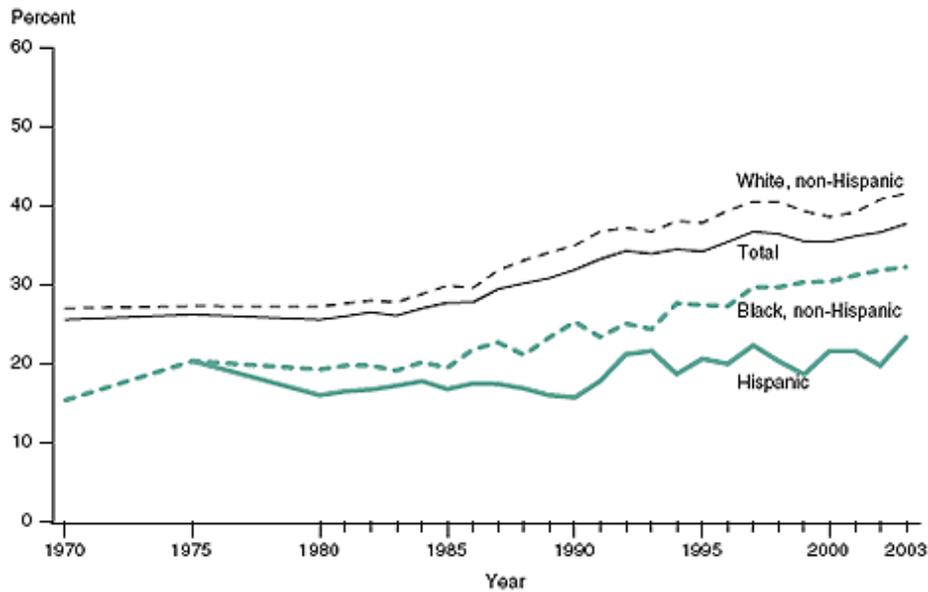
<sup>4</sup> SY 2003–04 data reported by states.



Diversity and enrollment have also been increasing in our nation's postsecondary institutions. In 1980, 26 percent of 18- to 24-year-olds enrolled in college; in 2002, the proportion increased to 38 percent. In particular, the percentage of racial/ethnic minorities has increased during this time period in two telling ways, both in terms of the percentage of total students enrolled in postsecondary institutions and in terms of the percentage of 18- to 24-year olds.

- As a percentage of total [postsecondary enrollment](#) figures in 2002, racial/ethnic minorities comprised 29 percent of all students enrolled in postsecondary education. Specifically, American Indian students comprised 1 percent of all students enrolled in postsecondary institutions, Asian/Pacific Islander students comprised 6 percent, black students comprised 12 percent, and Hispanic students comprised 10 percent.
- As a percentage of all 18- to 24-year-olds, minority enrollment has also increased. In 2003, 42 percent of white, 32 percent of black, and 23 percent of Hispanic 18- to 24-year-olds were enrolled in degree-granting postsecondary institutions. (See the following graph.)

**Minority Enrollment of 18- to 24-Year-Olds for All Degree-Granting, Postsecondary Institutions as a Percentage of All 18- to 24-Year-olds**  
By Race/Ethnicity From 1970 to 2003



Note. Data in 1970 for White and Black enrollment include persons of Hispanic origin. Data are based upon sample surveys of the civilian noninstitutional population. Some data have been revised from previously published figures.

Source. U.S. Department of Education, National Center for Education Statistics, *Youth Indicators*, 2005, p. 53.

## Parental Information and Options

Parents play an important role in supporting their child's educational needs, but they may encounter difficulties in finding school performance data and information on their child's educational progress. Recognizing this, Secretary of Education Margaret Spellings said, "I know it isn't always easy, especially with all the educational acronyms like AYP, HQT and SES flying around. We need to help families make sense of it all. That's why [No Child Left Behind](#) requires schools to regularly reach out to parents."

The Department provides parents with easy-to-understand information. On our Department Web site, we feature [information for parents](#) to help them make the best decisions for their child's future. For parents with limited English proficient children, the [OELA Summit III Parent Involvement Toolkit](#) is available. We also provide information for parents who want to better understand the [parental involvement and information provisions of No Child Left Behind](#), such as supplemental educational services, charter schools, and other school choice options.

One key parental information requirement established by *No Child Left Behind* is the mandatory distribution of local school report cards to parents. *No Child Left Behind* requires schools that receive federal funds to disseminate to parents a local report card with annual information on school and district academic performance. The report cards must describe aggregate student performance data to inform parents which schools have been identified as needing improvement, corrective action, or restructuring. From this information, parents can tell if they are eligible to exercise the school choice and supplemental educational services options available under *No Child Left Behind* for parents of children in underperforming schools.

## Department at a Glance

### Organization and History

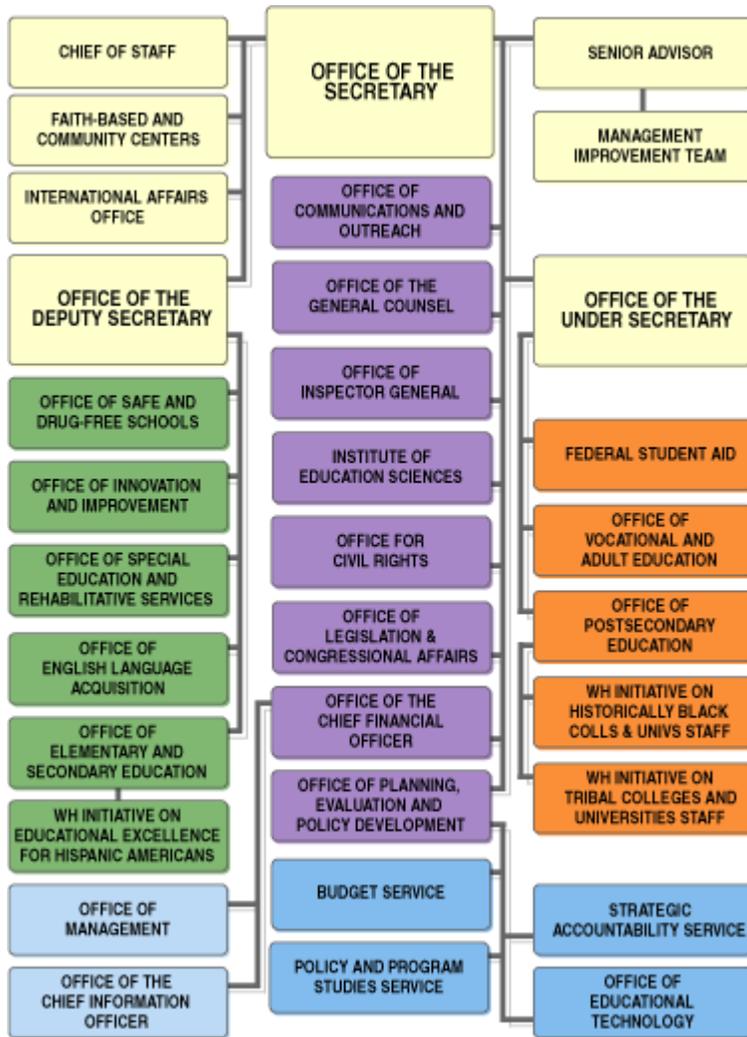
The federal government has taken an active role in education since 1867, when its duties encompassed statistical collection and reporting, but the Cabinet-level Department of Education was created only 25 years ago, in May 1980. By that time, major legislation had been passed that channeled federal support to improve the quality of higher education and access thereto via student financial aid; to strengthen mathematics, science, and vocational education; to provide supplemental resources to improve learning for low-income students and students with disabilities in elementary and secondary schools; and to enforce a variety of laws that protect civil rights.

During the Department's quarter century, the *Elementary and Secondary Education Act of 1965* has been transformed, such that the provision of federal funds to America's poorest schools is coupled with an insistence on measurable improvement in student performance. The *No Child Left Behind Act of 2001*, which is the most recent amendment to the 1965 act, accounts for more than 43 percent of the Department's FY 2005 discretionary spending. This commitment requires our careful oversight to ensure that *No Child Left Behind's* provisions result in educational achievement. Under *No Child Left Behind* and other education laws, we manage 154 programs that provide federal support for educational research and instructional support for students and teachers, and we are accountable for assessing and improving the performance of these programs.

We strive to achieve these results with the smallest workforce of the 16 Cabinet-level departments, fewer than 4,400 full-time-equivalent staff who manage nearly \$60 billion in annual discretionary funds and oversee a student financial loan portfolio exceeding \$400 billion. To prepare for these challenges in the Department's second quarter century, Secretary Spellings announced a new coordinating structure—one that better focuses our resources on assisting our educational partners and emphasizes tangible results as the paramount yardstick of our success. Among the major changes, the Deputy Secretary oversees all K–12 education policy and the Under Secretary directs all higher and adult education policy activities. To enhance external relations and coordinate policy initiatives across the agency, the Department has created the new Office of Communications and Outreach and the new Office of Planning, Evaluation, and Policy Development, each led by an assistant secretary reporting directly to the Secretary. These combined efforts will result in a Department of Education that is increasingly responsive to the needs of states, districts, schools, teachers, students, institutions of higher education, and other stakeholders in fostering academic achievement.

The Department recognizes the primary role of states and school districts in providing a quality education, employing highly qualified teachers and administrators, and establishing challenging content and achievement standards. Our role is to supplement these state and local efforts with targeted resources, expertise, and leadership that optimize education opportunities for all Americans.

## Department of Education Coordinating Structure For FY 2005



## Department at a Glance

### Integration of Performance and Financial Information

Focusing on results and accountability with performance monitoring and financial reporting is a sound practice for increasing the Department's productivity. One critical gauge of how well taxpayer dollars are being used is for an agency to link the performance of its programs to subsequent budget determinations. Not long ago, we could discern such a linkage for only a few federal programs, but the absence of performance metrics at the program level is now clearly the exception rather than the rule. Furthermore, if the conventional wisdom that what gets measured gets done is proven true, the increasing use of rigorous performance measurement will help to bring about the positive results we seek.

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

**Program Assessment Rating Tool.** Since 2002, the Office of Management and Budget (OMB) has asked federal agencies to systematically assess the quality of government programs using the Program Assessment Rating Tool (PART). Using this consistent mechanism, OMB works with federal agencies to judge the effectiveness of programs with regard to their stated purpose, strategic planning, internal management, and results and accountability. Although primarily a diagnostic tool for programs, PART reviews provide critical information that can be used to establish funding priorities for budget planning and development. Following the PART process, programs take follow-up action based on the recommendations from the PART.

By September 2005, the Department had completed PART reviews on 56 of our programs. This Performance and Accountability Report includes detailed information on the programs evaluated through PART in preparation for the Department's FY 2005 budget submission. The Performance Details section shows ratings, recommendations, and the changes these programs have implemented during FY 2005 to improve their effectiveness. See the PART section under each goal chapter for this information. By 2007, most Department programs will have undergone PART evaluations.

**Integrating Performance Plan into Budget.** Beginning with our FY 2005 budget, the Department has combined our annual performance plan and our annual budget to create an annual performance budget, consistent with OMB guidance for facilitating budget and performance integration. Additionally, effective FY 2005, the Department shifted from the use of strategic measures that reported the national status of education to a focus on program-related measures to more accurately reflect departmental objectives. We accomplished this by selecting key existing program measures as representative of our strategic goals and discontinuing most of the prior national status measures. We continue also to report on the [full set of program measures](#) as found in each program's annual plan under the *Government Performance and Results Act*.

**Crosswalk of Appropriations and Net Cost to Strategic Plan Goals.** This *Fiscal Year 2005 Performance and Accountability Report* continues to emphasize the alignment of financial data and performance priorities by again identifying in the Performance Details section both appropriations and net costs for the goals of the Strategic Plan. Each Department program is aligned with the same strategic goal as in the past two years, enabling both our appropriations and our estimated net costs to clearly reflect the discrete priorities of the Strategic Plan. The Department considers Goal 1, Creating a Culture of Achievement, to be a high-level synopsis of the four pillars on which educational excellence is established; as a result, we do not assign specific programs to that goal. Goals 2 through 5 are sharper directives that guide subdivisions of the Department to carry out the vision of the four pillars, and our programs are therefore assigned to one of these goals. Goal 6, Establishing Management Excellence, emphasizes the administrative and oversight responsibilities that support our programmatic mission. See the program summary section of each goal chapter for this information.

The Department's Statement of Net Cost provides a crosswalk between accounting methods that predate *No Child Left Behind* and our Strategic Plan goals. In the Statement of Net Cost, Program A (Enhancement of Postsecondary and Adult Education) aligns with Goal 5. Program B (Student Achievement, Culture of Achievement, and Safe Schools) aligns with Goals 1, 2 and 3. Program C (Transformation of Education) represents Goal 4. Program D (Special Education and Program Execution) spans Goals 2 through 5. The Financial Details section of this Performance and Accountability Report analyzes this crosswalk. In the event that our Strategic Plan were to be significantly amended, the accounting crosswalk will provide continuity in linking program emphases to reliable financial reporting.

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

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

For example, large formula programs, such as Title I of the *Elementary and Secondary Education Act* and Grants to States under the *Individuals with Disabilities Education Act*, may receive both "forward-funded" and "advance" appropriations. Forward-funded amounts made available under the FY 2005 appropriations for these programs were not available for award until July 2005, nine months after the beginning of FY 2005. Advance amounts made available under the FY 2005 appropriations were not available until October 2005 (at the beginning of FY 2006). Both forward-funded and advance amounts made available in the FY 2005 appropriations are intended for use primarily during SY 2005–06, and these funds can be carried over for obligation at the state and local levels through the end of September 2007.

Funds for competitive grant programs are generally available when appropriations are passed by the Congress. However, the processes required for conducting the grant competitions often result

in awarding grants near the end of the fiscal year, with funding available to grantees for additional years.

Thus, the results we see during FY 2005, which are to be measured for this report, are not solely the results of actions taken with FY 2005 funds, but rather the combination of funds from FY 2003, FY 2004, and FY 2005. Furthermore, the actual results of education programs are often not apparent until long after the funds are expended. For example, a program to support middle school students in ways that will increase the likelihood that they go to college has approximately a six-year lag time for measuring initial results.

Although we cannot isolate program results and link them directly to a fiscal year's funding, performance during a single program year serves as a proxy, because most of our programs are ongoing. Along with performance results for each program, this report shows the amount of funds appropriated for FY 2005 and the amount of funds expended in FY 2005. See pp. 103, 126, 132, 159, and 190 for these tables.

## Department at a Glance

### Scorecard on the *President's Management Agenda*

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

**Status.** Scores for "status" are based on the [scorecard standards for success](#), developed by the President's Management Council and discussed with experts throughout government and academe, including the National Academy of Public Administration. They have subsequently been refined with continued experience implementing the *President's Management Agenda*. Under each of these standards, an agency is "green" or "yellow" if it meets all of the standards for success listed in the respective column; it is "red" if it has any one of a number of serious flaws listed in the red column.

**Progress.** The Office of Management and Budget assesses agency "progress" on a case-by-case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows: green means implementation is proceeding according to plans agreed upon with the agencies; yellow means there is some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and red means the initiative is in serious jeopardy and is unlikely to realize objectives absent significant management intervention.

**Department of Education Results.** During FY 2005, the Department made significant improvements on the scorecard:

- We achieved the goals of the initiative of elimination of fraud and error in the student aid programs and deficiencies in financial management.
- We moved from yellow to green on status for competitive sourcing and faith-based and community initiatives and on progress for e-government and eliminating improper payments.

<b>President's Management Agenda FY 2005 Scorecard</b>						
<b>Target Area</b>			<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Governmentwide Initiatives	Human Capital	Status Progress	Y G	Y G	Y G	Y G
	Competitive Sourcing	Status Progress	Y G	Y G	Y G	G G
	Financial Performance	Status Progress	G G	G G	G G	G G
	E-government	Status Progress	Y Y	Y G	Y G	Y G
	Budget-Performance Integration	Status Progress	Y G	Y G	Y G	Y G
Program Initiatives	Faith-Based and Community Initiatives	Status Progress	Y G	Y G	Y G	G G
	Eliminating Improper Payments	Status Progress	R NA	R Y	R G	R G
	Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management	Status Progress	Y G	G G	Goals Achieved	

G = green    Y = yellow    R = red    NA = not applicable

## **Performance Highlights**

The Department's [2002–2007 Strategic Plan](#) built upon the foundation of the *No Child Left Behind Act* to chart a course for fundamental improvement in American education and accountability in managing our own affairs. The six goals of our strategic plan formed the basis of our [FY 2005 annual performance plan](#), which was incorporated into our Department's [FY 2005 Performance Budget](#). These goals encapsulate the major tasks that we must accomplish to fulfill our mission. Every day, we focus on the following:

- [Goal 1: Create a culture of achievement](#). (See p. 28.)
- [Goal 2: Improve student achievement](#). (See p. 31.)
- [Goal 3: Develop safe and drug-free schools](#). (See p. 33.)
- [Goal 4: Transform education into an evidence-based field](#). (See p. 36.)
- [Goal 5: Enhance the quality of and access to postsecondary and adult education](#). (See p. 39.)
- [Goal 6: Establish management excellence](#). (See p. 41.)

## Goal Overviews

### Goal 1: Create a Culture of Achievement

The 40th anniversary celebration of the *Elementary and Secondary Education Act of 1965 (ESEA)* calls to mind the language of that act: “the Congress hereby declares it to be the policy of the United States to provide financial assistance ... to local educational agencies serving areas with concentrations of children from low-income families ... .” The congressional mandate of 1965 has guided the federal role in elementary and secondary education for 40 years. The *No Child Left Behind Act of 2001*, which amended the *ESEA*, preserves the equal access tradition and couples it with accountability for results. The focus of Goal 1, creating a culture of achievement, derives from *No Child Left Behind’s* emphasis on accountability.

#### Key Results for Goal 1

- As a follow-up to Secretary Spellings’s 2005 announcement of [a “more workable, sensible” approach](#) to implementing *No Child Left Behind*, during the SY 2004–05 amendment cycle, the Department processed and [approved requests](#) from 46 states for amendments to their accountability systems.
- State-level education leaders responded to a [customer satisfaction survey](#) on the Department’s products and services. The Department’s score of 63 on the American Customer Satisfaction Index is consistent with other federal grant-making agencies.

#### Areas of Focus

To improve future results, the Department accepted a recommendation from the National Board for Education Sciences, a 14-member advisory group to the Institute of Education Sciences, which is the Department’s primary research arm, that in FY 2006 we set as a priority developing systems for delivering research that policy-makers, educators, and the public can rely on in their quest for education interventions that work. Improving delivery and dissemination of evidence-based approaches will become a priority of the Department’s research action plan for FY 2006.

The Department was unable to collect data in FY 2005 for our measure on whether schools have adopted evidence-based approaches to instruction and integrated them into the classroom; we are committed to collecting such data when more information is available to schools about a range of evidence-based approaches.

**Goal 1: More About the First Key Result**

<b>State Requests for Amendments to Accountability Systems</b>	
<b>Most Commonly Approved Amendments</b>	<b>Number Approved</b>
Adjusting the AYP definition (on a short-term basis) to account for students with disabilities who may be assessed with a modified assessment (2 percent interim flexibility).	31
Changes in the additional academic indicator.	19
Identifying districts for improvement only when they do not make AYP in the same subject for two consecutive years in all grade spans.	16
Changes in the assessment system affecting AYP.	12
Averaging proficiency results or participation rates across years.	9
Raising the minimum subgroup size for students with limited English proficiency.	10
Using a confidence interval of 75 percent under <i>No Child Left Behind's</i> Safe Harbor provision.	7
Use of an index to calculate AYP.	5
Taking advantage of LEP flexibility.	7
Revising annual AYP targets to increase in 10 equal increments through 2014.	3
Revising system of rewards and sanctions.	3
Use of a new data management system.	3
Using a confidence interval of 99 percent in calculating AYP.	4

AYP = Adequate yearly progress

LEP = Limited English proficient

**Goal 1: More About the Second Key Result**

**Department of Education [American Customer Satisfaction Index \(ACSI\)](#) Score: 63**

Satisfaction as measured by the ACSI was 63. This is the aggregate score for all respondents. For a point of reference, the CFI Group that conducted this survey has found satisfaction scores on other federal grantee satisfaction surveys typically to be in the low 60s.

**Grantee Disaggregated ACSI Scores**

Results on Department of Education Grantee Satisfaction Survey By Grantee Group	
Lead Agency Early Intervention Directors (OSERS/OSEP)	68.1
Title III State Directors (OELA)	67.8
State Title I Directors (OESE)	63.3
State Directors of Adult Education and Literacy (OVAE)	63.0
State Educational Technology Directors (OESE)	62.4
State Directors of Special Education (OSERS/OSEP)	61.8
Career and Technical Education State Directors (OVAE)	61.5
EDEN/PBDMI State Coordinators (OUS)	59.7
Chief State School Officers	57.3

OSERS = Office of Special Education and Rehabilitative Services  
 OSEP = Office of Special Education Programs  
 OELA = Office of English Language Acquisition  
 OVAE = Office of Vocational and Adult Education  
 OUS = Office of the Under Secretary  
 EDEN = Education Data Exchange Network  
 PBDMI = Performance-Based Data Management Initiative

**ACSI Questions**

- How satisfied are you with ED’s products and services?
- Rate the extent to which the products and services offered by ED have fallen short of or exceeded your expectations.
- Now forget for a moment about the products and services offered by ED, and imagine the ideal products and services. How well do you think ED compares with that ideal?

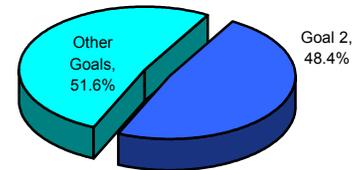
**ACSI Methodology**

The ACSI survey measures satisfaction and the key drivers of satisfaction using the methodology of the American Customer Satisfaction Index. The ACSI is the national indicator of customer evaluations of the quality of goods and services available to U.S. residents. ACSI has measured more than 100 programs of federal government agencies since 1999.

## Goal Overviews

### Goal 2: Improve Student Achievement

Along with local school teachers and parents, state education leaders, business leaders, everyday U.S. citizens, and students themselves, the Department's goal is to improve educational achievement. The *No Child Left Behind Act* sets as a national goal that all students achieve proficiency in reading and mathematics by SY 2013–14. Goal 2 focuses on improvements in early reading instruction, middle school mathematics instruction, high school proficiency, and teacher quality.



#### Key Results for Goal 2

- Nine-year-old students' average reading scores on the 2004 National Assessment of Educational Progress [Long-Term Trend Assessment](#) were higher than in any previous assessment year; Hispanic, black, and white 9-year-old students' average [reading scores increased](#) between 1999 and 2004 by 12, 15, and 5 points, respectively.
- The Department has committed to making available to the public state [high school graduation rates](#) calculated by a standard measure with state-submitted graduation rates. Standardizing graduation rates is the first step in data-driven high school reform.

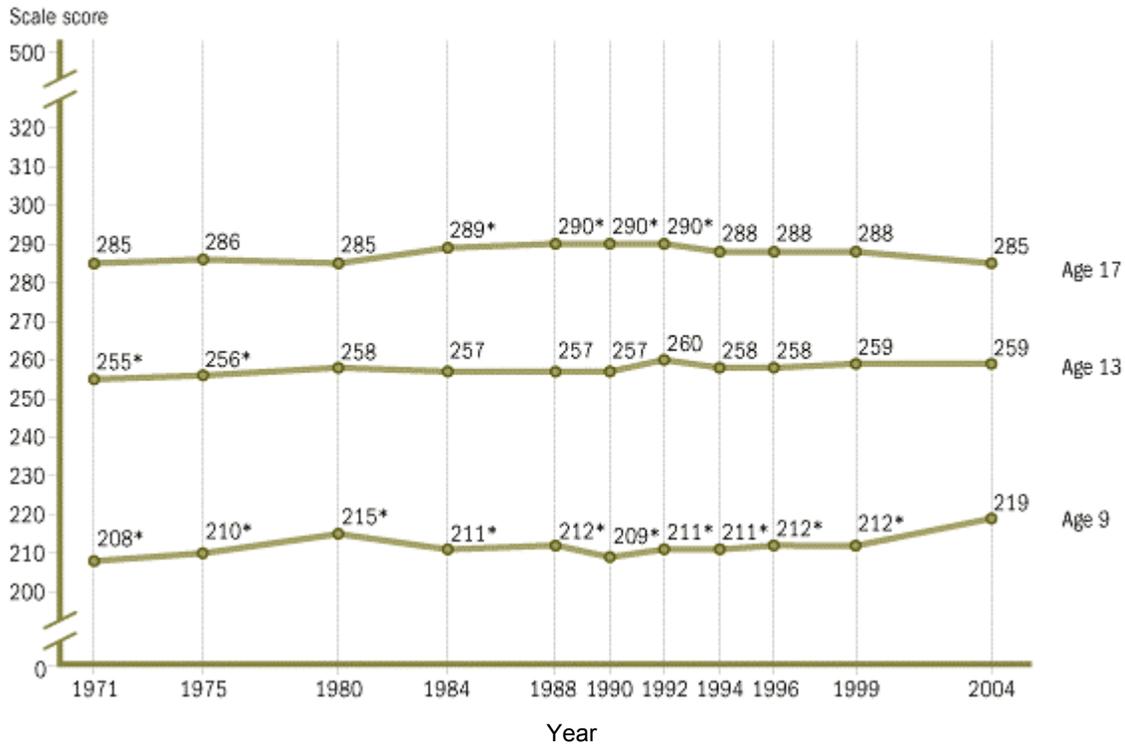
#### Area of Focus

In 2004 and 2005, the Department clearly stated that we are committed to high school reform. We held two national summits in as many years to support the [Preparing America's Future High School Initiative](#). But high school reform encounters seemingly intractable problems: high school students say they are unengaged and unchallenged in school; in some groups, as few as half of students graduate; and graduates sometimes find themselves unprepared when they go to college.

High school reform remains an important area of focus for the Department in 2006 as President Bush requested \$1.9 billion for high school reform in his FY 2006 budget proposal. Programmatically, the Department is proposing High School Intervention, a new formula grant program designed to help local educational agencies meet the needs of at-risk high school students. Additionally, the budget proposal would increase support for [Striving Readers](#), support the development of assessments for all high school students in reading and mathematics, accelerate mathematics learning through competitive grants under the [Mathematics and Science Partnerships](#) program, increase student access to the [Advanced Placement](#) program, and increase the number of states implementing the [State Scholars](#) program.

**Goal 2: More About the First Key Result**

**Trends in Average Reading Scale Scores on the NAEP Long-Term Trend Assessment**  
By Age From 1971 to 2004



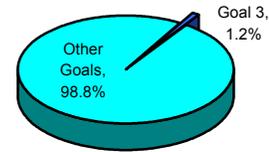
\* Significantly different from 2004.

Source. U.S. Department of Education, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 1971–2004 Long-Term Trend Reading Assessments.

## Goal Overviews

### Goal 3: Develop Safe and Drug-Free Schools

To meet the universal student achievement goals of *No Child Left Behind*, schools must be safe and drug free. Without a safe and orderly learning environment, teachers cannot teach, and students have difficulty learning. Given the myriad causes of violence and drug prevalence in schools, educators must consider policies and approaches to ensure a supportive learning environment for every student. The Department administers programs that provide financial help and information to states, districts, and schools for implementing effective programs and strategies for the prevention of substance abuse and violence.



#### Key Results for Goal 3

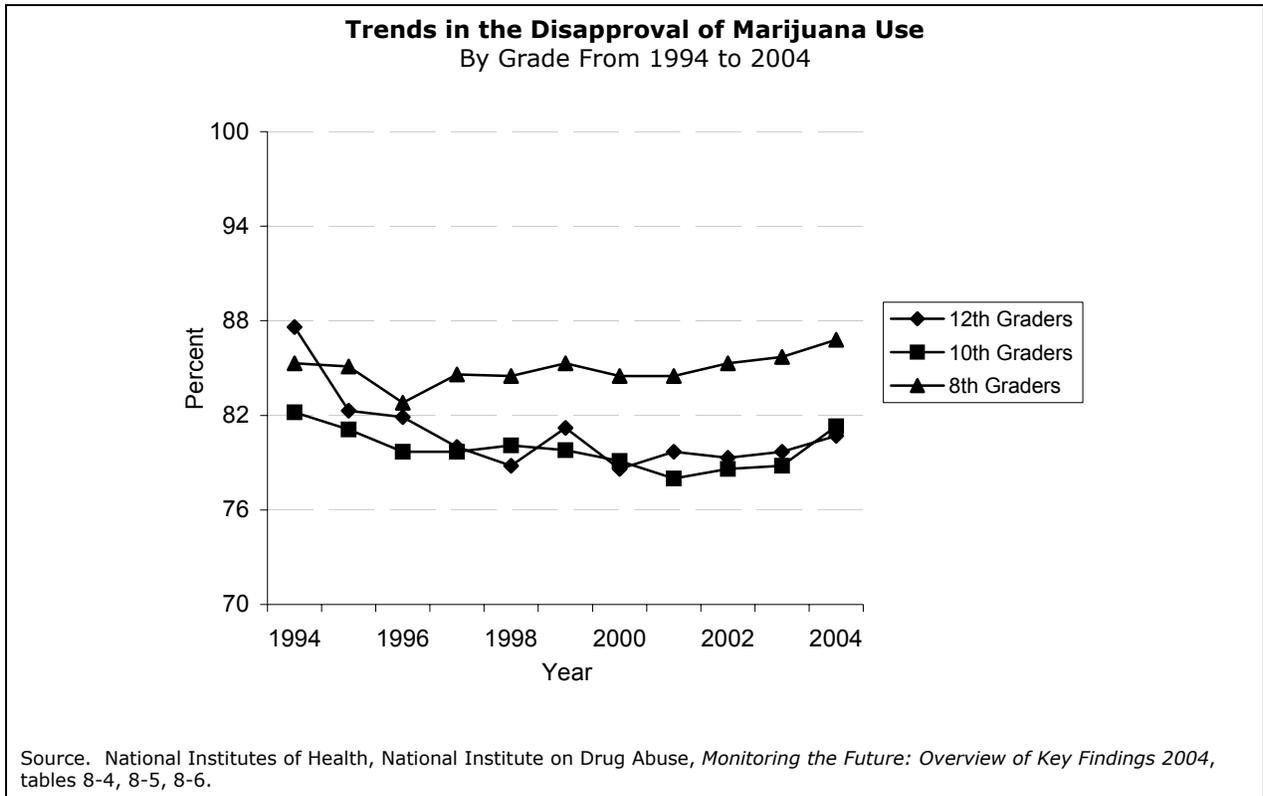
- Recent data from two ongoing comprehensive surveys, the Youth Risk Surveillance System and Monitoring the Future, show overall decreases in reported marijuana use despite little change in the reported availability of the drug. The Monitoring the Future survey also reported increased perceived drug use risk and disapproval among 8th-, 10th-, and 12th-grade students from 2002 to 2004. [See graph for disapproval of marijuana use.](#)
- Between 1993 and 2003, the percentage of students in grades 9–12 who reported being in a [fight on school property](#) declined from 16 percent to 13 percent.

#### Areas of Focus

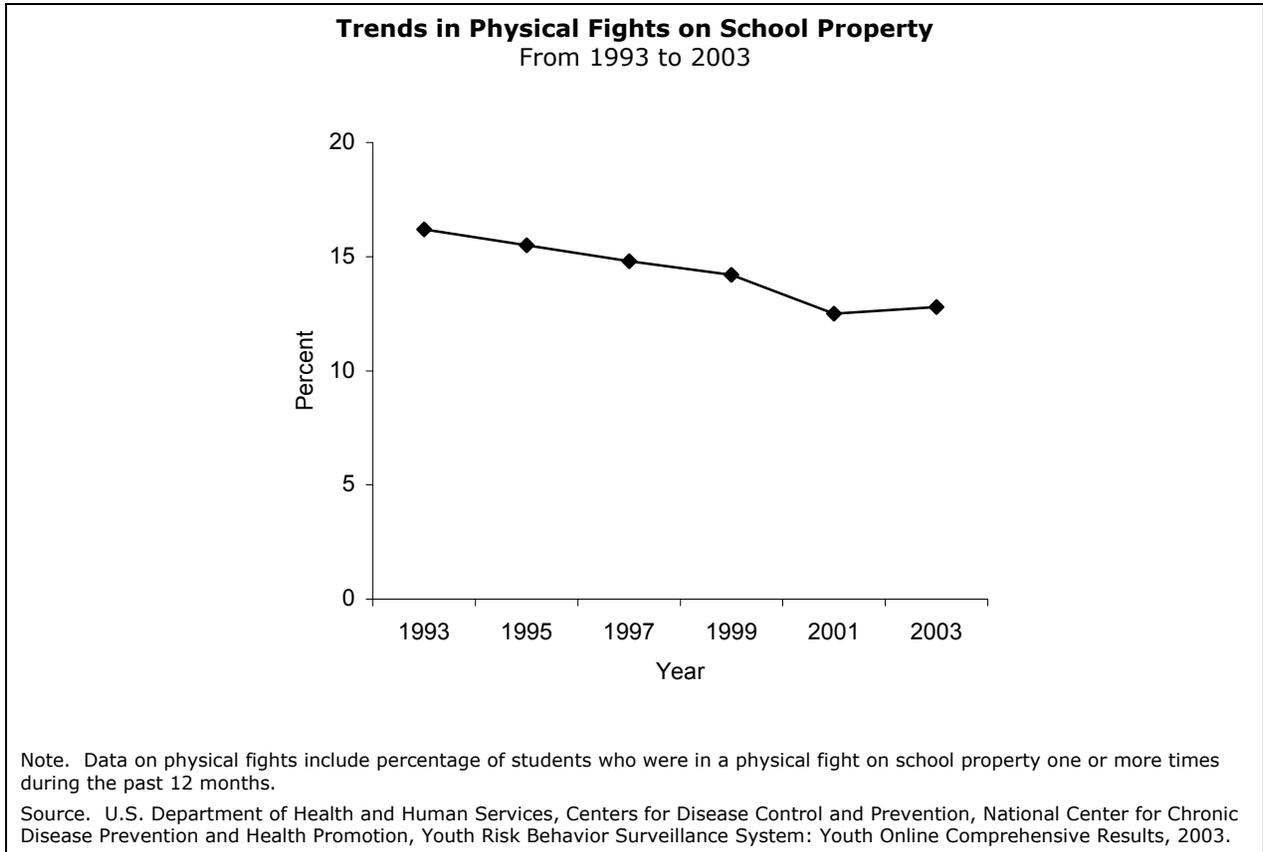
Because drug use and violence in schools is often influenced by health-related behaviors and external societal risk factors, each school requires specific information to implement prevention programs that address the health and academic needs of students. The Department has made several long-term investments to provide detailed information on drug use and violence to inform the implementation of prevention programs.

- Grantees under the Department's Grants to States to Improve Management of Drug and Violence Prevention Programs are expanding their capacity to collect, analyze, and use youth drug use and violence data to improve the quality of drug and violence prevention programs administered in the grantee's state.
- The Department's [What Works Clearinghouse](#) will conduct evidence-based reviews of violence prevention interventions in schools. Detailed information on the study topic, [Interventions to Reduce Delinquent, Disorderly, and Violent Behavior in Middle and High Schools](#), is available on the What Works Clearinghouse Web site.

Goal 3: More About the First Key Result



**Goal 3: More About the Second Key Result**

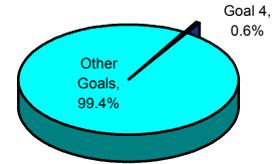


## Goal Overviews

### Goal 4: Transform Education Into an Evidence-Based Field

"[Data is our best management tool](#)," said Secretary of Education Margaret Spellings. In highlighting the importance of relevant research to the Department of Education, she continued, "I often say that what gets measured, gets done. If we know the contours of the problem, and who is affected, we can put forward a solution. Teachers can adjust lesson plans. Administrators can evaluate curricula. Data can inform decisionmaking."

During the past year, the Department continued to ensure the highest quality and relevance of research funded and conducted by the Department, so that ultimately the development and dissemination of research results informs and improves teacher instruction and student achievement.



#### Key Results for Goal 4

- The National Center for Special Education Research was launched in 2005 with the President's signing of the reauthorization of the *Individuals with Disabilities Education Act*. The center supports a program of research that addresses a wide range of issues in special education. In 2005, the center initiated a national study on alternate assessments. In addition to this evaluation, the center announced 10 special education research competitions.
- The Department's What Works Clearinghouse published a review of the available research on the effectiveness of curriculum-based interventions for improving mathematics achievement for middle school students. From a systematic review of published and unpublished research, the What Works Clearinghouse identified 10 studies that met the clearinghouse's standards of evidence. These studies examined the effects of five middle school mathematics interventions.

#### Areas of Focus

- In providing information on the condition and progress of education in the United States, the Department is committed to increasing the timeliness and quality of data collection and reporting. With timely and relevant results, the Department will ensure that practitioners, policymakers, and the public can promptly translate research results into educational practice and improvement.
- The What Works Clearinghouse topic reviews, which identify studies of the effectiveness of educational interventions will be expanded. The Department has begun reviewing studies in six new areas: beginning reading, character education, early childhood education, elementary school mathematics, English language learners, and dropout prevention.

#### Goal 4: More About the First Key Result

##### **The National Center for Special Education Research**

The [National Center for Special Education Research](#), one of four centers within the Department's [Institute of Education Sciences](#), supports a comprehensive research program to promote the highest quality and rigor in research on special education and related services, and to address the full range of issues facing children with disabilities, parents of children with disabilities, school personnel, and others.

The authorization for the National Center for Special Education Research occurred on December 3, 2004, with the President's signing of the reauthorization of the *Individuals with Disabilities Education Act*. The *Individuals with Disabilities Education Improvement Act of 2004* transferred the responsibilities for research in special education within the Department from our Office of Special Education and Rehabilitative Services to our Institute of Education Sciences.

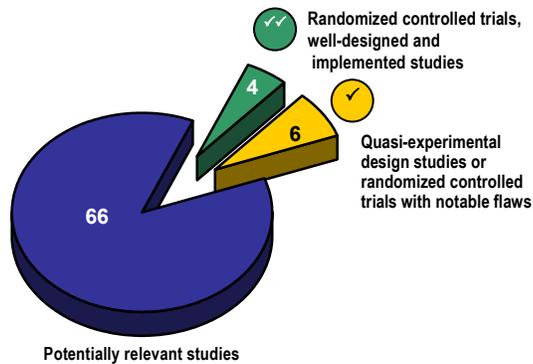
Highlights of the center's research initiatives include the following:

- A national study on alternate assessments, initiated in 2005, that will accomplish the following:
  - Produce assessment profiles of all states and a national summary profile.
  - Describe the characteristics of alternate assessments, processes of student placement, alignment with content standards, and uses of data; the state and local processes that facilitate or impede the implementation of alternate assessments, alternate achievement standards, and modified academic achievement standards; and consequences for students with disabilities.
  - Conduct a quantitative analysis of the relationships between variables in alternate assessment systems and student outcomes.
- Announcement of 10 special education research competitions for 2006, designed to address assessment, early intervention, teacher quality in reading and writing, teacher quality in mathematics and science, language and vocabulary development, individualized education programs, behavior problems, and secondary and postsecondary transitions.

**Goal 4: More About the Second Key Result**

**What Works Clearinghouse [Review of Research on Middle School Math Curricula](#)**

The What Works Clearinghouse review examined available evidence from research conducted since 1983 on the effectiveness of curriculum-based interventions for improving mathematics achievement for middle school students. From a systematic search of published and unpublished research, the clearinghouse identified 10 studies of the effects of five middle school math interventions that met clearinghouse standards of evidence.



Source. U.S. Department of Education, Institute of Education Sciences, What Works Clearinghouse, *Middle School Math Curricula Topic Report*, 2005.

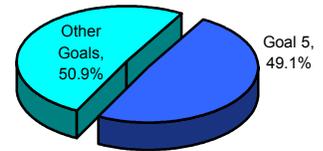
## Goal Overviews

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

["We have a responsibility to make sure our higher education system continues to meet our nation's needs for an educated and competitive workforce in the 21st century."](#) ... Throughout our history, we've

answered the call to extend the promise of higher education to more Americans." Secretary Margaret Spellings's remarks reinforce the Department's focused efforts to enhance the quality of and access to postsecondary and adult education. Postsecondary and adult education continues to provide a means by which Americans can acquire literacy skills, prepare for jobs, and become better-informed citizens.

A recent [national survey](#) commissioned by the [Job Shadow Coalition](#) shows that 70 percent of teenagers believe that they need higher education to achieve the American dream. Considering that [more than two-thirds of new jobs require some postsecondary education](#), the Department's achievements in improving postsecondary and adult education in America benefit students and encourage successful life outcomes.



#### Key results for Goal 5

- [Postsecondary completion rates](#) rose significantly from 1970 to 2004, indicating increased access to and persistence in pursuing a postsecondary education. While figures show that white adults aged 25–29 are more likely to have earned a bachelor's degree or higher than minority adults, [trends](#) for black and Hispanic adults also show an increase in degree attainment.
- Fiscal management has improved in the Department's postsecondary aid programs. In 2005, our student financial aid programs were removed from the [Government Accountability Office list](#) of high-risk programs.

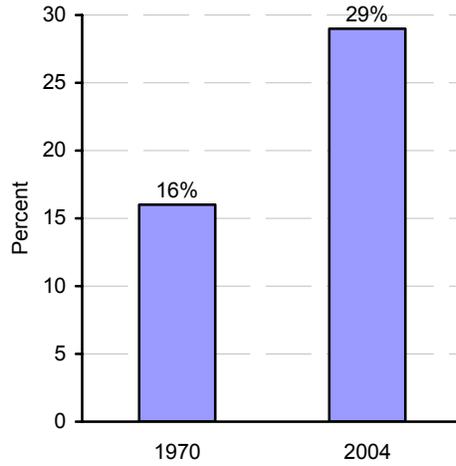
#### Areas of Focus

In 2005, we formed the Secretary of Education's Commission on the Future of Higher Education to focus on the improvement of the nation's postsecondary education system. The new commission is charged with developing a comprehensive national strategy for postsecondary education to meet the needs of America's diverse population and to address the economic and workforce needs of the country's future.

The Department began the first phase of a pilot test of the use of efficiency measures to improve program performance in the TRIO Student Support Services program. The results of analyses are expected to provide project directors with information that will guide projects and the program toward adopting best practices and making other program improvements. Other changes in TRIO include better integration across TRIO programs to provide continued services to participants as they transition from high school to college and beyond.

**Goal 5: More About the First Key Result**

**College Completion for 25- to 29-Year-Olds**  
For 1970 and 2004

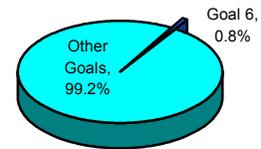


Source. U.S. Department of Education, National Center for Education Statistics, *Youth Indicators, 2005*, p. 49.

## Goal Overviews

### Goal 6: Establish Management Excellence

To make high-quality education a reality for as many Americans as possible, the Department must deploy our financial and intellectual resources for maximum impact. Achieving such an impact requires continued demonstration of superior fiscal management, commitment to developing highly skilled Department staff, and constant improvements in program performance. These are the keys to establishing management excellence.



The Department has earned the public's confidence with four consecutive clean financial statement opinions, strong customer satisfaction in student financial aid services, improved risk management to reduce improper payments in major programs, and the development of performance-oriented criteria to reward our employees. The Department has also made significant strides in improving program performance and has played a leading role in federal initiatives to improve electronic access to government services and grant opportunities.

#### Key Results for Goal 6

- The Department earned the prestigious [President's Quality Award](#) for improved financial performance.
- Department efforts to encourage repayment of Federal Direct Student Loans and Federal Family Education Loans helped the two loan programs realize the [lowest cohort default rate](#) in the Department's history.

#### Areas of Focus

In 2006, we will increase the number of our programs that demonstrate proven effectiveness, encourage novice applicants to apply in larger numbers to our discretionary grant competitions, and sustain our previous accomplishments for another year.

## Financial Highlights

The Department's strategic plan commits us to management excellence and overall financial improvement in concert with an increased focus on academic performance. The Department earned a fourth consecutive unqualified audit opinion from independent auditors. American taxpayers and other readers of our financial statements can rely on the information presented, accurately informed of the status of the Department's financial position and the stewardship of our assets.

Solid management controls sustain an unqualified audit opinion and ensure effective stewardship of assets. The Department recognizes the need for accountability, and management supports the framework necessary to derive superior results.

The Department continues to review existing internal controls and implement changes where necessary. In accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, the Department will be enhancing the review, assessment, and testing of our internal controls in fiscal year 2006.

- [Lines of Business](#) (See p. 43.)
- [Financial Position](#) (See p. 44.)
- [Future Trends](#) (See p. 46.)
- [Management Challenges Overview](#) (See p. 49.)
- [Improper Payments Overview](#) (See p. 52.)
- [Management Assurance](#) (See p. 54.)

## Lines of Business

The Department managed a budget of \$73 billion in fiscal year (FY) 2005, of which 52 percent supported elementary and secondary programs and grants. Postsecondary grants and administration of student financial assistance accounted for 41 percent, including programs that helped nearly 9.4 million students and their parents to better afford higher education during FY 2005. An additional 5 percent went toward other programs and grants encompassing research, development, and dissemination, as well as rehabilitation services. The remaining 2 percent of our appropriations was directed toward administrative expenditures.

Nearly all our appropriations, 98 percent in FY 2005, support three primary lines of business—grants, administration of guaranteed loans, and administration of direct loans. The original principal balances of the Federal Family Education Loans and Federal Direct Student loans, which comprise a large share of federal student financial assistance, are funded by commercial bank guarantees and treasury borrowings.

### Grants

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

The Department's three largest grant programs, Title I grants for elementary and secondary education, Pell grants for postsecondary financial aid, and Special Education Grants to States under the *Individuals with Disabilities Education Act*, each exceeded \$10 billion in appropriations for FY 2005.

### Guaranteed Loans

The Federal Family Education Loan Program makes loan capital from more than 3,200 private lenders available to students and their families. Through 35 active state and private nonprofit Guaranty Agencies, the Department administers the federal loan guarantee program to protect lenders against losses related to borrower default. As of the end of September 2005, the total principal balance of outstanding guaranteed loans held by lenders was approximately \$289 billion, with the government's estimated maximum exposure being \$288 billion.

### Direct Loans

The Federal Direct Student Loan Program, created by the *Student Loan Reform Act of 1993*, provides an alternative method for delivering assistance to U.S. students that uses Treasury funds to provide loan capital directly to schools. The schools then disburse loan funds to students. As of September 30, 2005, the value of the Department's direct loan portfolio is \$95.7 billion.

## Financial Position

The Department's financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of Ernst & Young, LLP. FY 2005 financial statements and footnotes appear on pp. 207–244.

### Balance Sheet

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

The Balance Sheet displayed on p. 207 reflects total assets of \$186.6 billion, an 8 percent increase over FY 2004. This increase is attributable to increased funding related to the continuing implementation of *No Child Left Behind* and the anticipated steady growth of student financial assistance programs.

Intragovernmental liabilities constitute 77 percent of the Department's total liabilities. Our intragovernmental liabilities consist mainly of Treasury debt, which is directly related to the Department's focus on ensuring that funds are available for any student desiring a postsecondary education.

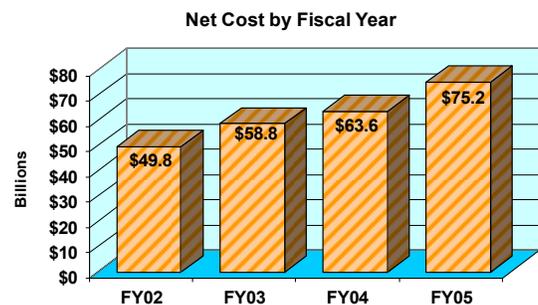
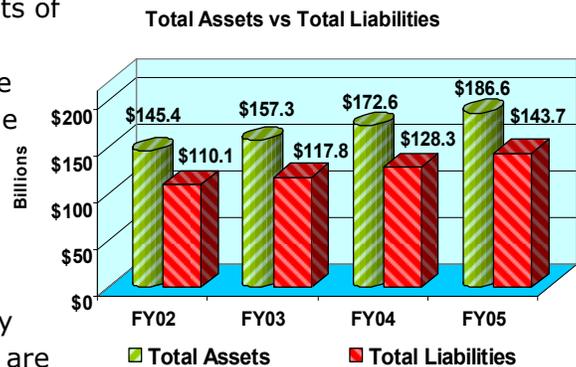
Liabilities for Loan Guarantees increased by 31 percent, which is related to assumption changes for loan maturity term and consolidation loan volume.

Several factors influenced the change in the Department's Net Position in FY 2005. These include the timing of the execution of prior year subsidy re-estimates for federal student loan programs and the overall management of the Department's capital structure. Net Position decreased by 3 percent from FY 2004.

### Statement of Net Cost

The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Statement of Net Cost is presented to be consistent with the Department's strategic goals, as directed by the *President's Management Agenda*. The Department's total program net costs, as reflected on the Statement of Net Cost, p. 208, are \$75.2 billion, an 18 percent increase over FY 2004.

The Enhancement of Postsecondary and Adult Education (Program A), which tracks with the Department's funding for Strategic Goal 5, experienced a 26 percent increase in costs from FY 2004 largely due to assumption changes for loan maturity term and consolidation loan volume. Program B is representative of creating a culture of achievement, culture of student achievement and safe schools, tracking with Goals 1, 2, 3. Program C, the transformation of education aligns with Goal 4. Combined Programs B and C experienced a



13 percent cost increase in FY 2005. This tracks with increased funding for these programs and related distribution of funds to grantees.

### **Statement of Budgetary Resources**

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

The statement displayed on p. 210 shows that the Department had \$154.1 billion in budgetary resources for the year ended September 30, 2005. Of the \$25.0 billion that remained unobligated at year end, \$24.4 billion that represents funding provided in advance for activities in future periods was not available. The Department had \$69.8 billion in Net Outlays for FY 2005.

### **Statement of Financing**

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

This statement, displayed on p. 211 identifies \$72.9 billion of resources used to finance activities, \$2.1 billion of resources not part of the net cost of operations, and (\$0.2) billion of components of net cost of operations that will not require or generate resources in the current period.

## Future Trends

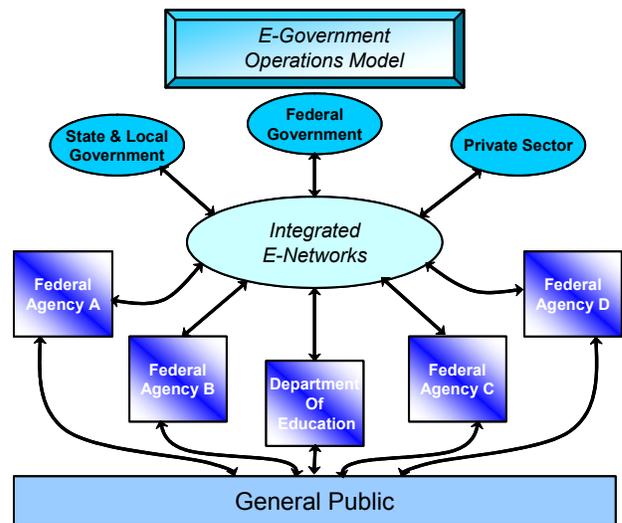
From a financial management perspective, the Department of Education is unique among federal government agencies. We must manage, consolidate, and account for more than 230 appropriations. Among the 16 Cabinet-level departments, we maintain the smallest number of employees while managing the third-largest discretionary budget.

A continuation of current downward trends in full-time equivalent staff will result in a critical reliance on a sound intellectual capital plan. The Department must increasingly coordinate strategic technology investments with human capital management.

### Technology Transformation

Technology improvements will continue to empower organizations in the future by increasing the availability of a critical resource: time. These improvements will enable executive management to devote additional time to policy analysis and decisionmaking rather than the manual processing and compiling of key data. The Department benefits at an increasing rate from the maturing of investments in systems and e-government.

Major Department investments include a reimplementation of the existing financial accounting system and full participation in ongoing federal e-government initiatives. The adjacent chart depicts our vision of the e-government operational model that highlights electronic information-sharing capabilities via data networks.



This unified data network will create public value by optimizing government operations and providing effective oversight, coordinating strategic technology investment planning with human resource management and planning governmentwide.

We are currently in the process of completing a study to determine the best approach to migrating to a center of excellence or becoming one. This analysis will be completed by the end of the first quarter of fiscal year 2006.

### Human Capital Transformation

A results-oriented enterprise requires that an organization clearly identify and achieve viable results. The Department of Education's *Results Agenda* clearly articulates this expectation, enabling Department personnel to understand how they will be held accountable for performance. Our employees also understand how their achievements align with and contribute to our mission.

The Department continued the implementation of a human capital management plan that was launched in FY 2004. Our plan integrates human capital management, competitive sourcing,

restructured business processes, and other Departmental strategic infrastructure investments. Future actions to meet challenges within our principal offices will include:

- Improving clarity of results in employee's performance standards (targeted to specific principal office goals and objectives).
- Linking employee awards to performance.
- Training supervisors/managers in assessment of employee performance and techniques for improving management practices.
- Improving communication and techniques to foster a team culture.
- Conducting appropriate forums to obtain employee perspectives on motivation, commitment, and productivity, implementing strategies based on information gathered.

The Department's continued commitment to human capital transformation will result in a more robust, cost-effective business environment and a better return on taxpayer investment.

### **Economic Transformation**

Tuition costs and interest rates will continue to have significant effects on the Department. Increasing tuition costs for postsecondary education should compel a greater number of individuals to seek tuition assistance in the form of loans or grants.

Rising interest rates have driven a surge in the refinancing and consolidation of student loans. Variable student loan interest rates were reset on July 1, 2005, increasing nearly two percentage points from 3.37 percent for academic year 2004-05 to 5.30 percent for academic year 2005-06. In anticipation of this increase, private lenders, schools, and others encouraged borrowers to consolidate their existing variable rate loans into fixed rate loans. This resulted in an unprecedented surge in loan consolidations, leading to substantially higher volume than the previous fiscal year. Based on preliminary data, projected cohort-year 2005 consolidations will approximate \$68.5 billion, \$24.8 billion above the fiscal year 2006 *President's Budget* estimate.

Fiscal year 2005 direct consolidation loan volume is estimated at \$17.7 billion. These consolidations are comprised of underlying direct loans, guaranteed loans, and, to a much lesser extent, defaulted guaranteed loans in repayment. In disbursing a direct loan consolidation, the Department pays in full the holders of the underlying loans.

Fiscal year 2005 FFEL consolidation loan volume is estimated at \$50.8 billion. These consolidations are primarily from guaranteed loans in repayment and some direct loans (in most cases from borrowers with loans from both programs). Under current projections, the prepayment of the underlying FFEL loans produces significant savings through the elimination of future special allowance payments.

The devastation of Hurricanes Katrina and Rita will impact the Department and the federal government for many years to come. These catastrophic storms have left the Gulf Coast area without many teachers, students, or functional schools or universities. The Department has provided immediate assistance to schools and displaced persons. During the recovery process, we will ensure that students, teachers, and educational institutions receive assistance as needed. Due to the uniqueness of this disaster, financial estimates cannot be made of the type or timing of assistance that will be required. However, the Department has financial management controls in place to ensure that federal funds are disbursed quickly and appropriately.

### **Regulatory Transformation**

Governance, risk management, and compliance activities increasingly interact with one another, requiring sustained management commitment to achieve organizational excellence in all three areas. The Department's future success is highly dependent on the successful convergence of these activities into a coherent strategic operating model.

Focus on the regulatory environment requires the Department to identify and control compliance risk, which includes systemic, nonsystemic, and residual components. We mitigate the risk of impairment to our operations model, reputation, and financial condition by seeking to comply fully with laws and regulations, internal controls, and taxpayer expectations.

The Department is taking a holistic approach to total risk management, the value of which far exceeds the costs of implementation. Senior management is making investments to comply with relevant regulations, to manage the costs associated with compliance, and to identify and address regulatory change.

Operational effectiveness meetings were held twice during FY 2005 with each Department principal office that oversees federal education programs. Senior staff of the Offices of the Deputy Secretary, Under Secretary, Chief Financial Officer, and Chief Information Officer, along with the Office of Management, met with senior principal office leaders to review and evaluate management operations in the areas of customer service, quality and innovation. Principal office managers presented evidence of their offices' performance from historical, current, and future perspectives. These meetings facilitated the sharing of best practices across the Department, and any necessary principal office corrective actions are tracked on a continuous basis.

Our progressive focus will ensure that fewer resources are necessary for remediation activity.

## **Management Challenges Overview**

The Office of Inspector General has identified the Department's major challenges, which are included on pp. 282-288 of this document. Following is management's discussion and analysis of those challenges.

### **I. Program Accountability**

**Student Financial Assistance.** Continued developments in the modes of education delivery (e.g., nontraditional terms, distance education) and virtual paperless electronic delivery of program funds brings new challenges to ensure adequate oversight to identify and manage risks. The Office of Federal Student Aid must provide adequate program monitoring to reduce fraud and abuse in these programs.

In December 2004, OIG and FSA representatives initiated the OIG/FSA Joint Fraud Initiative—a proactive approach to identify and reduce fraud and abuse in federal student financial assistance programs.

**Risk Management of Elementary and Secondary Education Programs.** Identifying and taking corrective action to detect and prevent fraudulent activities in these programs, as well as addressing accountability and compliance issues by program participants, remains a challenge for the Department.

The Department has made risk assessment a priority. Its interoffice Risk Management Team, under the leadership of the Under Secretary, is undertaking projects to address accountability and compliance issues, as identified by Office of Inspector General audits, referrals, and single audits conducted by nonfederal auditors. It works with program offices to designate grantees as "high risk" when the situation warrants and has dedicated a weekly meeting to risk management issues. In addition, the Department has sent multidisciplinary teams into key locations, as identified through Office of Inspector General audits, to review and assess the progress the "high-risk" entity is making in addressing its weaknesses.

#### **Unsolicited Grants**

Unsolicited grants are awards made by the Department, in most cases, as a result of grantee initiative. Such awards do not result from formal Department solicitations for applications. Complications can arise with unsolicited grants, as many recipients of these funds tend to be first-time participants in federal education programs. They are often unfamiliar with applicable regulations and require additional direction, guidance and support with the compliance processes.

Like unsolicited grants, Congressional earmarks do not result from formal solicitations for applications. The Department is required to ensure that recipients of its funds use them in accordance with applicable laws and regulations. However, the Department has stated it does not have enough staff to administer and properly monitor the recipients of Congressional earmarks. It should be noted that some grant projects that begin as unsolicited grants receive Congressional earmarks in subsequent years.

The Department plans to develop a toolkit to help new grantees properly administer their grant programs and to continue to re-engineer its grants monitoring process.

**Data Reliability.** Data reliability is both a compliance issue and a performance issue. The Office of Inspector General has performed a number of audits of Title I, Part A, and the *Carl D. Perkins Vocational and Technical Education Act* education programs and concluded that management controls must be strengthened to ensure that data submitted to the Department are complete, accurate, and reliable.

Recognizing the need to improve data quality and data reliability, the Department in FY 2003 launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network database, anticipated for launch in fiscal year (FY) 2006, will provide state educational agencies and the federal government the capacity to transfer and analyze information about education programs. The new database should generate a more reliable, timely, and uniform set of state and local data elements to help the Department make better-informed program decisions.

## II. Operations Accountability

**Information Technology (IT) Capital Investment.** The Department faces challenges in improving its capital planning and investment control oversight, and in using software designed to help agencies manage and control their initiatives.

Many critical IT projects are pending, such as the Oracle 11i project. In 2004, the Office of the Chief Financial Officer and the Office of Federal Student Aid announced plans to consolidate their separate platforms into one functional financial management system, using version 11i of Oracle Federal Financials, by October 2006. However, in February 2005, they decided to forego this consolidation. Although this decision is bound to mitigate significant risks associated with the consolidation and changes in interfacing systems, the initiative is still quite complex and high risk.

For its more complex and costly IT projects, the Department has contracted to have independent, professional consultants provide an assessment as a part of the capital investment process. The Department has made an effort to better articulate the relationship between IT projects and its line of business.

**IT Systems.** The Department needs to adequately manage and safeguard IT assets and meet e-government requirements. Its 60 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to complete the development of well-defined enterprise architecture, practice sound system analysis and design concepts, and ensure that a robust system acquisition and development life cycle methodologies are in place.

The Department has embarked on several modernization efforts that have the potential to increase business efficiency and improve customer service. It is moving forward with its ongoing system development and consolidation efforts planned for FY 2006. It has also devoted time and resources to enhance security for its systems, including formally certifying all of its general support systems and major applications.

**Procurement.** The Department must improve its procurement process to ensure that it is receiving quality goods and services in accordance with the contract terms. The Department needs to use pre-award audits, strengthen its ability to clearly and completely define contract requirements thereby ensuring effective communication between relevant contracting and program

office personnel, and ensure that contractors are performing in accordance with contract terms and conditions to meet this challenge.

In 2005, the Secretary directed the Chief Acquisition Officer and Contracts and Acquisition Management Director to develop a training program reinforcing the Department's contracting processes and applicable laws and regulations. Senior managers, contracting personnel, and relevant program office personnel will be required to attend this training. The Secretary has also directed each principal officer leading a program office to take immediate steps and personal responsibility for ensuring contracts are awarded properly and effectively monitored, and has designated a senior advisor reporting directly to her to oversee transformation activities to ensure effective investing and risk management of contracts.

**Human Capital Management.** Like most federal agencies, the Department will see a significant percentage of its work force eligible for retirement in 2006. The Department is also continuing to see a significant change in critical skill requirements for many of its staff. Identification of needed action steps and their prompt implementation to adequately address work force and succession planning issues are critically important.

The Department has begun implementation of a new Human Capital plan that was released in 2004. This fiscal year the Office of Federal Student Aid (FSA), with the aid of a consultant, also developed its own Human Capital plan. The FSA plan specifically focuses on the needs of FSA and is intended to help FSA attract and retain a highly skilled and motivated workforce.

## Improper Payments Overview

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

**Student Financial Assistance Programs.** The Department's Office of Federal Student Aid (FSA) operates and administers the majority of the Title IV Student Assistance programs authorized by the *Higher Education Act of 1965*, as amended. Within these programs, we are identifying activities that are susceptible to significant improper payments. We are also reporting estimates of the annual amount of improper program payments and implementing plans to reduce improper payments.

Eligibility for Title IV student aid is determined exclusively through applicant self-reported income, family size, number of dependents in college, and assets. These data are reported through the Free Application for Federal Student Aid (FAFSA), which applicants typically complete prior to the April 15 Internal Revenue Service (IRS) tax filing deadline.

FSA has undertaken a statistical study in which financial data from a random sample of FAFSA submissions are compared to financial data reported to the IRS in annual income tax filings. Analysis of the study indicates that inaccurate reporting of income, family size, number of dependents in college, and assets may be the primary cause of improper payments within the Title IV programs. However, legislation does not currently permit FSA to verify 100 percent of the FAFSA income data with the IRS.

In pursuit of the goals of the *Improper Payments Information Act*, the Department has been working closely with the Office of Management and Budget to consider other alternatives. We are developing an action plan designed to improve the accuracy of the improper payment estimates and reduce the level of risk and the amount of improper payments in the student financial assistance programs.

### Title I Programs

The Department performed a risk assessment of the *Elementary and Secondary Education Act* Title I Program, parts A, B, and D, during FY 2005. The assessment documented that the risk of improper payments under current statutory requirements is very low. In order to refine the process for assessing risk in the program, the Department implemented a monitoring plan to review all states and territories receiving Title I funds within a three-year review cycle. The first three-year monitoring cycle began in FY 2005, and the Office of the Chief Financial Officer is participating with the Office of Elementary and Secondary Education in the monitoring process to provide technical support regarding fiduciary compliance.

A major fiduciary monitoring element involves the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under the U.S. Department of Agriculture (USDA) National School Lunch Program, for this purpose. In many districts, these data are the only indicator of poverty available at the individual school level.

USDA has raised concerns about the reliability of these data. USDA is working with states and localities to improve program integrity, within the existing statutory and regulatory framework,

through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

### **Remaining Grant Programs**

During FY 2005, the Department instituted a more detailed risk assessment of all other grant programs. We established a memorandum of understanding with the Department of Energy's Oak Ridge National Laboratory which performed data-mining on information available in the Federal Audit Clearinghouse's Single Audit Database, the Department's Grant Administration and Payment System, and the Department's Audit Accountability and Resolution Tracking System. Given scarce resources, we decided to use the results of the thousands of single audits already being performed by independent auditors on grant recipients.

The Department sought to develop a methodology to produce statistically valid improper payment estimates that could be applied uniformly across non-FSA grant programs. This approach establishes a level of quality control for all programs while simultaneously producing a cost-effective measure.

The Department's Office of Inspector General raised concerns following the Oak Ridge study on what constituted a "program." The study's original definition was at a program group level in order to effectively match anticipated outlays as defined in our budget submissions. However, calculating estimated improper payment error rates at that level can effectively mask the potentially higher rates that might exist if "program" is defined to mean the individual program level. For this reason, the Department is considering having Oak Ridge perform the next risk assessment at an individual program level.

### **Recovery Auditing Progress**

To effectively address the risk of improper administrative payments, the Department executed a formal agreement for recovery auditing work on contract payments. All vendor payment transactions made from FY 1998 through FY 2004 were reviewed. Potential recoveries are minimal. FY 2005 payments will be reviewed during FY 2006.

Our purchase and travel card programs remain subject to monthly data-mining to identify potential misuse or abuse.

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

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

To comply with the *Improper Payments Information Act of 2002* the Department is focused on identifying and managing the risks of improper payments and is mitigating risk with adequate control activities. By implementing our current and anticipated actions, we will effectively reduce improper payments throughout the Department.

The Other Accompanying Information section of this report contains additional details of the Department's activities related to the reduction of improper payments.

## Management Assurance

The Department of Education is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. Management, administrative, and financial system controls have been developed to ensure the following:

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

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

### **Federal Managers' Financial Integrity Act**

During fiscal year (FY) 2005, in accordance with the requirements of the *Federal Managers' Financial Integrity Act (FMFIA)* and using the guidelines of the Department and the Office of Management and Budget, we reviewed our management control system. The objectives of our management control system are to provide reasonable assurance that the following occur:

- Our obligations and costs are in compliance with applicable laws.
- Our assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for; to permit the preparation of accounts and reliable financial and statistical reports; and to maintain accountability over assets.
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

#### **Statement on Management and Financial Controls**

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

—Margaret Spellings  
Secretary of Education

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

primary basis for the Department's assurance that management controls are adequate. The assurance statements are based upon each principal office's evaluation of progress made in correcting any previously reported problems; new problems identified by the Office of Inspector General, the Government Accountability Office, and other management reports; and the management environment within each principal office. Department organizations that have material weaknesses identified are required to submit plans for correcting those weaknesses. The plans, combined with the individual assurance statements, provide the framework for continually monitoring and improving the Department's management controls.

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

**FMFIA Section 4, Financial Management Systems.** All of the 95 financial management systems nonconformances identified since the inception of *FMFIA* have been corrected and closed.

**Federal Financial Management Improvement Act.** The Secretary has determined that the Department is in compliance with the *Federal Financial Management Improvement Act (FFMIA)*, although our auditor has identified instances of which the Department's financial management systems did not substantially comply.

We are cognizant of our auditors concerns relating to instances of non-compliance with FFMIA as noted in the Compliance with Laws and Regulations Report located on p. 275 of this report, we continue to strengthen and improve our financial management systems.

However, since our last FFMIA report, the Department has continued to invest a considerable amount of time, effort and resources in assessing and strengthening the security controls protecting its information and information resources. As a result of these assessments, the Department has learned that certain vulnerabilities identified by OIG and our auditors in this year's reports were previously accepted on an enterprise-wide basis by the Department's Designated Approving Authorities, Certifier and Government Technical Expert, supported by the recommendation of the Department's Independent Verification and Validation Management Committee (IV&V MC).

The IV&V MC prescribes five basic tenets in the acceptance of any individual vulnerability:

1. It is not technically feasible to correct the vulnerability.
2. It is cost prohibitive to correct the vulnerability.
3. Correcting the vulnerability will result in the loss of system or application functionality.
4. In the context of the Common Vulnerabilities and Exposures definition, the vulnerability is more correctly identified as a security exposure.
5. All accepted vulnerabilities or security exposures must demonstrate that compensating security controls are in place and are operating as intended.

To this end, the Department has come to understand its risk management responsibilities. The Department has made a well-informed and documented risk-based business decision to operate its networks, systems and applications in the presence of certain vulnerabilities and security exposures. This acceptance of risk is in keeping with the rules and principles governing a risk management program.

Furthermore, the Department fully understands the risks inherent in operating information resources in the presence of common vulnerabilities and security exposures. To assist in the management of the potential risks, the Department has implemented proactive processes to identify research, manage, remediate and monitor for vulnerabilities and security exposures. This remediation cycle can be an extended process for any particular vulnerability and as a result, at any given time as they await remediation, vulnerabilities may be present in any networked environment, including the Department's.