

Management's Discussion and Analysis



Mission and Organizational Structure

Our Mission

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

History. In 1867, the federal government recognized that furthering education was a national priority, and created a federal education agency to collect and report statistical data. The Department was established as a cabinet-level agency in 1979.

Our Public Benefit. In the nation, the Department is committed to ensuring that students develop the skills they need to succeed in school, college, and the workforce, while recognizing the primary role of states and school districts in providing a high-quality education, employing highly qualified teachers and administrators, and establishing challenging content and achievement standards. Internally, the Department is also setting high expectations for its own employees and working to improve management practices, ensure fiscal integrity, and develop a culture of high performance.

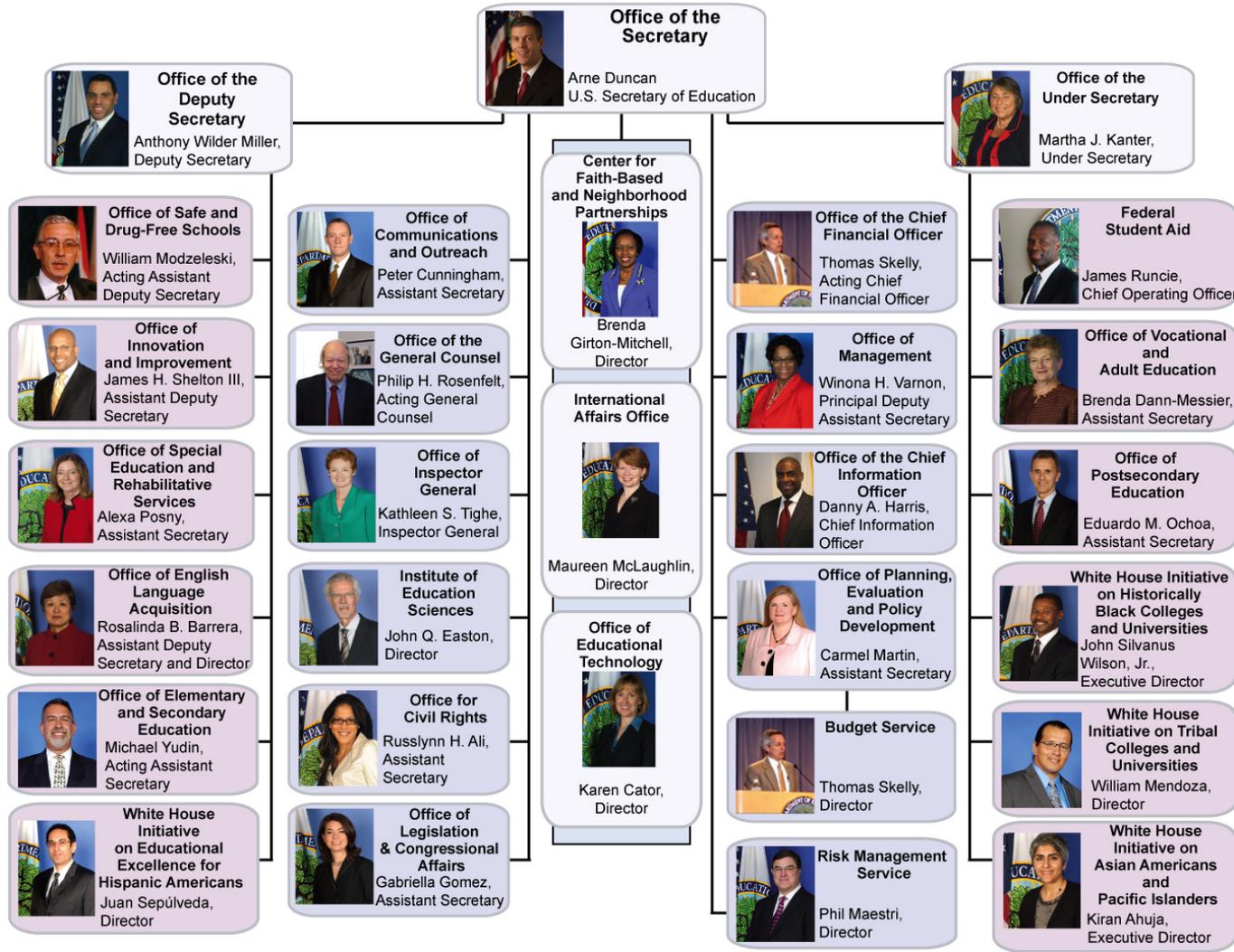
What We Do. The Department engages in four major types of activities: establishing policies related to federal education funding and administering distribution of funds and monitoring their use; providing oversight on data collection and research on America's schools; identifying major issues in education and focusing national attention on them; and enforcing federal laws prohibiting discrimination in programs that receive federal funds.

Who We Serve. During school year (SY) 2011–12, America's schools and colleges are serving larger numbers of students as the population increases and enrollment rates rise. As of the fall of 2011, more than 49.4 million students attend public elementary and secondary schools. Of these, 34.9 million are in pre-school through 8th grade; 14.5 million are in grades 9 through 12.

As of data published in early September 2011, expenditures for public elementary and secondary schools will be about \$525 billion for SY 2011–12, excluding capital and interest. The national average current expenditure per student is projected for SY 2011–12 at \$10,591, the same as actual expenditures in SY 2008–09. In fall 2011, a record 19.7 million students are expected to attend the nation's 2-year and 4-year colleges and universities, an increase of about 4.4 million since fall 2000.

Our Organization in FY 2011

The Required Supplementary Stewardship Information section of this report contains summary information about offices within the Department. Follow the link for more detail on how the Department is [organized](#) and the roles of the different offices, or view an [interactive chart](#) of current positions.



Department of Education Financial Highlights

The table below summarizes trend information concerning components of the Department's financial condition. The Consolidated Balance Sheet presents a snapshot of our financial condition as of September 30, 2011, compared to FY 2010, and displays assets, liabilities, and net position. Another component of the Department's financial picture is the Consolidated Statement of Net Cost. Each of these components is discussed in further detail in this section and in the Financial Details section of this report.

Financial Summary					
<i>Dollars in Millions</i>					
Consolidated Balance Sheet					
As of September 30, 2011, 2010, 2009, 2008					
	% Change 2011/2010	FY 2011	FY 2010	FY 2009	FY 2008
Fund Balance with Treasury	-14%	\$ 114,085	\$ 132,259	\$ 168,032	\$ 94,899
Credit Program Receivables, Net	+44%	530,491	367,904	234,254	134,725
Other	-44%	1,966	3,501	3,659	1,949
Total Assets		646,542	503,664	405,945	231,573
Debt	+46%	547,108	374,335	235,385	128,668
Liabilities for Loan Guarantees	-31%	10,025	14,479	20,543	43,322
Other	-24%	20,824	27,248	22,957	16,247
Total Liabilities		577,957	416,062	278,885	188,237
Unexpended Appropriations	-24%	71,729	94,371	127,269	49,506
Cumulative Results of Operations	-54%	(3,144)	(6,769)	(209)	(6,170)
Total Net Position		68,585	87,602	127,060	43,336
Total Liabilities and Net Position		\$ 646,542	\$ 503,664	\$ 405,945	\$ 231,573

Fiscal Year	Assets	Liabilities	Net Position
FY 2011	\$646.5	\$578.0	\$68.6
FY 2010	\$503.7	\$416.1	\$87.6
FY 2009	\$405.9	\$278.9	\$127.1
FY 2008	\$231.6	\$188.2	\$43.3

Consolidated Statement of Net Cost					
For the Years Ended September 30, 2011, 2010, 2009, 2008					
	% Change 2011/2010	FY 2011	FY 2010	FY 2009	FY 2008
Gross Cost	-23%	\$ 89,910	\$ 116,953	\$ 55,412	\$ 74,034
Earned Revenue	+18%	(20,397)	(17,279)	(11,251)	(9,217)
Total Net Cost of Operations		\$ 69,513	\$ 99,674	\$ 44,161	\$ 64,817

Federal Loan Programs

In FY 2011, the Department made \$116.1 billion in net student loans for postsecondary education to 11.5 million recipients. The *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* and became effective July 1, 2010, provided that no Federal Family Education Loan (FFEL) loans would be originated after June 30, 2010. As a result, there was a greater volume of direct loans in FY 2011. The transition from the FFEL Program to the William D. Ford Federal Direct Loan (Direct Loan) Program resulted in a 44 percent increase in Direct Loan Program disbursements for FY 2011.

Under the FFEL Program, students and parents obtained federal loans through lenders. Guaranty agencies insured these loans, which were, in turn, reinsured by the federal government. Although the passage of the *SAFRA Act* ended the origination of new FFEL Program loans as of July 1, 2010, lenders and guaranty agencies continue to service and collect outstanding FFEL Program loans.

The Federal Perkins Loan Program is one of three campus-based programs through which the Department provides loan funds directly to eligible institutions. Funds provided through this program enable the eligible institutions to offer low-interest loans to students based on need.

Key trends and conditions for the financial aid environment include:

- the rising cost of attendance for postsecondary education,
- a decline in availability of nonfederal sources of postsecondary education funding, and
- an increased role of the federal government in providing funding for postsecondary education.

For additional information on key trends and conditions for the financial aid environment and more on Federal Student Aid, see the Department's Federal Student Aid FY 2011 [Annual Reports](#).

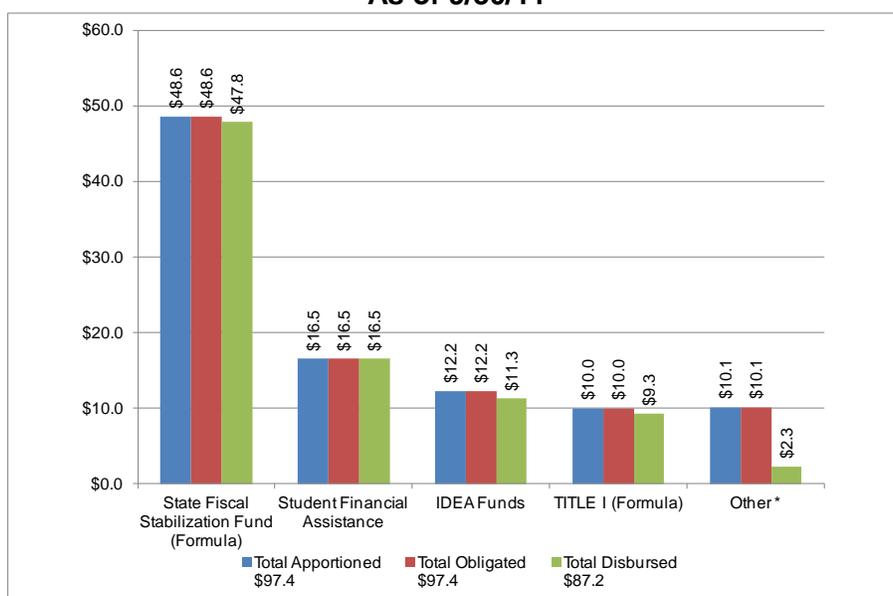
Loan Programs (dollars in millions)	2011 Aid Disbursed to Students	2010 Aid Disbursed to Students	Difference	Percent Difference
Federal Direct Loan Program	\$ 116,098	\$ 80,559	\$ 35,539	44%
Federal Family Education Loan Program	0	19,909	(19,909)	(100)%
Federal Perkins Loan Program	971	1,042	(71)	(7)%
Subtotal Loans	\$ 117,069	\$ 101,510	\$ 15,559	15%

SOURCE: Fiscal Year 2012 Budget Summary

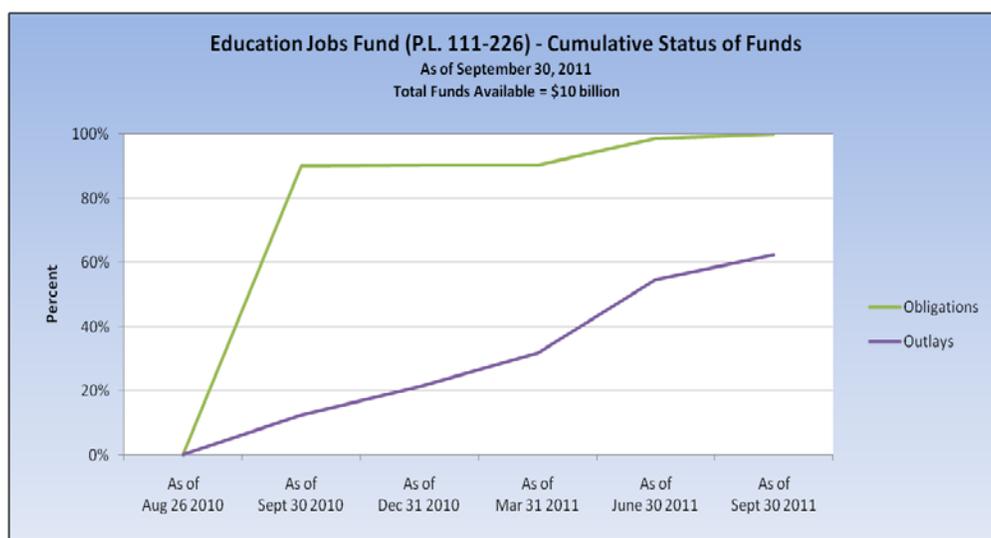
The American Recovery and Reinvestment Act of 2009 (Recovery Act) and Education Jobs Fund

The Recovery Act, enacted on February 17, 2009 as Public Law 111-5, provided funding to the Department for improving schools, raising students' achievement, driving reform, and producing better results for children and young people for the long-term health of the nation. Public Law 111-226, enacted on August 10, 2010, created the Education Jobs Fund, which provided funding to the Department to assist in saving and creating jobs for the 2010–11 school year. As of September 30, 2011, all of the \$97 billion Recovery Act and \$10 billion Education Jobs Fund monies have been fully obligated. Of those totals, 89.5 percent and 62.9 percent have been disbursed, respectively.

**Recovery Act Funding Summary (dollars in billions)
As of 9/30/11**



* The Other category includes funds for Impact Aid, Rehabilitative Services & Disability Research, School Improvement Programs, Higher Education, Investing in Innovation, Race to the Top, Institute of Education Sciences, the Teacher Incentive Fund, Student Aid Administration, School Improvement Grants, and Office of Inspector General.



Ongoing Initiatives for the Department

Recent actions by President Obama's Administration addressed two important challenges facing the nation during FY 2011, creating implementation challenges for FY 2012. The actions will:

- provide steps to [increase college affordability](#) by making it easier to manage student loan debt (October 25, 2011); and
- provide state educational agencies and local educational agencies with [flexibility](#) regarding specific requirements of the *Elementary and Secondary Education Act of 1965 (ESEA)*, as amended, in exchange for rigorous and comprehensive state-developed plans designed to improve educational outcomes for all students, close achievement gaps, increase equity, and improve the quality of instruction (September 23, 2011).

In FY 2012, the Department will focus on implementation of these actions, as well as awarding grants under the [Race to the Top-Early Learning Challenge](#), expanding an initiative to identify and learn from [top-performing teacher preparation programs](#), and addressing a wide range of [challenges](#) with initiatives that focus on meeting National Outcome Goals and Department Strategic Goals (See Performance Highlights).

[Loan Defaults](#)

On September 12, 2011, the Department released the most recently available student default rates. The official FY 2009 national student loan cohort default rate has risen to 8.8 percent, up from 7.0 percent in FY 2008. The cohort default rates increased for all sectors: from 6.0 percent to 7.2 percent for public institutions, from 4.0 percent to 4.6 percent for private nonprofit institutions, and from 11.6 percent to 15.0 percent at for-profit schools.

The rates represent a snapshot in time, with the FY 2009 cohort consisting of borrowers whose first loan repayments came due between October 1, 2008, and September 30, 2009, and who defaulted before September 30, 2010. More than 3.6 million borrowers from 5,900 schools entered repayment during this window of time, and more than 320,000 defaulted. Those borrowers who defaulted after the two-year period are not counted as defaulters in this data set.

"These hard economic times have made it even more difficult for student borrowers to repay their loans, and that's why implementing education reforms and protecting the maximum Pell grant is more important than ever," said [U.S. Secretary of Education Arne Duncan](#). "We need to ensure that all students are able to access and enroll in quality programs that prepare them for well-paying jobs so they can enter the workforce and compete in our global marketplace."

[ESEA Flexibility Authority](#)

To support local and state education reform across the nation, the Department is assisting state and local educational agencies in obtaining waivers from certain provisions of the *Elementary and Secondary Education Act (ESEA)*, as amended.

Under this flexibility authority, states can request waivers from specific mandates if they are making progress in transitioning students, teachers, and schools to a system aligned with college- and career-ready standards for all students, developing differentiated accountability systems, and undertaking reforms to support effective classroom instruction and school leadership.

ESEA flexibility focuses on supporting state and local reform efforts in three critical areas:

- transitioning to college- and career-ready standards and assessments;
- developing systems of differentiated recognition, accountability, and support; and
- evaluating teacher and principal effectiveness.

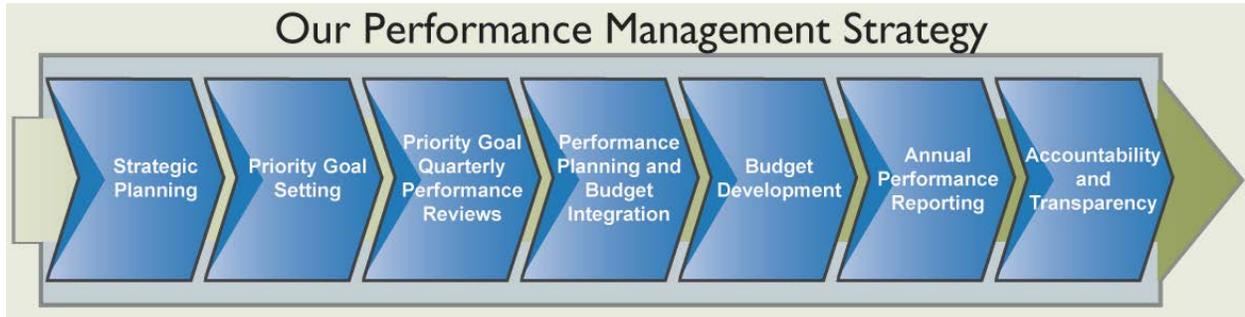
A state may request flexibility through waivers of several specific provisions, most notably:

- Flexibility regarding the 2013–14 timeline for achieving 100 percent proficiency in reading and mathematics by establishing ambitious but achievable goals and supporting academic improvement efforts.
- Flexibility regarding district and school improvement and accountability requirements that may over-identify schools as “failing” and enables the state to provide targeted interventions to the schools and districts that are the lowest performing and have the largest achievement gaps.
- Flexibility in the use of federal education funds that enables states to use several federal funding streams that best meet their unique needs.

To receive flexibility through these waivers, a state must develop a rigorous and comprehensive plan addressing three critical areas:

- A state must have adopted college- and career-ready standards in reading/language arts and mathematics and transition its schools and districts to those standards by administering statewide assessments.
- A state must develop systems of differentiated recognition, accountability, and support that give credit for progress towards college- and career-readiness by recognizing and rewarding the highest achieving schools that serve low income students and implement rigorous interventions to turn around the lowest-performing schools.
- A state must evaluate and support teacher and principal effectiveness by setting guidelines for teacher and principal evaluation and support systems using multiple measures including student progress over time.

Performance Highlights



GPRA Modernization Act of 2010

On January 4, 2011, President Obama signed into law the *GPRA Modernization Act of 2010*. The Act improves on the original *Government Performance and Results Act of 1993 (GPRA)* and modernizes the federal government's performance management framework. The *GPRA Modernization Act of 2010* builds on the performance management approach championed by President Obama to improve the effectiveness and efficiency of government by requiring that agency leaders set clear, ambitious goals for a number of outcome-focused and management priorities; federal agencies measure, analyze, and communicate performance information to identify successful practices; and agency leaders conduct in-depth performance reviews at least quarterly to identify progress on their priorities.

National Outcome Goals

The National Outcome Goals include the improvements in student achievement needed at every level of education to achieve the President's 2020 goal of once again having the highest proportion of college graduates in the world. Improving these outcomes will require a concerted effort from all stakeholders in the education system. These goals include outcomes in key areas:

- postsecondary education, career and technical education, and adult education,
- elementary and secondary education,
- early learning, and
- equity.

Department Strategic Goals

To meet the National Outcome Goals, changes are needed in how education is delivered. In President Obama's first address to Congress, he challenged America to meet an ambitious goal for education that by 2020, America will once again have the highest proportion of college graduates in the world. Investing in education means investing in America's future and is vital for maintaining our long-term economic security. The nation must work to ensure that all children and adults in America receive a world-class education that will prepare them to succeed in college and careers. The President's goal is the starting point for the work of the Department as described in its *FY 2011–2014 draft Strategic Plan*. Reaching the President's

goal will require comprehensive education reforms from cradle to career, beginning with children at birth, supporting them through postsecondary education, and helping them succeed as lifelong learners who can adapt to the constant changes in the technology-driven workplaces of the global economy. The draft Strategic Plan provides:

- A new emphasis on the importance of early learning.
- A commitment to ensuring that all students graduate from high school prepared to succeed in college and careers.
- An imperative for the Department to ensure that students have the support and information that they need to enter postsecondary education and earn a certificate, degree, or other credential.

The Department's draft Strategic Plan serves as a starting point from which to align the Department's yearly budget requests and statutory requirements with the Department's operational imperatives, and is the foundation for establishing overall long-term priorities and developing performance goals and measures by which the Department can gauge achievement of its stated outcomes. The plan is developed in collaboration with Congress, state and local partners, and other stakeholders.

Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education. Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults.

Goal 2: Elementary and Secondary Education. Prepare all students for college and career by improving the elementary and secondary education system's ability to consistently deliver excellent classroom instruction and supportive services.

Goal 3: Early Learning. Improve the health, social-emotional, and cognitive outcomes for all children from birth through third grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.

Goal 4: Equity. Ensure equitable educational opportunities for all students regardless of race, ethnicity, national origin, age, sex, disability, language, and socioeconomic status.

Goal 5: Continuous Improvement of the U.S. Education System. Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation, and technology.

Goal 6. U.S. Department of Education Capacity. Improve the organizational capacities of the Department to implement this Strategic Plan.

Department Priority Goals

The Department has identified a limited number of Priority Goals that will be a particular focus over the coming years. These Priority Goals reflect the Department's cradle-to-career education strategy, and will help concentrate efforts on the importance of teaching and learning at all levels of the education system. The Department's Priority Goals are designed for success by the end of the term of this strategic plan. The Department set initial Priority Goals in the FY 2011 Budget, and is in the process of developing updated Priority Goals to accompany the FY 2013 Budget. To review the Department's initial Priority Goals, please visit our website.

Challenges Linking Program Performance to Funding

Linking performance results, expenditures, and budget for Department programs is complicated. Most of the Department's funding is disbursed through grants and loans. Only a portion of a given fiscal year's appropriation is available to state, school, organization, or student recipients during the fiscal year in which the funds are appropriated. The remainder is available at or near the end of the appropriation year or in a subsequent year.

Funds for competitive grant programs are generally available when appropriations are passed by Congress. However, the processes required for conducting grant competitions often result in the award of grants near the end of the fiscal year, with funding available to grantees for future fiscal years.

Therefore, program results cannot be attributed solely to the actions taken related to FY 2011 funds but to a combination of funds from across several fiscal years, as well as state and local investments, and to many external factors, including economic conditions. Furthermore, the results of some education programs may not be apparent for many years after the funds are expended. In addition, results may be due to the effects of multiple programs.

Selected Performance Measures for FY 2011

The performance measures in this table represent a subset of the performance measures that are being developed in support of the strategic goals in the Department's *FY 2011–2014 draft Strategic Plan*. The Department will be reporting on the full set of performance measures in the FY 2011 *Annual Performance Report* that will be released in conjunction with the President's FY 2013 Budget submission in February 2012. The measures included in this table reflect at a high level, student achievement data, Department management improvement initiatives, college and career initiatives, and state program activities to improve education in their respective states. The information in the cells includes the approximate dates by which data will be available in those cases where the data were not available while this report was being prepared.

Performance Measure	2007	2008	2009	2010	2011
Student Achievement					
Students who graduate from high school	74%	75%	76%	May 2012	TBD
Adult education students obtaining a high school credential	56%	58%	47%	54%	TBD
4th grade students at or above Proficient on the National Assessment of Educational Progress (NAEP) in reading	33%	N/A	33%	N/A	34%
4th grade students at or above Proficient on the NAEP in mathematics	39%	N/A	39%	N/A	40%
8th grade students at or above Proficient on the NAEP in reading	31%	N/A	32%	N/A	34%
8th grade students at or above Proficient on the NAEP in mathematics	32%	N/A	34%	N/A	35%

Performance Measure	2007	2008	2009	2010	2011
Department Management					
Department's rank in the report on the Best Places to Work (BPTW) in the Federal Government	28 out of 30 agencies	No rankings done in 2008.	27 out of 30 agencies	30 out of 32 agencies	Nov. 2011
Positive responses that the Department receives on the Talent Management measure in the Federal Viewpoint Survey	N/A	58%	54%	54%	58%
Positive responses that the Department receives on the Performance Culture measure in the Federal Viewpoint Survey	49%	52%	50%	52%	53%
States and other grantees reporting satisfaction with support provided by the Department	Customer Satisfaction Index (CSI): 63	CSI: 65	CSI: 68	CSI: 72	CSI: 72
Department's programs and initiatives that are evaluated using methods that include those consistent with What Works Clearinghouse Standards for evidence of effectiveness	N/A	N/A	N/A	10	13
Postsecondary					
Enrollments in undergraduate science, technology, engineering, and mathematics (STEM) credential/degree programs	N/A	N/A	N/A	1,541,704	1,580,036
25- to 34-year-olds who attain an associate's degree or higher	40%	42%	41%	42%	March 2012
Students who complete a bachelor's degree within 6 years	57%	57%	57%	Feb. 2012	TBD
Students who complete an associate's degree or certificate within 3 years	31%	31%	32%	Feb. 2012	TBD
Individuals completing and filing the Free Application for Federal Student Aid form (FAFSA) who come from low-income households	N/A	N/A	N/A	N/A	57%
Individuals completing and filing the FAFSA who are non-traditional students (25 years and above with no college degree)	N/A	N/A	N/A	N/A	3.80%
State Activities					
States that have published a plan for improving postsecondary access, quality, and completion leading to careers and positive civic engagement	N/A	N/A	N/A	18 states	19 states
States that have published a plan for pathways for school completers to careers	N/A	N/A	N/A	24 states	27 states
States with adopted internationally benchmarked college- and career-ready standards	N/A	N/A	N/A	30 states + DC	44 states + DC and the USVI

NOTE: N/A Refers to data either not collected or reported.

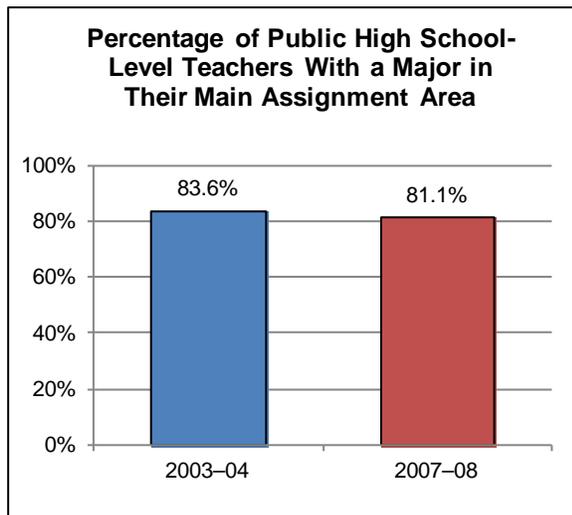
Data Resources of the Department: The Education Dashboard

In FY 2011, the Department took significant steps toward enhancing its ability to provide more timely and consistent information to the public by improving its use of education data through a variety of electronic formats.

The Department continues to implement and enhance a [data dashboard](#) that contains high-level indicators, ranging from student participation in early learning through completion of postsecondary education, as well as indicators on teachers and leaders and equity. The Department will continuously update the dashboard's data and improve upon its analytic tools.

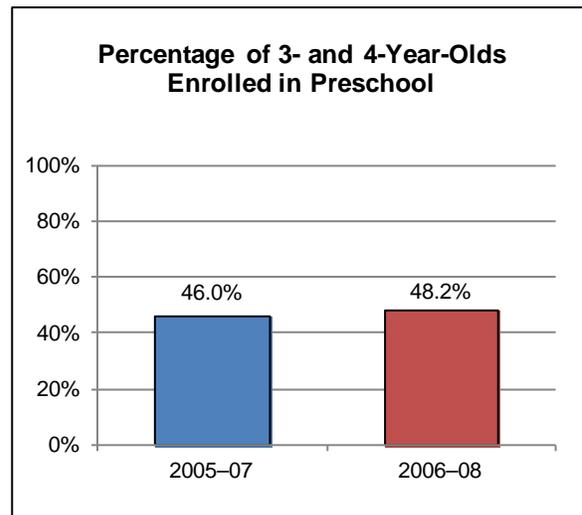
In FY 2011, the Department also introduced a new electronic feature that maps educational performance across states in the U.S. The [State of the States in Education](#) shows the 10 highest and lowest performing states (based on 2009 data) on basic indicators of educational performance. Disparities in educational performance highlight that state and local governments have a major [impact on student outcomes and the rigor of state standards](#).

Indicators focus on key education outcomes, including those shown below.

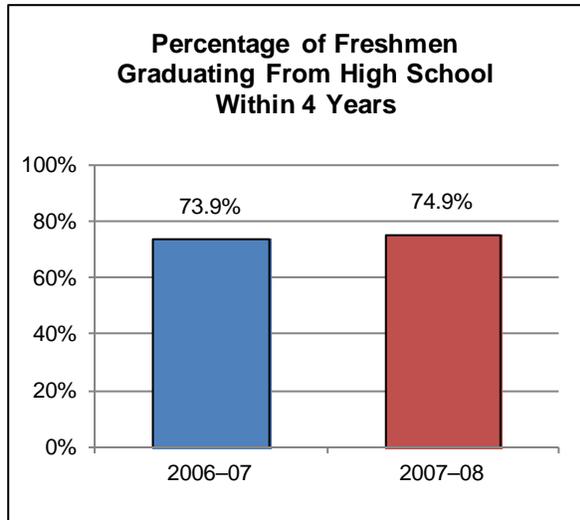


NOTE: Teachers include traditional public school and public charter school teachers who taught departmentalized classes to students in any of grades 10–12, or grade 9 and no grade lower. "Major in main assignment" includes all teachers, regardless of whether the major was earned within or outside a department, college, or school of education. Majors in main assignment are credited if they were earned at the bachelor's degree level or higher.

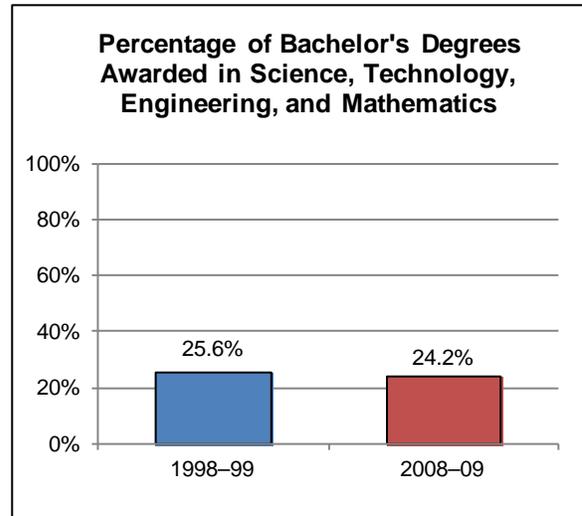
SOURCE: U.S. Department of Education, National Center for Education Statistics, Schools and Staffing Survey (SASS), "Public School Teacher Data File," 2003–04 and 2007–08.



SOURCE: U.S. Department of Commerce, Census Bureau, 2005–07 and 2006–08 American Community Survey (ACS) 3-year Public Use Microdata Sample (PUMS) data.



SOURCE: U.S. Department of Education, National Center for Education Statistics, "NCES Common Core of Data State Dropout and Completion Data File," 2006-07 and 2007-08 school years.



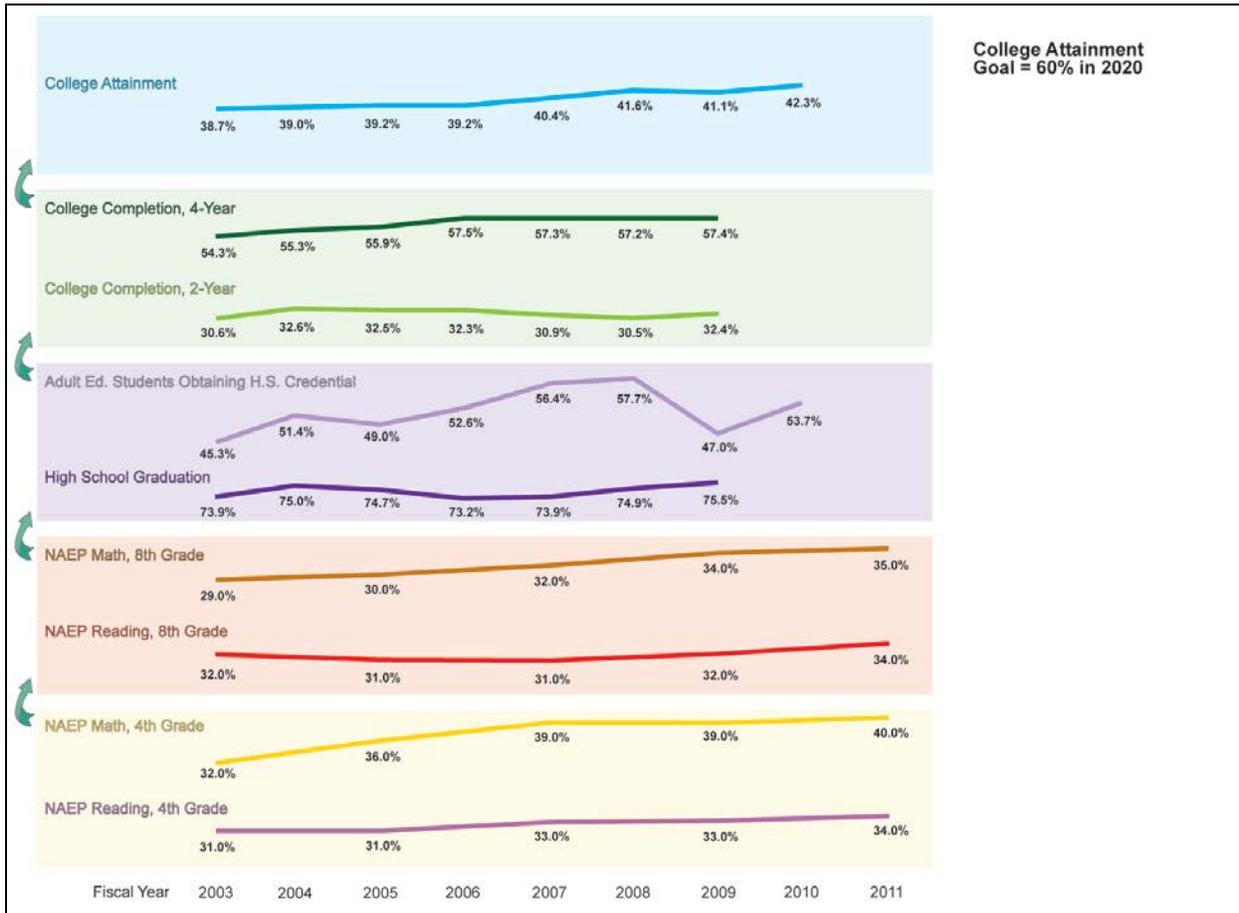
SOURCE: U.S. Department of Education, National Center for Education Statistics, 1998-99 and 2008-09 Integrated Postsecondary Education Data System, "Completions Survey" (IPEDS-C:99) and Fall 2009.

The indicators chosen for the dashboard are select factors that shed light on our nation's educational progress and support the goal that, by 2020, the United States will once again have the highest proportion of college graduates in the world. Meeting this goal is vital to the nation's long-term economic security and to preparing young people and adults to be active citizens.

Reaching the 2020 goal will require comprehensive education reforms from cradle to career, beginning with children at birth, supporting them through high school graduation and postsecondary education, and helping them to succeed as lifelong learners who can adapt to the constant changes in the demands of the global economy.

In addition to data provided on the dashboard, data.ed.gov provides links to the Department's various data sources, including: the Institute of Education Sciences' National Center for Education Statistics, ED Facts, the Federal Student Aid Data Center, and ED Data Express.

National Outcome Goals



Notes:

Data for college attainment reflect the percentage of 25-34-year-olds who attain an associate's degree or higher. Data for college completion reflect the percentage of students who complete a bachelor's degree within 6 years or an associate's degree or certificate within 3 years. Graduation rates presented are for school years (e.g., FY 2009 provides data for school year 2008–09). NAEP data reflect "at proficient or above" performance.

Sources:

College Attainment: U.S. Census Bureau, Current Population Survey (<http://www.census.gov/hhes/socdemo/education/data/cps/index.html>).

College Completion: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) Graduation Rate Survey. (<http://nces.ed.gov/ipeds/>). 2003 Data: "Enrollment in Postsecondary Institutions, Fall 2003; Graduation Rates, 1997 and 2000 Cohorts; and Financial Statistics, Fiscal Year 2003," Table 7 (<http://nces.ed.gov/pubs2005/2005177.pdf>) and "Enrollment in Postsecondary Institutions, Fall 2003; Graduation Rates, 1997 and 2000 Cohorts; and Financial Statistics, Fiscal Year 2003," Table 8 (<http://nces.ed.gov/pubs2005/2005177.pdf>). 2004 Data: "Enrollment in Postsecondary Institutions, Fall 2004; Graduation Rates, 1998 and 2001 Cohorts; and Financial Statistics, Fiscal Year 2004," Table 5 (<http://nces.ed.gov/pubs2006/2006155.pdf>). 2005 Data: "Enrollment in Postsecondary Institutions, Fall 2005; Graduation Rates, 1999 and 2002 Cohorts; and Financial Statistics, Fiscal Year 2005," Table 5 (<http://nces.ed.gov/pubs2007/2007154.pdf>). 2006 Data: "Enrollment in Postsecondary Institutions, Fall 2006; Graduation Rates, 2000 and 2003 Cohorts; and Financial Statistics, Fiscal Year 2006," Table 5 (<http://nces.ed.gov/pubs2008/2008173.pdf>). 2007 Data: "Enrollment in Postsecondary Institutions, Fall 2007; Graduation Rates, 2001 and 2004 Cohorts; and Financial Statistics, Fiscal Year 2007," Table 5 (<http://nces.ed.gov/pubs2009/2009155.pdf>). 2008 Data: "Enrollment in Postsecondary Institutions, Fall 2008; Graduation Rates, 2002 and 2005 Cohorts; and Financial Statistics, Fiscal Year 2008," Table 5 (<http://nces.ed.gov/pubs2010/2010152rev.pdf>). 2009 Data: "Enrollment in Postsecondary Institutions, Fall 2009; Graduation Rates, 2003 & 2006 Cohorts; and Financial Statistics, Fiscal Year 2009," Table 7 (<http://nces.ed.gov/pubs2011/2011230.pdf>).

Adult Ed. Students Obtaining H.S. Credential: <http://wdcrocolp01.ed.gov/CFAPPS/OVAE/NRS/reports/index.cfm> (requires login).

High School Graduation: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (<http://nces.ed.gov/ccd/pdf/Insdr07gen1a.pdf>, <http://nces.ed.gov/ccd/pdf/Insdr06gen1a.pdf>, <http://nces.ed.gov/ccd/pdf/sdr051bgen.pdf>, http://nces.ed.gov/pubs2009/dropout07/tables/table_13.asp, and <http://nces.ed.gov/pubs2006/2006606rev.pdf>). Data are collected annually. Averaged freshman graduation rate is a Common Core of Data measure that provides an estimate of the percentage of high school students who graduate on time by dividing the number of graduates with regular diplomas by the size of the incoming class four years earlier.

NAEP Math and Reading: National Assessment of Educational Progress (Math: http://nationsreportcard.gov/math_2011/math_2011_report/pages/graphs/fig_b.asp and http://nationsreportcard.gov/math_2011/math_2011_report/pages/graphs/fig_c.asp. Reading: http://nationsreportcard.gov/reading_2011/reading_2011_report/pages/graphs/fig_b.asp and http://nationsreportcard.gov/reading_2011/reading_2011_report/pages/graphs/fig_c.asp).

FY 2011 Selected Programs by Goal

In FY 2011, the Department continued a number of programs and initiated several new ones designed to be a cradle-to-career agenda to support states and districts as they reform their schools and make college more affordable for students. This agenda is designed around key principles, including:

- creating early learning systems that align resources to get the nation's youngest children ready for kindergarten;
- raising standards so they actually prepare students for success in college and careers;
- improving the quality of teaching in the classroom by improving the preparation, professional development, and evaluation of teachers and principals; and
- turning around persistently low-performing schools that have been failing students for decades or even generations.

A summary of the larger and more impactful programs, organized by draft strategic goal, follows.

Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education

Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults.

In 2011, the Department continued to support President Obama's three-prong strategy (access, quality, and completion) for achieving the 2020 goal of America once again having the highest proportion of college graduates in the world.

[Gaining Early Awareness and Readiness for Undergraduate Programs](#) (GEAR UP) is a discretionary grant program designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. GEAR UP provides six- and seven-year grants to states and partnerships to provide services at high-poverty middle and high schools. GEAR UP grantees serve an entire cohort of students beginning no later than the seventh grade and follow the cohort through high school. Grantees may choose to continue to serve students into their first year of college. GEAR UP funds are also used to provide college scholarships to low-income students. In FY 2011, the Department awarded:

- 19 new awards for more than \$77.3 million,
- 15 non-competing continuation grants totaling \$44.6 million,
- 47 new partnership award for \$100.1 million,
- and 73 non-competing continuation partnership grants (\$78.8 million).

There is a priority in the awarding of the grants, going to the applicants that agree to implement college- and career-ready standards, enable more data-based decision making, and aim to turn around persistently lowest achieving schools.

[The William D. Ford Federal Direct Loan Program](#) (Direct Loan) lends funds directly to students and parents through participating schools. Created in 1993, this program is funded by

borrowings from the U.S. Department of the Treasury, as well as an appropriation for subsidy costs.

[The Federal Pell Grant Program](#) (Pell Grant) helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income undergraduate students. Pell Grants vary according to the financial circumstances of students and their families. For the 2010–11 award year, the Department disbursed approximately \$37 billion in Pell Grants averaging approximately \$4,115 to nearly 9 million students. The maximum Pell Grant award was \$5,550 for the 2010–11 award year and remains \$5,550 for the 2011–12 award year.

The [Federal TRIO Programs](#) (TRIO) provides Federal outreach and student services programs designed to identify and provide services for individuals from disadvantaged backgrounds. TRIO includes eight programs targeted to serve and assist low-income individuals, first-generation college students, and individuals with disabilities to progress through the academic pipeline from middle school to postbaccalaureate programs. TRIO also includes a training program for directors and staff of TRIO projects. The *Full-Year Continuing Appropriations Act, 2011* (P.L. 112-10), provided \$826.5 million for TRIO programs in fiscal year FY 2011. In addition, there was \$57 million in mandatory appropriations for Upward Bound.

[Career and Technical Education, and Adult Education](#) programs include initiatives for literacy and community colleges.

In September 2011, the Department collaborated with the Department of Labor in Labor's award of nearly \$500 million in grants to [community colleges](#) for targeted training and workforce development to help economically dislocated workers who are changing careers. The grants support partnerships between community colleges and employers to develop programs that provide pathways to good jobs, including instructional programs that meet specific needs. This installment is the first in a \$2 billion, four-year investment designed in combination with the *American Jobs Act of 2011* to provide additional support for hiring and re-employment services to increase opportunities for the unemployed.

Carl D. Perkins Career and Technical Education Act of 2006 provides funds to state educational agencies to support programs that assist students to acquire academic and technical skills and be prepared for high-skill, high-wage, or high-demand occupations in the global economy.

In addition, the Department administers formula grant funds to states for [adult education and literacy programs](#). States distribute funds to local eligible entities to provide adult education and literacy services that provide educational opportunities below the postsecondary level for adults, 16 years of age and older, who are not currently enrolled in school, lack a high school diploma, or lack the basic skills to function effectively in the workplace and in their daily lives.

Goal 2: Elementary and Secondary Education

Prepare all students for college and career by improving the elementary and secondary education system's ability to consistently deliver excellent classroom instruction and supportive services

[Race to the Top](#)

In FY 2011, Congress appropriated \$700 million for the Race to the Top initiative and authorized a specific early learning initiative. In response, on May 25, 2011, the Department announced plans for \$200 million in state-level grants to support nine finalists that did not win grants in the

first two rounds of Race to the Top. The states— Arizona, California, Colorado, Illinois, Kentucky, Louisiana, New Jersey, Pennsylvania, and South Carolina—may seek grants ranging from \$10 million to \$50 million, depending on population and the final number of grants.

To provide ongoing feedback to teachers during the course of the school year, measure annual student growth, and move beyond narrowly focused bubble tests, the Department awarded [two groups of states grants](#) to develop a new generation of tests. The tests will assess students' knowledge of mathematics and English language arts from third grade through high school.

Teacher Incentive Fund

The Department's Teacher Incentive Fund (TIF) has provided grants to states, rural and urban school districts, and nonprofit organizations to develop and implement performance-based teacher and principal compensation systems in high-need schools.

The Department did not conduct a competition in FY 2011, but supported the 2010 grantees with significant technical assistance. The Department is reviewing the program requirements and lessons learned from the current grantees to help inform its plans for a new competition in FY 2012.

The TIF seeks to strengthen the education profession by rewarding excellence, attracting teachers and principals to high-need schools, and providing all teachers and principals with the feedback and support they need to succeed.

School Improvement Grants

In conjunction with Title I funds for school improvement, School Improvement Grants are used to improve student achievement in Title I schools identified for improvement, corrective action, or restructuring so as to enable those schools to make adequate yearly progress and exit improvement status.

Investing in Innovation Fund

The purpose of this program is to provide competitive grants to applicants with a record of improving student achievement and attainment in order to expand the implementation of, and investment in, innovative practices that are demonstrated to have an impact on improving student achievement or student growth, closing achievement gaps, decreasing dropout rates, increasing high school graduation rates, or increasing college enrollment and completion rates.

On June 3, 2011, the Department kicked off the 2011 Investing in Innovation (i3) grant competition to continue support for evidence-based practices in education. This second round of i3 makes \$150 million available to local educational agencies (LEAs) and nonprofit organizations in partnership with LEAs or consortia of schools. Grants will be available within the same three categories as in round one:

- up to \$25 million each for scale-up grants to applicants with the strongest evidence and track record of success;
- up to \$15 million each for validation grants to verify effectiveness of programs with moderate levels of evidence; and
- up to \$3 million each for development grants to support new, high-potential practices whose impact should be studied further.

Grant recipients will be required to secure private sector matching funds of five percent, 10 percent, or 15 percent, respectively.

Three absolute priorities remain from last year's grant competition: supporting effective teachers and principals, implementing high standards and quality assessments, and turning around persistently low-performing schools. For this year's competition, the Department has included two new absolute priorities focusing on achievement and high school graduation rates in rural schools and promoting science, technology, engineering, and math education. All applicants must address one of these five areas. In addition, competitive preference will be given to applications that demonstrate support for improving early learning outcomes, increasing college access and success, addressing the unique needs of students with disabilities and limited English proficient students, or improving productivity or technology.

Promise Neighborhoods

Promise Neighborhoods, established under the legislative authority of the Fund for the Improvement of Education, provides funding to support eligible entities, including nonprofit organizations, which may include faith-based nonprofit organizations, institutions of higher education, and Indian tribes.

On July 6, 2011, the Department released the application for the next phase of the Promise Neighborhoods program, including a second round of planning grants and new implementation grants, totaling \$30 million. Non-profit organizations, institutions of higher education, and Indian tribes are all eligible to apply for funds to develop or execute plans that will improve educational and developmental outcomes for students in distressed neighborhoods. The Department expects to award four to six implementation grants with an estimated grant award of \$4 million to \$6 million. Grantees will receive annual grants over a period of three to five years, with total awards ranging from \$12 million to \$30 million. Remaining 2011 funding will go toward 10 new one-year planning grants with an estimated grant award of \$500,000.

The purpose of Promise Neighborhoods is to significantly improve the educational and developmental outcomes of children and youth in the nation's most distressed communities, and to transform those communities by—identifying and increasing the capacity of eligible entities that are focused on achieving results for children and youth throughout an entire neighborhood; building a complete continuum of cradle-to-career solutions of both educational programs and family and community supports, with great schools at the center; integrating programs and breaking down agency "silos" so that solutions are implemented effectively and efficiently across agencies; developing the local infrastructure of systems and resources needed to sustain and scale up proven, effective solutions across the broader region beyond the initial neighborhood; and learning about the overall impact of the Promise Neighborhoods program and about the relationship between particular strategies in Promise Neighborhoods and student outcomes, including through a rigorous evaluation of the program.

In FY 2011, the Promise Neighborhoods program awarded one-year grants to support the development of a plan to implement a Promise Neighborhood that includes the core features described above. At the conclusion of the planning grant period, grantees should have a feasible plan to implement a continuum of solutions that will significantly improve results for children in the community being served.

Goal 3: Early Learning

Improve the health, social-emotional, and cognitive outcomes for all children from birth through third grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career- ready.

Inter-Governmental Cooperation

The Department prioritizes improving the health, social, emotional, and educational outcomes for young children from birth through 3rd grade by enhancing the quality of early learning programs, and increasing the access to high-quality early learning programs—especially for young children at risk for school failure. The Department's role in promoting early learning is significant and includes: administering several early learning programs; collaborating and coordinating early learning programs, research, and technical assistance with the U.S. Department of Health and Human Services; encouraging states and local districts to target resources for early learning; promoting state and local education agency partnerships with other early learning agencies and programs in the state or community; conducting research on early learning through the Institute of Education Sciences (IES); funding technical assistance on early learning topics, including early literacy and social and emotional development; and supporting the development of state longitudinal data systems that include early learning programs.

Race to the Top-Early Learning Challenge

The Race to the Top-Early Learning Challenge (RTT-ELC) will provide \$500 million in state competitive grants to improve early learning and development programs. The goal of the RTT-ELC is to better prepare more children with high needs for kindergarten, because children from birth to age five, including those from low-income families, need a strong foundation for success.

RTT-ELC will focus on five key areas of reform:

- Establishing Successful State Systems by building on the state's existing strengths, ambitiously moving forward the state's early learning and development agenda, and carefully coordinating programs across agencies to ensure consistency and sustainability beyond the grant;
- Defining High-Quality, Accountable Programs by creating a common tiered quality rating and improvement system that is used across the state to evaluate and improve program performance and to inform families about program quality;
- Promoting Early Learning and Development Outcomes for Children to develop common standards within the state and assessments that measure child outcomes, address behavioral and health needs, as well as inform, engage, and support families;
- Supporting A Great Early Childhood Education Workforce by providing professional development, career advancement opportunities, appropriate compensation, and a common set of standards for workforce knowledge and competencies; and
- Measuring Outcomes and Progress so that data can be used to inform early learning instruction and services and to assess whether children are entering kindergarten ready to succeed in elementary school.

The RTT-ELC program is jointly administered with the Department of Health and Human Services.

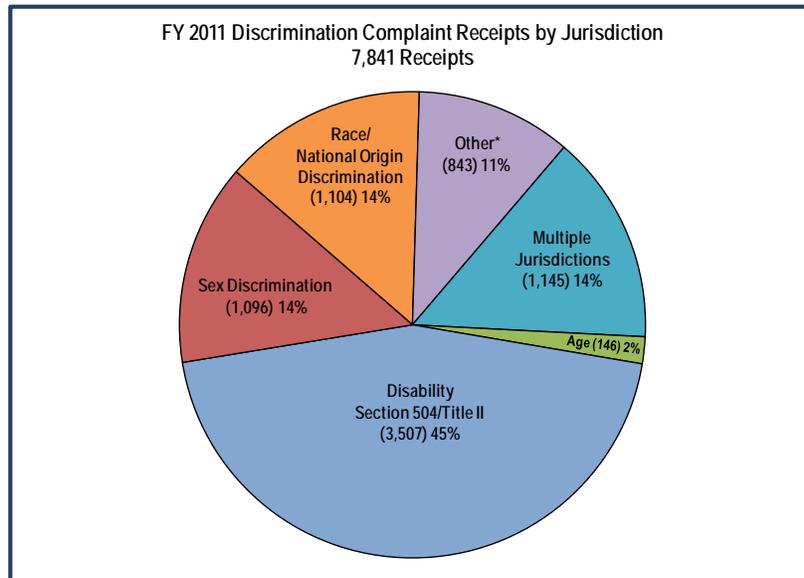
Goal 4: Equity

Ensure equitable educational opportunities for all students regardless of race, ethnicity, national origin, age, sex, disability, language, and socioeconomic status.

Office for Civil Rights

The Department of Education enforces federal civil rights laws that prohibit discrimination on the basis of race, color, national origin, sex, disability and age, in our nation's schools primarily in educational institutions that receive federal funds from the Department. In addition, the Department ensures that the Boy Scouts of America and other designated youth groups have equal access to meet in elementary and secondary schools that receive funds through the Department. The Office for Civil Rights (OCR), a law enforcement agency within the Department, performs the Department's civil rights enforcement responsibilities in a variety of ways including: investigating complaints alleging discrimination; conducting compliance reviews in educational institutions to determine if they are in compliance with the laws; and providing technical assistance to educational institutions on how to comply with the law and parents and students on their rights under the law. The Department also issues regulations on civil rights laws, develops policy guidance interpreting the laws, and distributes the information broadly.

In FY 2011, OCR received a record total of 7,841 complaints alleging discrimination, a 13 percent increase in complaint receipts over the previous fiscal year and resolved 7,434 complaints, some of which were received the previous year. As shown in the chart below, close to half of the complaints received by the Department allege discrimination due to disability. To augment the issues addressed through complaint processing, OCR implemented a proactive docket of compliance activities that included initiating 37 proactive compliance reviews and 73 proactive technical assistance activities. In addition, OCR developed policy guidance, including investigative guidance, to address discrimination against students on the basis of race, color, national origin, sex and disability. OCR's law enforcement work supports progress on the Department's efforts to address equity.



* This category reflects new complaint receipts for which jurisdiction has not yet been determined. It also includes complaint receipts under the *Boy Scouts of America Equal Access Act* and those with issues over which OCR has no jurisdiction.

Source: Office for Civil Rights Case Management System

Goal 5: Continuous Improvement of the U.S. Education System

Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation, and technology.

Widespread Use of Data

Data Strategy Team. The Data Strategy Team (DST) was organized in August 2010 to address the issue of inconsistent and uncoordinated data strategies among the various principal offices within the Department. The mission of the DST is to coordinate the Department's public-facing data initiatives by building cohesiveness in internal processes and data policies and by improving transparency in all matters surrounding the Department's collection of data. The DST supports states' use of education data through data websites and technical assistance to grantees. Specifically, the DST will find best practices for the use and promotion of data policy.

The DST is an open group, available to all those within the Department who wish to participate. The goal of meetings is to increase communication and awareness of data-related projects across the Department. Nearly every principal office has an official representative who participates in the larger DST meetings, and there are approximately 100 DST members.

There are currently four active workgroups for the DST to address the following topics: Data Dashboard, Data Inventory, Open Government, and Data Release. The Data Dashboard group is planning for the transition of the Dashboard.Ed.Gov website from its current version 1.0, launched in January, 2011, to an intermediate update, and on to an eventual version 2.0 with significantly improved features. Members of the Data Inventory group have begun the challenging task of defining what are "data" across the Department and also have made initial steps in cataloging the Department's data holdings. Responding to initiatives from the White House and OMB, the Open Government group is helping the Department navigate the requirements for transparency and openness mandated for all federal agencies. Finally, the newest group, Data Release, is designing a coordination process to improve the way that the Department releases data and data-based reporting to the public, while balancing the need to protect privacy and confidentiality.

Mapping State Standards. In FY 2011, the Department released a report comparing the relative rigor of state proficiency standards in reading and mathematics using the National Assessment of Educational Progress (NAEP) scale as a common yardstick. Each individual state develops its own state assessments in reading and math and sets its own proficiency standard. As a result, states vary widely in the standards they set for students. By using NAEP as a benchmark, it was possible to compare state proficiency standards.

Uniform Graduation Rate. In FY 2011, states will begin reporting high school graduation rates for the 2010-11 school year using a more rigorous four-year adjusted cohort, as developed by the nation's governors in 2005. Since data reporting requirements were first implemented under No Child Left Behind, states have calculated graduation rates using varying methods, creating inconsistent data from one state to the next. The transition to a uniform high school graduation rate requires all states to report the number of students who graduate in four years with a standard high school diploma, divided by the number of students who entered high school four years earlier, and accounting for student transfers in and out of school. The Department anticipates that the more rigorous method will result in lower reported graduation rates, but it will reflect a more accurate calculation of how many U.S. students complete high school on time.

Version 2.0 ED Data Express. During FY 2011, the Department launched an interactive website to make more accurate and timely K-12 education data available to the public. The new version provides the public with more dynamic tools to interact with the data, such as a mapping feature that allows users to view the data displayed on a map of the United States; a trend line tool, which displays a data element graphed across multiple school years; and a conditional analysis tool, which allows users to view one data element based on conditions set by another data element.

The site currently includes data from the Department's *EDFacts* data system, Consolidated State Performance Reports (CSPR), State Accountability Workbooks, and the National Center for Education Statistics (NCES), the College Board, and the Department's Budget Service office. In addition, the site has improved documentation and added the ability to share information from the site using social networking tools, such as Facebook or Twitter.

The Department's Evaluation Initiative

In May 2010, the Department launched a new agency-wide evaluation planning process to better align its investments in knowledge building with the Department's strategic plan and its budget and policy priorities and to support appropriate resource allocation. The process—led jointly by the Department's Office of Planning, Evaluation and Policy Development (OPEPD) and the Institute of Education Sciences—was developed to identify the Department's key priorities for evaluations that can provide reliable measures of the impacts of programs, policies, and strategies, as well as for a range of research and evaluation activities that build knowledge important to inform policy and practice more broadly (e.g., performance measurement, grantee evaluation, and support).

This planning process includes regular discussions with program and policy offices within the Department and reviews of existing research and recent and ongoing evaluation investments in the Department. While the planning process is informed by the knowledge generated through the Department's investments in long term programs of research, it focuses on knowledge building activities initiated and carried out by the Department.

In FY 2011, the Department developed and approved a set of priority research questions which will help shape its future investments in knowledge building. Planning for FY 2011 investments was completed this spring and planning for FY 2012 is underway, although final decisions are contingent on appropriations action. The evaluation planning process consists of the evaluation planning team meeting with the Department's policy and program offices and based on their input, developing recommendations for the evaluation activities the Department will support.

Each office is asked to identify its highest priority research questions, as well as any program-specific research questions they would like addressed in that year and beyond. The evaluation planning team's recommendations are designed to ensure that the evaluation activities supported annually by the Department, as a whole and to the extent possible, respond to those research questions identified as highest priority to the policy and program offices. Program offices are given the opportunity to raise any concerns they have with the evaluation planning team's recommendations.

The Department plans to engage annually in a similar strategic planning process for investments in knowledge building.

Goal 6: U.S. Department of Education Capacity

Improve the organizational capacities of the Department to implement this Strategic Plan.

Department Decision Support System Tool for Grant Risk Management

For both FY 2011 and FY 2012, the Department has placed a high priority on using data to continuously improve its grant-making processes. To that end, the Department's Risk Management Service (RMS) developed the Decision Support System Entity Risk Review (support review).

The support review is a data analysis tool that has been developed in collaboration with leadership and staff from various Principal Offices. The support review facilitates program officers' access to risk-related information and consolidates disparate data sources into one report.

The support review (example summary page shown above) provides financial, administrative, and internal controls data about grantees. Specifically, the support review includes data from: Dun & Bradstreet, the grants management system (G5), the Federal Audit Clearinghouse, and the Adverse Accreditation Actions list distributed by OPE. The Administrative Risk Score represents previous compliance history with the Department and is comprised mainly of data elements from the Department's grant management system (G5).

Applicant Name	Administrative Risk Score	Financial Risk Score	Internal Control Risk Score
Entity A	0	0	139
Entity B	0	0	139
Entity C	0	20	39
Entity D	0	120	69
Entity E	0	15	5

The Financial Risk Score presents an overview of the applicant's management of its finances using data elements related to its payments activities and credit scores. The Internal Controls Risk Score is based on the entities A-133 audit finding data. Each data element has an associated point value—the higher the score, the greater the potential risk that may require the application of risk mitigation strategies.

To make the summary page more user-friendly, the scores are color-coded such that green indicates low potential risk, yellow indicates an elevated potential risk, and salmon indicates a significant potential risk. When used in conjunction with other relevant programmatic information, the support review results in informed monitoring and decision-making, and highlights potential areas of risk.

RMS piloted the support review during FY 2011, making reviews available upon request by the program office. The pilot included four program offices: Office of Elementary and Secondary Education, Office of Innovation and Improvement, Office of Special Education and Rehabilitative Services, and Office of Postsecondary Education.

As of August 2011, RMS has delivered more than 150 review reports to both pilot and non-pilot programs and collected user feedback to assess the efficacy of the review reports. This feedback will be used to enhance and refine the tool for the upcoming FY 2012 release.

As a result of the FY 2011 pilot, RMS identified new ways to promote data-driven decision making in the grants management process. For FY 2012 and beyond, the long-term goal for the use of the support review is to formalize and streamline the processes the Department uses to:

identify areas of potential risk in the Department's grant portfolio; determine when grant conditions could be used to mitigate risk; encourage consistent treatment of grantees across program offices; and develop appropriate monitoring, technical assistance, and oversight plans as a part of grants management.

Customer Satisfaction with the Department of Education

For FY 2011, the Department significantly expanded its external survey of customer satisfaction with its products and services. The survey began seven years ago in response to a key metric in the Department's Strategic Plan. In FY 2010, metrics of customer satisfaction, both internal and external, were added to the Department's Organizational Performance Review, which contains metrics for a variety of assessments of principal office strategic and organizational performance and the survey was expanded to include 15 programs.

This year, in response to the President's April 27, 2011, Executive Order 13571 Streamlining Service Delivery and Improving Customer Service, the Department expanded its survey to include 45 programs with a future goal of surveying 20 percent of Department programs representing the top 80 percent of program dollars.

The survey uses the American Customer Satisfaction Index (ACSI). The ACSI is the national indicator of customer evaluations of the quality of goods and services. It is the only uniform benchmarking measure of customer satisfaction across agencies and private industry.

The ACSI allows benchmarking between federal agencies and provides information unique to each agency on how activities that interface with the public affect the satisfaction of its customers. The ACSI is a weighted average of three questions that measure: overall satisfaction, satisfaction compared to expectations, and satisfaction compared to an ideal organization.

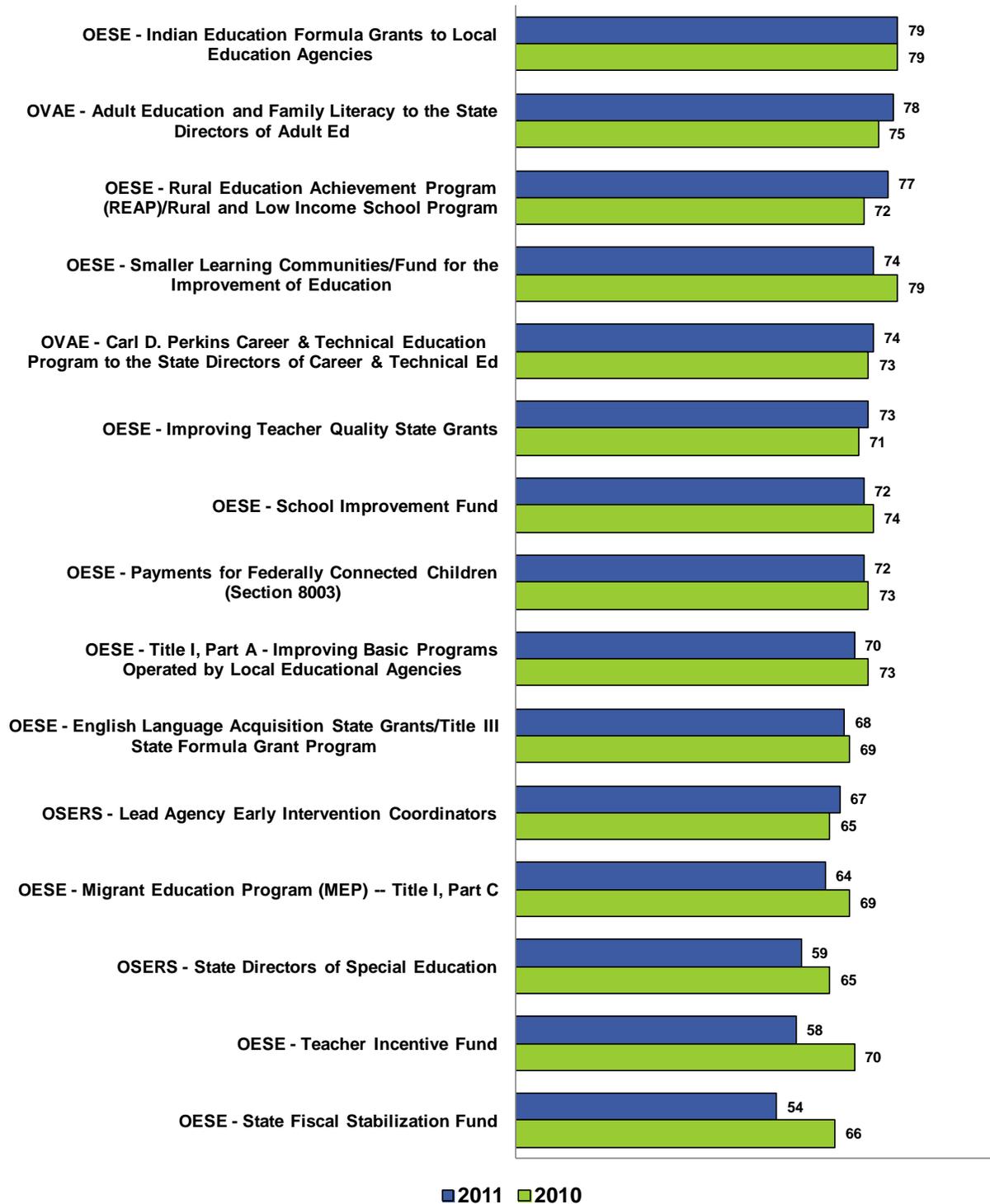
Additionally, each principal office in the Department surveys their stakeholders on the effective use of technology, clarity and organization of documents, staff knowledge, responsiveness, collaboration with other Department offices, provision of technical assistance, and ease of accessing online resources.

In FY 2011, there was no change in satisfaction from the previous year—72 points on a 100-point scale. The Department is now six points above the federal government average of 65. Staff scores were up two points, while technology and online resources were down two points from FY 2010. Complaints remained at one percent. Below is a comparison of the results of major Department programs from FY 2010 and FY 2011.

To review the complete results of the FY 2011 survey and previous surveys:

<http://www2.ed.gov/about/reports/annual/gss/index.html>

Satisfaction With Major Department Programs, FY 2010 and FY 2011



Financial Highlights

The Department consistently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operation. For the tenth consecutive year, the Department achieved an unqualified (clean) opinion from independent auditors on the annual financial statements. Since 2003, the auditors have found no material weaknesses in the Department's internal control over financial reporting. In accordance with OMB's Circular No. A-123, *Management's Responsibility for Internal Control*, the Department continues to test and evaluate findings and risk determinations uncovered in management's internal control assessment.

Financial Position

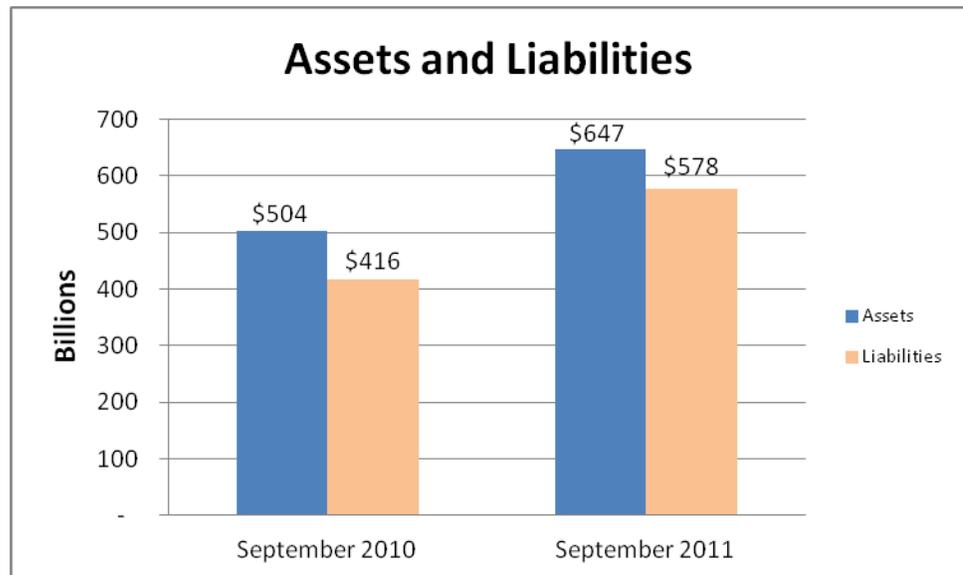
The Department's financial statements are prepared in accordance with established federal accounting standards, as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and are audited by the independent accounting firm of Ernst & Young, LLP. The Office of Inspector General (OIG) provides audit oversight. Financial statements and footnotes for FY 2011 appear on pages 37–86. An analysis of the principal financial statements follows.

Balance Sheet.

The Balance Sheet presents, as of a specific point in time, the recorded 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 page 37 reflects total assets of

\$647 billion, a 28 percent increase over FY 2010. The vast majority of this increase is due to Credit Program Receivables, which increased by \$162.6 billion, a 44 percent increase over FY 2010. This increase is largely the result of Direct Loan disbursements, net of borrower principal and interest collections, which increased the net portfolio for Direct Loans by \$153.2 billion. The volume of Direct Loans greatly increased this year because of the transition from the Federal Family Education Loan program (FFEL) to the Direct Loan program. The Fund Balance with Treasury decreased by \$18.2 billion, a 14 percent decrease from FY 2010. This decrease is largely due to Recovery Act and Education Jobs Fund disbursements during FY 2011.

Total liabilities for the Department increased by \$161.9 billion, a 39 percent increase over FY 2010. The increase is the result of current year borrowing for the Direct Loan and FFEL Programs that provided funding for Direct Loan disbursements and FFEL Program downward re-estimates. This current year borrowing, net of repayments, resulted in a \$172.8 billion

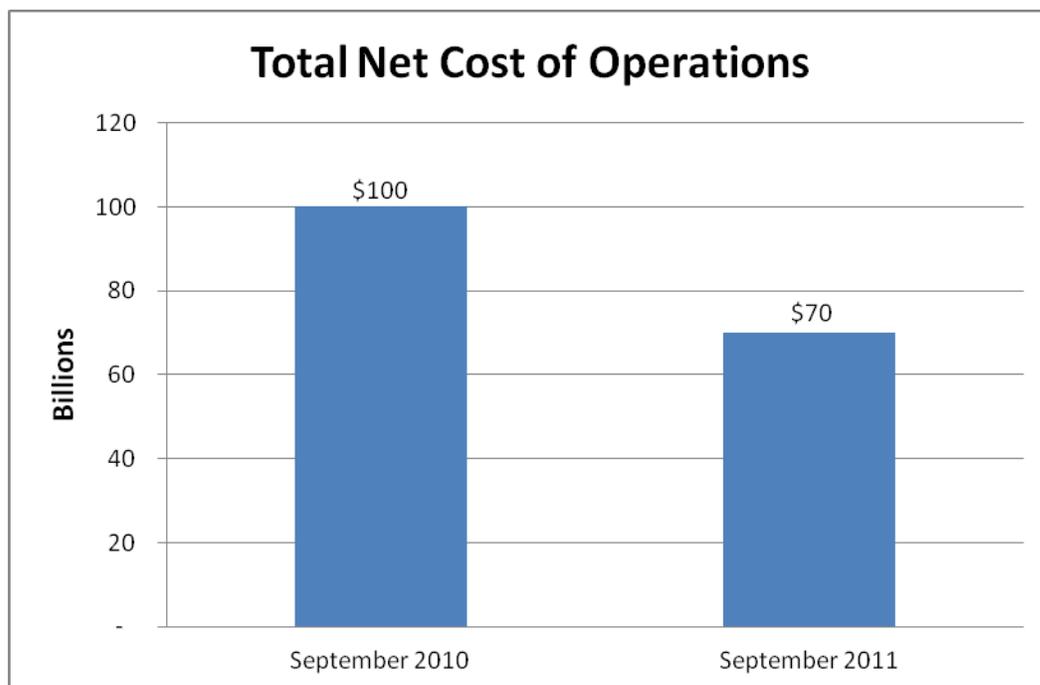


increase in Debt. Liabilities for Loan Guarantees for the FFEL Program decreased by \$4.5 billion, a 31 percent decrease that is primarily due to FY 2011 subsidy re-estimates.

The Department's Net Position as of September 30, 2011, was \$68.6 billion, a \$19.0 billion decrease from FY 2010. This decrease is largely due to Recovery Act and Education Jobs Fund disbursements during this time period.

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 Department's total program net costs, as reflected on the Statement of Net Cost, page 38, were \$69.5 billion for the period



ended September 30, 2011, a 30 percent decrease from the prior year. This decrease is largely the result of a \$27.1 billion decrease in Direct Loan program subsidy related costs and a \$16.1 billion decrease in Recovery Act and Education Jobs Fund disbursements. The reduction in Direct Loan program subsidy related costs reflects an increase in negative subsidy transfers and re-estimated subsidy costs. This represents an overall decrease in net costs.

As required by the *GPR Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the goals presented in the Department's draft *Strategic Plan 2011–2014*.

Net Cost Program	Reporting Group/ Program Office	Draft Strategic Goal
Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Vocational and Adult Education	1. Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults.

Net Cost Program	Reporting Group/ Program Office	Draft Strategic Goal
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Office of Elementary and Secondary Education Office of Safe and Drug-Free Schools Hurricane Education Recovery	2. Prepare all students for college and career by improving the elementary and secondary education system's ability to consistently deliver excellent classroom instruction and supportive services. 3. Improve the health, social-emotional, and cognitive outcomes for all children from birth through third grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Ensure Equitable Educational Opportunities for All Students	Office of English Language Acquisition Office for Civil Rights Office of Special Education and Rehabilitative Services	4. Ensure equitable educational opportunities for all students regardless of race, ethnicity, national origin, age, sex, disability, language, and socioeconomic status.
Enhance the Education System's Ability to Continuously Improve	Institute of Education Sciences Office of Innovation and Improvement	5. Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation and technology
American Recovery and Reinvestment Act and Education Jobs Fund	American Recovery and Reinvestment Act Education Jobs Fund	Cuts across draft Strategic Goals 1–5

Draft *Strategic Plan* Goals 1-5 are sharply defined directives that guide the Department's program offices to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these five draft strategic goals. The Department also has a cross-cutting draft *Strategic Plan* Goal 6, U.S. Department of Education Capacity, which focuses on improving the organizational capacities of the Department to implement the draft *Strategic Plan*. As a result, the Department do not assign specific programs to draft *Strategic Plan* Goal 6 for presentation in the Statement of Net Cost.

The goals of the Recovery Act and Education Jobs Fund are consistent with the Department's current draft Strategic Plan goals and programs.

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. The statement displayed on page 40 shows that the Department had \$366.4 billion in total budgetary resources

for the period ended September 30, 2011. These budgetary resources were composed of \$103.5 billion in appropriated budgetary resources and \$262.9 billion in non-budgetary credit reform resources that primarily consist of borrowing authority for the loan programs. Of the \$20.8 billion that remained unobligated for the period ended September 30, 2011, \$16.6 billion represents funding provided in advance for activities in future periods that were not available at year end. These funds will become available during the next, or future, fiscal years.

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2011 and FY 2010, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. The implications of this are that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and that ongoing operations are subject to the enactment of future appropriations.

Office of Inspector General's (OIG) Management Challenges for Fiscal Year 2012 Highlights

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the Department. Through its audits, inspections, investigations, and other reviews, OIG continues to identify areas of concern within the Department's programs and operations, and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires OIG to identify and summarize the most significant management challenges facing the Department each year.

Last year we presented four management challenges: implementation of new programs/statutory changes, oversight and monitoring, data quality and reporting, and information technology security. All of the prior management challenges remain challenges for FY 2012. The first FY 2011 challenge, implementation of new programs/statutory changes, which incorporated aspects of the Recovery Act, and the *Ensuring Continued Access to Student Loans Act of 2008*, has been incorporated into the oversight and monitoring challenge. In addition, we have added a new challenge related to improper payments. The FY 2012 management challenges are:

- Improper Payments,
- Information Technology Security,
- Oversight and Monitoring, and
- Data Quality and Reporting.

The Executive Summary of Management Challenges for FY 2012 is included in the Other Accompanying Information section of this report and the full report is published by the Department's Office of Inspector General. To view the full report, go to: <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.

Management's Assurances

Federal Managers' Financial Integrity Act

As required under the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), the Department reviewed its internal control system. Internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are being achieved:

- Obligations and costs are in compliance with applicable laws.
- 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 maintain accountability over assets.
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Managers throughout the Department are responsible for ensuring that effective internal controls are implemented in their areas of responsibility. Individual assurance statements from senior management serve as the primary basis for the Department's assurance that the controls are adequate. The assurance statement provided on page 33 is the result of our annual assessment and is based upon each senior officer's evaluation of controls.

Offices within the Department that identify material weaknesses are required to submit plans for correcting the cited weaknesses. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving the Department's internal controls.

Inherent Limitations on the Effectiveness of Controls. Department management does not expect that our disclosure on controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can only provide reasonable—not absolute—assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints. The benefits of the controls must be considered relative to their associated cost. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Federal Financial Management Improvement Act

The Secretary has determined that the Department is in compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), although the auditors have identified instances in which the Department's financial management systems did not substantially comply with the Act. The instances of noncompliance generally relate to user access issues, e.g. the timely removal of access for terminated employees, inconsistent maintenance of access approval documentation, revalidation of user rights not consistently performed, password configuration not in compliance with Department policy, lack of monitoring of the activities of administrators, etc. The Department will continue its efforts to address security and control weaknesses with an emphasis on addressing the root cause of the security or control weakness uniformly across the organization. The goal of this action is to decrease the likelihood of similar weaknesses being identified in future audit assessments.

The Department continues to meet the criteria for achieving compliance because the Department has demonstrated that the deficiencies do not have an impact on the following:

- Financial statements, both annual and quarterly preparations, and other required financial and budget reports are prepared using information generated by the Financial Management Support System (FMSS).
- Reliable and timely financial information for managing current operation is provided by the financial management system. Financial information is available both via online and standard reports to provide for financial analysis and support decision making. Reporting is in compliance with OMB guidance.
- The Financial Management Support System operations and procedures remain consistent with Federal accounting standards and comply with the U.S. Government Standard General Ledger guidance at a transactional level.

Federal Managers' Financial Integrity Act

Management at the Department of Education is responsible for establishing and maintaining effective internal control and financial management systems that meet the intent and objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*. The Department conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department of Education can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems as of September 30, 2011, was operating effectively and no material weaknesses were found in the design or operations of the internal controls.

In addition, the Department conducted an assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of the Office of Management and Budget's Circular No. A-123. In accordance with the results of this assessment, the Department of Education can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011, was operating effectively, and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

/s/

Arne Duncan
November 15, 2011

Financial Management Systems Strategy

The Department's FMSS is designated a mission-critical system of the Department that provides department-wide core financial management services. These services include funds control, budget planning, general ledger, administrative payments, accounts receivable; financial management system and access controls; financial system reports, including financial statements, FACTS, SF224, etc. The Department expects to continue on its improvements in the following performance outcomes from this initiative: continued control over and accountability of Department financial management services including, financial management system controls and practices, including cross-validation rules that prevent erroneous accounting transactions from being processed; financial system reporting capabilities that continued the ability to respond quickly to internal and external financial information inquiries. Additional outcomes are continued tight integration and streamlining with the Office of Federal Student Aid and business processes; reduced manual reconciliation efforts for the Financial Management Operations Group within the Office of the Chief Financial Officer; reduction of errors and improved funds control; better data sharing and centralized data edits and controls that could otherwise get out of synchronization between the FMSS and its feeder systems; and budget planning that integrates with the general ledger.

Currently, the FMSS resides on an Oracle database and uses the Oracle 11.5.10 (11i) version of the software. The Oracle system has operated successfully for the Department since its implementation in January 2002. Since this time, the Department has met all of its financial management performance measures, which include receiving unqualified financial statement audit opinions for each year since implementation, system availability rates of better than 99% of the scheduled time and closing periods within three days of the end of the month.

Oracle has recently issued Release 12 of its software. This version has passed the necessary testing and is federally compliant for financial management. The Department has completed an analysis on the change between the 11i and Release 12 versions of the software to determine the benefits and level of effort to implement the new version. Based on the outcome of this analysis the Department has decided to delay migration to Release 12 until 2015. The Department will develop an implementation plan during 2013. Implementation activities will begin during 2014 and will be completed by October 2015. These timeframes are subject to change based on funding levels and other priorities. The FMSS is in compliance with FFMIA, Federal Accounting Standards Advisory Board, U. S. Government Standard General Ledger, and Financial Systems Integration Office guidelines for financial management systems. No remediation actions are necessary.