Management's Discussion and Analysis

About the Management's Discussion and Analysis

The Department of Education (the Department) continues to enhance the usefulness of the *Agency Financial Report* (AFR) as a roadmap to relevant web content. The AFR is designed to be read online to take full advantage of the information presented. Links replace static pages in earlier reports allowing for current information to be drawn from our websites. The Department's intent is to provide users with access to useful information about the Department and its financial activities, while meeting the intent of the Federal Accounting Standards Advisory Board (FASAB) Financial Reporting Model Task Force recommendation on web-based reporting and complying with existing Office of Management and Budget (OMB) reporting requirements.

To help continue to improve the content of the AFR, readers are encouraged to provide their feedback at: PARcomments@ed.gov.

Mission and Organizational Structure

This section provides information about the Department's mission, an overview of its history and its structure. The active links include: the organization chart and principal offices, a map of its regional offices, and a full list of Department programs and funding for the current year.

Discussion of Performance

The Department has elected to produce separate financial and performance reports for the last five years. The *Agency Financial Report* for fiscal year (FY) 2013 provides a high-level description of key performance measures and goals based on the *FY 2011–2014 Strategic Plan* with a focus on the Priority Goals for 2012–13. A detailed discussion of performance information for FY 2013 will be provided in the Department's *Annual Performance Report* to be published in February 2014 with the President's Budget. Additional information on data from the *FY 2011–2014 Strategic Plan* can be found in the *FY 2012 Annual Performance Report and FY 2014 Annual Performance Plan*.

The section includes an overview of performance reporting, a report on the Agency Priority Goals for 2012–13, and high-level discussion of performance information.

The Department has identified a small number of priority goals that have been focus areas over the last two years. These goals, which will help measure the success of the Department's cradle-to-career education strategy, reflect the importance of teaching and learning at all levels of the education system. These goals are consistent with the Department's *Strategic Plan,* which will be used to regularly monitor and report progress. To view information on all Department programs, please visit the Department's website.

Looking Ahead and Addressing Challenges describes how the Department's *FY 2014–2018 Strategic Plan* charts future success during these fiscally challenging times.

Financial Highlights

The Department has significantly expanded information in the Financial Highlights section of the report to provide a more comprehensive depiction of its key financial activities for FY 2013 and to identify and explain significant trends.

The Department expends a substantial amount of its budgetary resources and disburses large cash amounts on grant and loan programs intended to increase college access, quality, and completion; improve preparation for college and career from birth through 12th grade, especially for children with high needs; and ensure effective educational opportunities for all students. Therefore, the Department has included more high-level details about the sources and uses of these funds and a composition of and summary of net costs by program.

The primary sources of funds are borrowings from Treasury (Debt), appropriations from Congress, and spending authority from offsetting collections. Most borrowings and collections are associated with student loans.

As a nine-time recipient of the Association of Government Accountants Certificate of Excellence in Accountability Reporting and having earned unqualified (or "clean") audit opinions for 12 consecutive years, the Department has demonstrated its commitment to continuous improvement in its financial management, operations, and reporting.

Analysis of Controls, Systems, and Legal Compliance

The Department is the smallest of the 15 cabinet level agencies in terms of government staff, yet it has the third largest grant portfolio among the 26 federal grant-making organizations. The Department manages the second largest loan portfolio in the federal government. In order to demonstrate effective stewardship of these resources, the Department has to implement effective controls over operations, systems, and financial reporting as described in the Analysis of Controls, Systems, and Legal Compliance section of the report.

The three objectives of internal controls are to ensure the effectiveness and efficiency of operations, reliability of financial reporting and systems controls, and compliance with applicable laws and regulations. The Department categorizes and assesses controls in three categories:

- internal controls over operations,
- internal controls over financial reporting, and
- internal controls over systems.

About the Department

Our Mission

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

Overview. 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. Today, the Department supports programs that touch on every area and level of education. The Department has approximately 4,200 employees and manages a $65 billion discretionary appropriation. The Department has set high expectations for its own employees and is continuously working to improve management practices, ensure fiscal integrity, and develop a culture of high performance.

Our Public Benefit. The Department is committed to ensuring that students throughout the nation 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, establishing challenging content and achievement standards, and monitoring students' progress against those standards. As a principal office of the Department, Federal Student Aid (FSA) provides about 14 million postsecondary students with low-interest loans, grants, and work-study funds to cover expenses, such as tuition and fees, room and board, books and supplies, and transportation. The Department's early learning, elementary, and secondary programs annually serve approximately 14,000 school districts and 55 million students attending about 99,000 public and 31,000 private schools.

What We Do. The Department engages in four major types of activities: establishing policies related to federal education funding, including the distribution of funds and monitoring of their use; supporting 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.

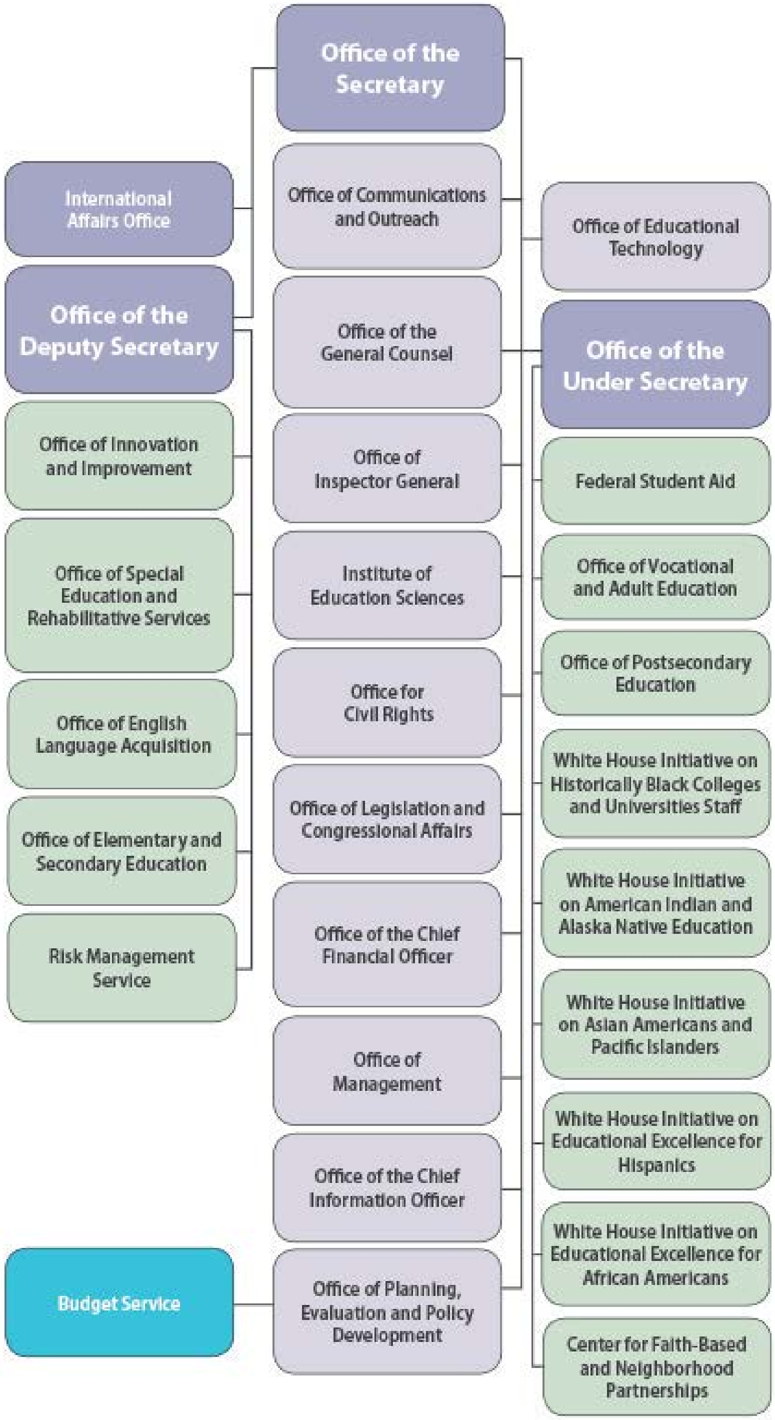
Organizational Structure. Our staff is organized as shown in the organizational chart. Links are provided to web pages that provide a detailed description of the principal offices and overview of the activities of the Department and its programs.

Regional Offices. The Department has ten regional offices that provide points of contact and assistance for schools, parents, and citizens. The primary support within the regional offices is that of communications, civil rights enforcement, and federal student aid services to promote efficiency, effectiveness, and integrity in the programs and operations of the Department. In addition to enforcement offices in federal regions, enforcement offices are located in Washington, D.C. and Cleveland, Ohio.

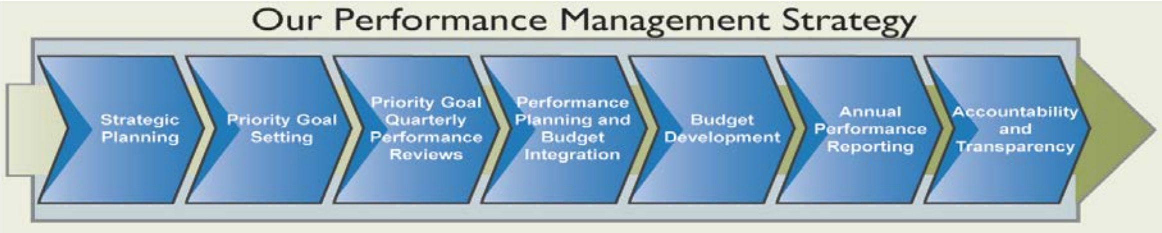
Web Presence. The Department maintains a comprehensive website that focuses on most popular searches, latest news and events, and links to social media.

Our Organization in Fiscal Year 2013

An interactive version of this chart is available. Note that Federal Student Aid is the largest component of the Department. The printed version reflects the Department organization as of September 30, 2013.



The Department's Approach to Performance Management



Performance Management Framework

From its mission and core values, the Department is developing an *FY 2014–2018 Strategic Plan* by building upon and updating the current *FY 2011–2014 Strategic Plan.* In accordance with the *GPRA Modernization Act of 2010*, the Department's framework for performance management starts with the strategic plan, including its priority goals, which serve as the foundation for establishing overall long-term priorities and developing performance goals, objectives, and measures by which the Department can gauge achievement of its stated outcomes. The Department is currently tying its internal management review process, known as the Quarterly Performance Review (QPR), to its Strategic Objectives Annual Review (SOAR) to inform long-term strategy planning, budgeting practices and fiscal management, staff capacity and effectiveness, and transparency around successes and challenges.

As the Department closes out its FY 2011–2014 plan and migrates to the updated FY 2014–2018 plan, the Department's results are mixed—presenting both accomplishments and challenges moving forward. Of the 35 metrics in the FY 2011–2014 plan, 13 have shown significant progress toward established goals, including such important areas as increased state commitments to high-quality outcome metrics for pre-schools; better use of data to evaluate teachers and colleges, and to help students identify their own strengths and remediate areas where they face challenges; as well as some improvements in the number of science, technology, engineering, and math (STEM) degrees being earned. The nation continues to face serious challenges in promoting high standards while at the same time increasing the number of students who successfully complete their formal education and find employment. Progress towards the Department's strategic and priority goals is measured using data-driven review and analysis. This focus promotes active management engagement across the Department, which ensures alignment to the Department's Annual Performance Plans and Annual Performance Reports.

The *Strategic Plan* for FY 2014–2018 is being developed in collaboration with Congress, state and local partners, and other education stakeholders. The *Strategic Plan* is comprised of six foundational strategic goals and seven priority goals (see pages 18–20). The chart below shows the goals, objectives, and priorities established in the Department's current *FY 2011–2014 Strategic Plan*. The Department's updated Strategic Plan for FY 2014–2018 largely follows the same goals and general strategic objectives as our previous plan, with six strategic goals that will help to align the Administration's yearly budget requests and the Department's legislative agenda. The FY 2014–2018 plan will be published early in 2014.

AGENCY MISSION

Mission: To promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

2011–2014 STRATEGIC PLAN

Strategic Goals	Strategic Objectives	Priority Goals
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.	**Objective 1.1:** ***Access.*** Close the opportunity gap by improving the affordability of and access to college and workforce training, especially for low-income students, first-generation college students, individuals with disabilities, and other chronically underrepresented populations. **Objective 1.2:** ***Quality.*** Foster institutional quality, accountability, and transparency to ensure that postsecondary education credentials represent effective preparation for students to excel in a global society and a changing economy. **Objective 1.3:** ***Completion.*** Increase degree and certificate completion and job placement in high-need and high-skilled areas (especially STEM), particularly among underrepresented and economically disadvantaged populations.	• Improve students' ability to afford and complete college
Goal 2: ***Elementary and Secondary Education***. Prepare all elementary and secondary students for college and career by improving the education system's ability to consistently deliver excellent classroom instruction with rigorous academic standards while providing effective support services.	**Objective 2.1:** ***Standards and Assessments.*** Support state-led efforts to develop and adopt college- and career-ready, internationally benchmarked standards, with aligned, valid, and reliable assessments. **Objective 2.2:** ***Great Teachers and Great Leaders.*** Improve the preparation, recruitment, development, support, evaluation, and recognition of effective teachers, principals, and administrators. **Objective 2.3:** ***School Climate and Community.*** Increase the success, safety, and health of students, particularly in high-need schools and communities. **Objective 2.4:** ***Struggling Schools.*** Support states and districts in turning around the nation's persistently lowest-achieving schools. **Objective 2.5:** ***Science, Technology, Engineering, and Mathematics.*** Increase access to and excellence in STEM for all students and prepare the next generation for careers in STEM-related fields.	• Improve learning by ensuring that more students have an effective teacher • Demonstrate progress in turning around the nation's lowest-performing schools • Prepare all students for college and career

Strategic Goals	Strategic Objectives	Priority Goals
Goal 3: *Early Learning.* Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.	**Objective 3.1: *Access.*** Increase access to high-quality early learning programs and comprehensive services, especially for children with high needs. **Objective 3.2: *Workforce.*** Improve the quality and effectiveness of the early learning workforce so that early childhood educators have the skills and abilities necessary to improve young children's health, social emotional, and cognitive outcomes. **Objective 3.3: *Assessment and Accountability.*** Improve the capacity of states and early learning programs to develop and implement comprehensive early learning assessment systems.	• Improve outcomes for all children from birth through third grade
Goal 4: *Equity.* Ensure and promote effective educational opportunities and safe and healthy learning environments for all students regardless of race, ethnicity, national origin, age, sex, sexual orientation, gender identity, disability, language, and socioeconomic status.	**Objective 4.1: *Continue to Increase the Infusion of Equity Throughout the Department's Programs and Activities.*** Promote and coordinate equity- focused efforts in Departmental programs. **Objective 4.2: *Civil Rights Enforcement.*** Ensure equal access to education and promote educational excellence throughout the nation through the vigorous enforcement of civil rights laws.	
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.	**Objective 5.1: *Data Systems.*** Facilitate the development of interoperable longitudinal data systems from early learning through the workforce to enable data-driven decision-making by increasing access to timely, reliable, and high-value data. **Objective 5.2: *Research and Evaluation.*** Support multiple approaches to research and evaluation to support educational improvement and Department decision-making. **Objective 5.3: *Transparency.*** Present relevant and reliable information that increases demand for educational attainment and improves educational performance, while maintaining student privacy. **Objective 5.4: *Technology and Innovation.*** Accelerate the development and broad adoption of new, effective programs, processes, and strategies, including education technology.	• Make informed decisions and improve instruction through the use of data
Goal 6: *U.S. Department of Education Capacity.* Improve the organizational capacities of the Department to implement this Strategic Plan.	**Objective 6.1: *Effective Workforce.*** Continue to build a high-performing, skilled workforce within the Department. **Objective 6.2: *Programmatic Risk Management.*** Improve the Department's program efficacy through comprehensive risk management and grant monitoring. **Objective 6.3: *Implementation and Support.*** Build Department capacity to support states' and other grantees' implementation of reforms that result in improved outcomes for students. **Objective 6.4: *Productivity and Performance Management.*** Improve workforce productivity through information technology and performance management systems.	

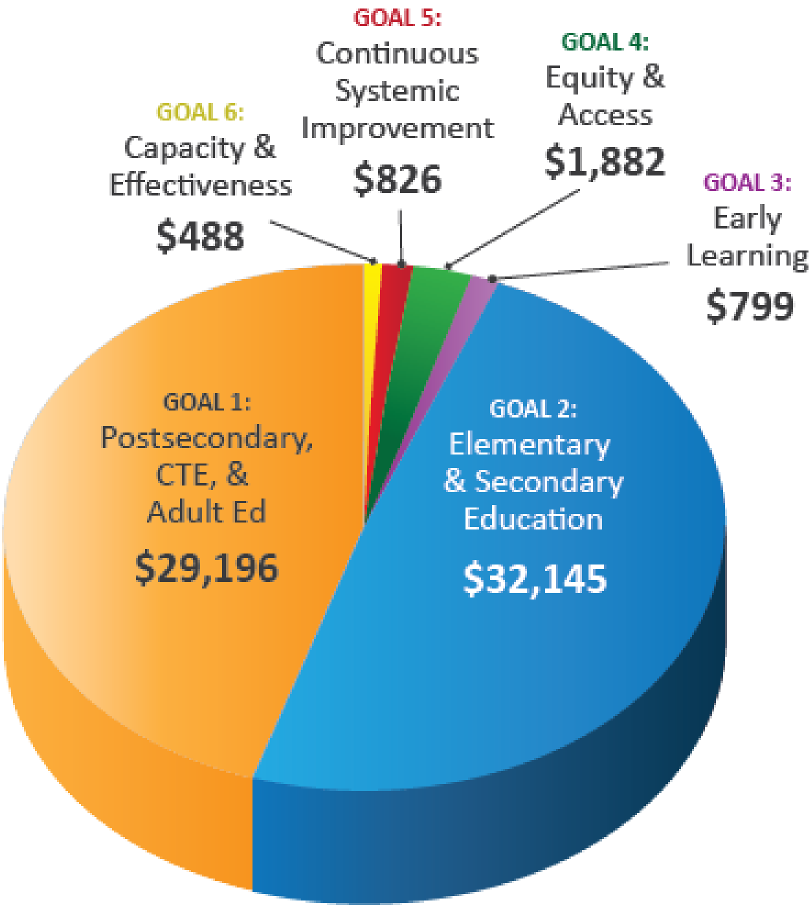
Discretionary Funding by Goal

The Department is the smallest of the 15 cabinet level agencies in terms of government staff, yet it has the third largest grant portfolio among the 26 federal grant-making organizations, with approximately 4,200 employees and $65 billion in discretionary appropriations. Its grant making overall represents 26.3 percent of the Department's $311.7 billion in gross outlays for FY 2013, divided between discretionary and formula grants.

More than 90 percent of the discretionary appropriations are divided among programs and accounts that support state and local education efforts under goals 1, 2, and 3 of the Department's Strategic Plan. In addition, significant amounts are appropriated for federal support in the areas of equity and access, as well as continuous systemic improvement under goals 4 and 5 of the Strategic Plan. Appropriations allocated to goal 6 include management efforts to improve and streamline services offered by the Department and its employees.

For greater detail on the programs and accounts under each goal and other details on performance metrics, see the Annual Performance Report for FY 2012. The Annual Performance Report for FY 2013 will be published in February 2014.

FY 2013 Discretionary Funding by Strategic Goal



Notes: Dollars in millions.
Includes only discretionary funding.

The Department's Priority Goals

The Department has identified six Agency Priority Goals for FY 2012–13 that serve as a particular focus for its activities. 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. In most cases, progress is reported through the third quarter of FY 2013. Quarterly updates are available on performance.gov.

Progress on the Department's FY 2012–13 Priority Goals

Priority Goal: Improve students' ability to afford and complete college

Goal for FY 2012–2013: By September 30, 2013, the Department will develop a college scorecard designed to improve consumer decision-making and transparency about affordability for students and borrowers by streamlining information on all degree-granting institutions into a single, comparable, and simplified format, while also helping all states and institutions develop college completion goals.

Supports Strategic Goal 1.

Overview: As more and more jobs require postsecondary education and training, college is becoming a vital necessity for most Americans. Yet too many students fail to complete college and are burdened by high student loan debt. Institutions raise tuition and fees as states cut education funding for postsecondary institutions. Even with increased federal Pell Grant funding, many Americans remain concerned about whether they can afford the high cost of college. Many Americans do not know about or are confused by the maze of information that is available about colleges and how to pay for college. To help students and their families make decisions about college, the Department has developed a number of resources, such as College Navigator, the College Affordability and Transparency Center, and the Net Price Calculator. In order to meet the national goal to increase the number of college graduates, the Department is committed to helping states and institutions increase the number and percentage of students who complete their postsecondary educations.

The Department will support college completion by identifying and promoting successful evidence-based practices and by highlighting noteworthy state efforts in key areas such as transfer, performance-based funding, and college-and-career readiness. The Department has achieved the goal that was set to implement the College Scorecard. The challenge that remains is that the Department must work with the federal Consumer Financial Protection Bureau to ensure that its Paying for College tool complements and aligns with the data used in the scorecard. Regarding state completion goals, the primary obstacle is that the Department has little influence over states' decisions to set goals.

Progress: The scorecard was released in tandem with the President's State of the Union address in February. This is a first version of the scorecard, with future versions to incorporate additional information, such as earnings data once logistical issues for obtaining such data have been addressed. The number of states with completion goals has grown from 38 to 40 since November 2012 (completion defined as either attainment, graduation, or degree production), with a variety of target dates and levels of specificity. The Department has little influence over state decisions to establish goals, although it continues to encourage goal setting and highlight states that have goals in speeches, editorials, and conversations.

Priority Goal: Improve learning by ensuring that more students have an effective teacher

Goal for FY 2012–2013: By September 30, 2013, at least 500 school districts will have comprehensive teacher and principal evaluation and support systems and the majority of states will have statewide requirements for comprehensive teacher and principal evaluation and support systems.

Supports Strategic Goal 2.

Overview: The Priority Goal is based on the premise, supported by abundant research, that teachers are the single most critical in-school factor in improving student achievement. Principals are often cited as the second most influential in-school factor. Teacher and principal evaluation systems supported by the Department's contributing programs enable the development and identification of effective educators and provide the needed information to improve the educator workforce or provide incentives to teach in challenging schools or shortage areas.

The Department will help strengthen the profession by focusing on meaningful feedback, support, and incentives at every stage of a career, based on fair evaluation systems that look at multiple measures, including, in significant part, student growth.

The Department will support state and district efforts that provide time for teacher collaboration, on-the-job learning opportunities, and professional advancement. As states transition to new college- and career-ready standards, the Department will support opportunities for teachers to enhance their instructional expertise related to the new standards.

The Department continues to ensure adherence to timelines regarding development and adoption of state requirements for comprehensive teacher evaluation systems and for district development and implementation of comprehensive educator evaluation systems.

Current challenges center on maintaining momentum for reform, given districts' and states' current fiscal situation, potential changes in leadership, ongoing development of student growth measures in non-tested grades and subjects, and the scaling up of systems in a relatively short time frame. Another challenge relates to the coordination required of the Department's programs to ensure policy and communications consistency. With multiple programs interacting with the same grantees (e.g., states and districts), to a varying degree, it will take a significant shift in the Department's culture to break down silos to improve coordination.

Progress: The Department has made significant progress in leveraging its programs to support state- and district-led efforts to ensure that more students have effective teachers by better training, recruiting, identifying, and retaining effective teachers, especially in areas with high needs. In particular, the Department's efforts are focused on:

- encouraging teachers to play active roles in the development of these policies through the Recognizing Educational Success, Professional Excellence, and Collaborative Teaching (RESPECT) project and the Teacher Incentive Fund (TIF);
- encouraging school districts to leverage best practices to recruit and retain effective teachers (through TIF grants);

- encouraging the development and adoption of innovative strategies to transform the teaching profession that will ultimately impact student outcomes through TIF, Investing in Innovation (i3), and other grants; and
- creating a critical mass of states that have created the conditions for education innovation and reform through Race to the Top (RTT), *Elementary and Secondary Education Act* (ESEA) Flexibility, School Improvement Grants (SIG), and other initiatives.

As a result of these efforts:

- Twenty-five (25) states have received approval of their evaluation system guidelines through either ESEA Flexibility (21 states) and/or Race to the Top (4 additional states).
- Race to the Top states plan to have 2,012 participating local educational agencies (LEAs) with qualifying evaluation systems for teachers in the 2012–2013 school year.
- Race to the Top states plan to have 1,978 participating LEAs with qualifying evaluation systems for principals in the 2012–2013 school year.
- ESEA Flexibility States plan to have all LEAs with qualifying teacher and principal evaluation systems ready to implement in the 2014–2015 school year.
- And 213 LEAs are implementing evaluation systems under the SIG Transformation Model.
- In addition, 162 LEAs are implementing reformed educator evaluation systems as part of a TIF 3 (2010) grant. 159 LEAs plan to have reformed educator evaluation systems ready to implement in the 2013–2014 school year as part of a TIF 4 (2012) grant.

Priority Goal: Demonstrate progress in turning around the nation's lowest-performing schools

Goal for FY 2012–2013: By September 30, 2013, 500 of the nation's persistently lowest-achieving schools will have demonstrated significant improvement and will have served as potential models for future turnaround efforts.

Supports Strategic Goal 2.

Overview: The goal seeks to prepare all K-12 students for college and career by improving the education system's ability to consistently deliver excellent classroom instruction with rigorous academic standards while providing effective support services.

Through RTT, the SIG program, ESEA Flexibility, and other federal programs, the Department is providing significant resources to dramatically improve the nation's lowest-achieving schools by using intensive turnaround models and identifying the low-achieving schools that are showing strong evidence of successfully turning around.

The Department is focused on supporting innovation, not just compliance monitoring, and is focused on spurring growth in achievement, not just absolute achievement measures as done in the past. Central to these efforts has been the creation of the Office of School Turnaround (OST). Through OST's monthly check-in calls with all 50 states, the School Turnaround Learning Community, and the many OST-facilitated peer-to-peer learning opportunities, states, districts, and schools are learning from each other and scaling up promising practices. In order to better provide technical assistance and support for what is working, OST has created a National Activities Plan to effectively use up to 5 percent of the more than $500 million annual SIG program.

Key barriers and challenges include:

- sustainability of reforms in schools as SIG grants end;
- capacity challenges at state, district, and school level mean some intervention challenges persist;
- insufficient focus on comprehensive turnaround efforts at the state and district level, including alignment of SIG, Race to the Top, and ESEA Flexibility; and
- lack of quality and completeness data/knowledge allows others to define success.

Engagement with external stakeholders includes the following:

- The Department implemented a communications plan that prioritizes regional and local media outreach to share promising stories and proven practices.
- And conducted several outreach events, including SIG/turnaround forum with external stakeholders.

Progress:

- The federal government has made significant investments in turning around the nation's persistently lowest-achieving schools, in large part though SIG, RTT, and the Department's work to grant states flexibility regarding specific requirements of the *No Child Left Behind Act of 2001* (NCLB).
- With more than 1,400 schools now implementing one of the four SIG intervention models, schools around the country have hired new leadership, recruited effective teachers, increased learning time, changed school climate, and offered teachers data-driven professional development aimed at increasing student achievement.
- Thirty-four (34) states and the District of Columbia are carrying out plans to implement turnaround principles in their priority schools under their Department-approved ESEA Flexibility plan.
- Overall, from 2009–10 to 2010–11, 64 percent of SIG schools increased their student proficiency rates in reading, and 65 percent increased their student proficiency rates in math. The remaining SIG schools showed similar proficiency rates or decreases in proficiency rates over these two years. Because there are so many factors that contribute to student proficiency rates, and because these data are only based on one year of SIG implementation, it is not certain that it is attributable to the SIG program.
- Office of School Turnaround has profiled nearly 100 states, districts, and schools implementing promising school turnaround practices, and is using National Activities funds to profile 100 more to eventually share publicly.

Priority Goal: Prepare all students for college and career

Goal for FY 2012–2013: By September 30, 2013, all states will adopt internationally-benchmarked college- and career-ready standards.

Supports Strategic Goal 2.

Overview: The adoption of internationally-benchmarked college- and career-ready standards is the foundation to improving educational outcomes for all students and a fundamental step toward meeting the goal of once again having the highest proportion of college graduates in the world by 2020. The Department is working to increase the number of states approved for ESEA Flexibility, those that have adopted college- and career-ready standards, by working with states that submitted ESEA Flexibility requests to meet the high bar for approval. The Department is developing and targeting technical assistance activities that will, in part, increase state capacity to leverage limited resources and continue to identify promising practices across multiple states.

For example, the Department will build a bank of data to assist in full and effective transition to college- and career-ready standards developed or identified by other Department offices to leverage resources across the agency. Second, the Department is working internally to coordinate the provision of technical assistance across RTT, ESEA Flexibility, and other related programs. And, in the most recent Comprehensive Centers competition, the Department created a Center on Standards and Assessments Implementation that will help build the capacity of state educational agencies to implement college- and career-ready standards. The Department has met with stakeholders to provide information on state plans, as well as to enlist external support and technical assistance for states and districts as they move forward with implementing the new standards.

Progress: Forty-six (46) states and the District of Columbia (47 total) have adopted college- and career-ready standards through adoption of the Common Core State Standards.

Through their ESEA Flexibility requests, 47 states, the District of Columbia, Puerto Rico, and the Bureau of Indian Education have, as of the 2nd quarter, submitted evidence of formal adoption of college- and career-ready standards and provided plans to transition to those standards by 2013–2014. In February 2013, three states (Pennsylvania, Texas, and Wyoming) submitted requests for flexibility. More states may yet request flexibility in the coming months. The total number of states that submitted and that have been approved (39 states and the District of Columbia) to date is significantly more than the Department initially anticipated as nearly all states have requested flexibility and states have been generally willing to make changes to their requests needed to meet ESEA Flexibility principles.

Because of the iterative approach to approval, and the high bar set for states, the Department has not set specific targets for approval but has worked with states individually to meet the high bar. Some states are unable to meet that bar at this time.

Priority Goal: Improve outcomes for all children from birth through third grade

Goal for FY 2012–2013: By September 30, 2013, at least nine states will implement a high-quality plan to collect and report disaggregated data on the status of children at kindergarten entry.

Supports Strategic Goal 3.

Overview: To enhance the quality of early learning programs and improve outcomes for children from birth through third grade, including children with disabilities and those who are English learners, the Department will promote initiatives that improve the early learning workforce, build the capacity of states and programs to develop and implement comprehensive early learning assessment systems, and improve systems for ensuring accountability of program effectiveness.

The nine Race to the Top - Early Learning Challenge (RTT-ELC) FY 2011 grantees all have high-quality plans as evidenced by their winning an RTT-ELC grant and addressing these criteria in their applications and will report disaggregated data on the status of children at kindergarten entry. With the addition of the RTT-ELC FY 2012, four states were added. RTT-ELC states are just beginning to develop or enhance these instruments and are limited to using funds other than those provided under the program. Because of sequestration and a slow economic recovery, there are few state resources to support development of appropriate instruments and the implementation of the assessments. Grantees report that they may not meet their proposed implementation date. In addition, the Department would like to have a national picture, but there are currently no organizations that collect data on state activities around Kindergarten Entry Assessment (KEA) implementation.

Progress: The nine FY 2011 grantees' Annual Performance Reports (APRs), Summaries, and Response Letters have been posted on the RTT-ELC program page (http://www2.ed.gov/programs/racetothetop-earlylearningchallenge/performance.html).

The APRs asked states if they made progress in developing a KEA that is 1) aligned with standards, 2) valid for the target population and purpose, 3) administered by the 2014–15 school year, 4) reported to the Statewide Longitudinal Data System, and 5) significantly funded outside of the RTT-ELC grant. Six states reported progress in all 5 of the progress areas, while Massachusetts reported progress in 4 of the 5, noting that they have not been able to find funding for the project outside of the grant. Three states made it clear that they would not be able to implement the KEA by the 2014–15 school year.

On April 16, 2013, the Departments of Education and Health and Human Services announced they will invest the majority of the 2013 Race to the Top funds ($370 million) for both a new competition and to provide supplemental awards for six state grantees—California, Colorado, Illinois, New Mexico, Oregon, and Wisconsin—who had only received 50 percent of their initial request.

Final Scopes of Work and Amendment Letters for the nine FY 2011 grantees have been posted on the RTT-ELC program page (http://www2.ed.gov/programs/racetothetop-earlylearningchallenge/awards-phase-1.html).

Race to the Top - Early Learning Challenge States on track to reach the goal: California, Colorado, Delaware, Illinois, Maryland, Massachusetts, Minnesota, New Mexico, North Carolina, Ohio, Oregon, Rhode Island, and Washington.

Race to the Top - Early Learning Challenge States not on track to reach the goal: Wisconsin.

Priority Goal: Make informed decisions and improve instruction through the use of data

Goal for FY 2012–2013: By September 30, 2013, all states will implement comprehensive statewide longitudinal data systems (SLDS).

***Supports Strategic Goal 5*.**

Overview: The Department will facilitate the development of interoperable state data systems from early learning through the workforce and will provide support to the education community, including teachers and administrators, on how to understand and appropriately use data to inform policies, instructional practices, and leadership decisions.

Key barriers and challenges include districts' and states' limited resources; state procurement practices; lack of engagement with needed district and state stakeholders; difficulties with cross-agency governance and data sharing; ongoing leadership changes at state educational agencies (SEAs), partner agencies, and at the state level; misconceptions about data collection and the *Family Educational Rights and Privacy Act* (FERPA); state laws, and other regulations related to privacy and confidentiality; lack of training on how to use data to make policy and instructional decisions; and concerns from stakeholders about the long-term sustainability of data systems without long-term federal funding.

Cross-sector linkages between K-12, early childhood, postsecondary, and workforce require a champion outside the SEA (e.g., a governor's office) but political support for widespread data collection and linkage varies. Additionally, state education and labor agencies are relatively new partners so they are figuring out how to work together. The Department is implementing new, targeted technical assistance to increase states' capacity to support statewide longitudinal data systems after federal funding. Additionally, the Department meets with state leadership to affirm their support for and commitment to use SLDS data to make educational improvements, but there is a need for the Department and the Department of Labor (DOL) to provide guidance and resources to states to encourage secure linking of education and workforce records.

Progress: SLDS grants were awarded to 14 states in November 2005 (FY 2006 grantees), 12 additional states and the District of Columbia in June 2007 (FY 2007 grantees), 27 states—including 15 new states—in March 2009 (FY 2009 grantees), 20 states in May 2010 (*FY 2009 American Recovery and Reinvestment Act* grantees), and 24 states and territories—including 6 new states and 2 new territories—in June 2012 (FY 2012 grantees). Based on the five rounds of funding, 47 states, the District of Columbia, Puerto Rico, and the Virgin Islands have received at least one SLDS grant. By the end of FY 2013, we expect all states and DC to have a functioning K-12 SLDS, 12 states to link with early childhood systems, 21 states to link with postsecondary data from state institutions, and 10 to link with labor. Labor linkages have presented the largest challenges for states due to the lack of a common ID, multiple privacy laws, and multi-agency coordination. The Department has increased coordination with DOL and the Workforce Data Quality Initiative grants program, including joint sessions at an annual grantee conference. Additionally, fewer states are ready to link to early childhood data, as evidenced in the low number of Priority 2 FY 2012 applications. The Department is creating a series of best practice materials in early childhood and held a privacy workshop for states on sharing early childhood data.

For more information on the Department's FY 2012–13 Priority Goals, please go to http://goals.performance.gov/agency/ed.

Cross-Agency Priority Goals

In addition to the Agency Priority Goals, the Department contributes to several Cross-Agency Priority (CAP) Goals as required by the *GPRA Modernization Act of 2010:*

Broadband: As part of expanding all broadband capabilities, ensure 4G wireless broadband coverage for 98 percent of Americans by 2016.

Veteran Career Readiness: Improve career readiness of veterans. By September 30, 2013, increase the percent of eligible service members who will be served by career readiness and preparedness programs from 50 percent to 90 percent in order to improve their competitiveness in the job market.

Job Training: Ensure our country has one of the most skilled workforces in the world by preparing 2 million workers with skills training by 2015 and improving the coordination and delivery of job training services.

Science, Technology, Engineering, and Math (STEM) Education: In support of the President's goal that the U.S. have the highest proportion of college graduates in the world by 2020, the federal government will work with education partners to improve the quality of STEM education at all levels to help increase the number of well-prepared graduates with STEM degrees by one-third over the next 10 years, resulting in an additional 1 million graduates with degrees in STEM subjects.

For additional information on the Cross-Agency Priority Goals, please go to http://goals.performance.gov/goals_2013.

Looking Ahead and Addressing Challenges

Education is key to the nation's long-term economic prosperity and is an investment in its future. A highly educated workforce is necessary for American competitiveness in the global economy. The Department continues to maintain strong support for traditional state formula grant programs while continuing to fund competitive initiatives, including Race to the Top, Promise Neighborhoods, Investing in Innovation (i3) grants, and a redesigned School Improvement Grants program. Almost every state is supporting higher standards that ensure students will be college- and career-ready.

The United States is seeing the highest high school graduation rate in three decades, and over the past four years, postsecondary financial assistance available to students and families has increased significantly. Moreover, the Department has seen an increase of more than 50 percent in the number of students accessing higher education on Pell Grants.

Finally, the Department's efforts to support and strengthen the teaching profession through improved teacher evaluation and professional development are predicted to pay long-term dividends.

Going forward, the Department will build on what it has already established:

- state-driven accountability that demands progress for all children;
- high-quality early education for more low-income children;
- more flexibility for state decision-making;
- more support for principals and teachers to apply high standards to practice;
- reforming career education in high schools and community colleges; and
- reforming and simplifying the application process for student aid to help drive college affordability and completion.

The Department cannot stop here, however. It needs to continue to strengthen the support systems necessary for all students to reach the middle class and beyond. Pre-school should be accessible for all students. The Department needs to fund a set of K-12 strategic reforms, including improving teaching to improve learning and making schools safer. The Department needs to ensure that college is more affordable. Ultimately, the Department looks to creating ladders of opportunity to help students living in poverty advance beyond their means.

The Department's 2014–2018 *Strategic Plan* stands on a foundation of six strategic goals:

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

Goal 2: Elementary and Secondary Education.
Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready.

Goal 3: Early Learning.
Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd 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.
Increase educational opportunities for and reduce discrimination against underserved students so that all students are well-positioned to succeed.

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, evidence, transparency, innovation, and technology.

Goal 6: U.S. Department of Education Capacity.
Improve the organizational capacities of the Department to implement this strategic plan.

The challenges to achieving these goals lie in the Department's capacity and funding. The Department must focus on ways to thrive in a climate that is resource constrained. In addressing capacity, the Department will invest in the continuous improvement of a skilled, diverse, and engaged workforce to improve productivity and communication. Competencies will be modernized and sharpened, processes will be streamlined, and succession planning will be ongoing so that there is no break in effective leadership or direction.

The Department will employ comprehensive risk management and grant and contract monitoring to ensure prudent use of public dollars by mitigating risk through increased oversight and support of grantees and contractors.

The Department will build systems to support states' and grantees' implementation of reforms that result in improved outcomes. To this end, the Department will keep the public informed of promising practices and new reform initiatives that result from federal investment and new relationships that have been enabled by innovations afforded by grant initiatives and through use of the latest technologies.

Regarding funding, the Department, as others, faces fiscal uncertainty. Over the past few years, the Department has achieved savings through hiring more slowly and reducing lease costs, utilities, travel, printing, supplies, and some contract costs. Through careful management of funds, the Department was able to avert furloughing employees in FY 2013 so that our customers and stakeholders continued to receive the best possible service. The Department will continue to meet the financial challenge head-on, always with efficiency and responsibility in mind as it complies with the *Balanced Budget and Emergency Deficit Control Act*.

The Department continues to have concerns about interest and default rates on student loans. It will work toward more collaboration with other federal government agencies around science, technology, engineering, and mathematics (STEM) initiatives and with the Department of Health and Human Services on early learning.

The Department sees education as the foundation for a strong national economy. Working with partners and colleagues in Congress, the states, and across the education community, the Department's primary focus will be on the students, who are the reason for its existence.

Enhancing Education Systems and Support: The Department strives to leverage its data, evaluation, performance, and financial systems to meet four important aspects of its mission:

- To contribute to the Department's ability to build customer relations by providing timely responses to customer inquiries.
- To empower employees to make informed decisions by increasing their access to data.
- To increase accountability through improved financial management.
- To keep Department employees informed of project status and ensure that all users receive proper training on new systems.

Finally, as the Department transitions to its new *Strategic Plan* for FY 2014–2018 during the coming year, as an organization it will have charted a roadmap for future success and will continue to evaluate how best to accomplish its strategic goals and objectives during these fiscally challenging times. The new plan is intended to help the Department refine its course and better focus performance within the framework of the *GPRA Modernization Act of 2010*.

The six Department *Strategic Plan* goals guide the day-to-day work of the Department's staff. This plan will help to align the administration's yearly budget requests and the Department's legislative agenda. Continuous improvement rests on ongoing cycles of assessing performance, examining data, and improving practices. Creating a culture of continuous improvement is at the heart of the Department's efforts to work with and support elementary, secondary, and postsecondary educators and policy makers at the federal, state, and local levels.

Accomplishing all of this plan's priorities will require strong coordination and collaboration from Department staff working with Congress, partners at the state and local levels, and all other stakeholders. This includes meeting numerous legislative challenges. In addition, state and federal fiscal constraints may impact the Department's ability to provide the necessary incentives and resources to increase quality, transparency, and accountability.

Reporting on Progress Made on Strategic Goals and Objectives: The Department will continue to use tools such as quarterly reviews to ensure progress toward achieving strategic goals and outcomes. The Department's strategic goals align with government-wide goals and priorities and translate to specific organizational goals. The Organizational Performance Review will continue to be a paramount process for setting goals at the principal office level. These goals will cascade down to the individual employee level through Senior Executive Service plans and through the Department's individual performance plans and metrics.

To support the tracking and reporting of progress against the goals and objectives, the Department has created and is developing its data profile on http://www.performance.gov for key policy and programmatic topics. It is also creating a set of information dashboards and data analysis tools to provide more relevance and context for senior leaders in gauging the impact of individual and collective performance, and in overall strategic decision making.

The effective implementation of the Department's priority and strategic goals will depend, in part, on the effective use of high-quality and timely data, including evaluations and performance measures, throughout the lifecycle of policies and programs. The Department is committed to increasing the number of programs and initiatives that are evaluated using methods that include those consistent with the What Works Clearinghouse Evidence Standards and incorporating cost-effectiveness measures into evaluations and program improvement systems.

Department of Education's FY 2014–2015 Priority Goals
Improve students' ability to complete college By September 30, 2015, increase degree attainment among 25–34-year-old age cohort to 45.6 percent.
Support implementation of college- and career-ready standards and assessment By September 30, 2015, at least 50 states will have adopted college and career-ready standards. By September 30, 2015, at least 50 states will be implementing next-generation assessments, aligned with college- and career-ready standards.
Improve learning by ensuring that more students have effective teachers and leaders By September 30, 2015, at least 37 states will have fully implemented teacher and principal evaluation and support systems that consider multiple measures of effectiveness, with student growth as a significant factor.
Turn around and close achievement gaps in low-performing schools By September 30, 2015, decrease the number of high schools with low graduation rates to 1,285.
Support comprehensive early learning assessment systems By September 30, 2015, at least nine states will be collecting and reporting disaggregated data on the status of children at kindergarten entry using a common measure.
Ensure equitable educational opportunities By September 30, 2015, increase the national high school graduation rate to 83 percent, as measured by the Adjusted Cohort Graduation Rate; decrease disparities in the national high school graduation rate among minority students, students with disabilities, English learners, and students in poverty.
Enable evidence-based decision making. By September 30, 2015, at least 11 percent of select new[1] (non-continuation) discretionary grant dollars will reward evidence.

[1] A list of reform-directed grant programs will be provided. New grant dollars that "reward evidence" include all dollars awarded as a result of addressing tiered-evidence as either eligibility threshold (e.g., i3 competition), absolute priority, competitive priority (earning at least one point for it), or selection criteria (earning at least one point for it).

Financial Highlights

Introduction

This section provides summarized information and analyses of the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It is intended to help increase the AFR users' understanding of the Department's business processes and provide a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces accurate and timely financial information. Our financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB), specifically in Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For twelve consecutive years, the Department has earned an unqualified (or "clean") audit opinion. The financial statements and notes for FY 2013 are on pages 45–89 and the Independent Auditors' Report begins on page 94.

Management's assessment of internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, provides the Department with credibility to external stakeholders and confidence that financial data produced from its underlying financial systems and business processes are complete, correct, and reliable. This ensures the financial statements conform with applicable federal reporting requirements, the Department has trustworthy financial information for good decision-making, and various reports can be produced for both internal and external stakeholders.

Trend Analysis

The tables below summarize trend information about components of the Department's financial condition. The Table of Key Measures below summarizes trend information about components of the Department's financial condition and offers a snapshot of the Department's financial condition as of September 30, 2013, compared with the end of fiscal years 2012–2009, displaying net cost, assets, liabilities, and net position. The Summarized Financial Data graphic is a presentation of the table data, rounded to the billions, for an alternate display over the same five consecutive years.

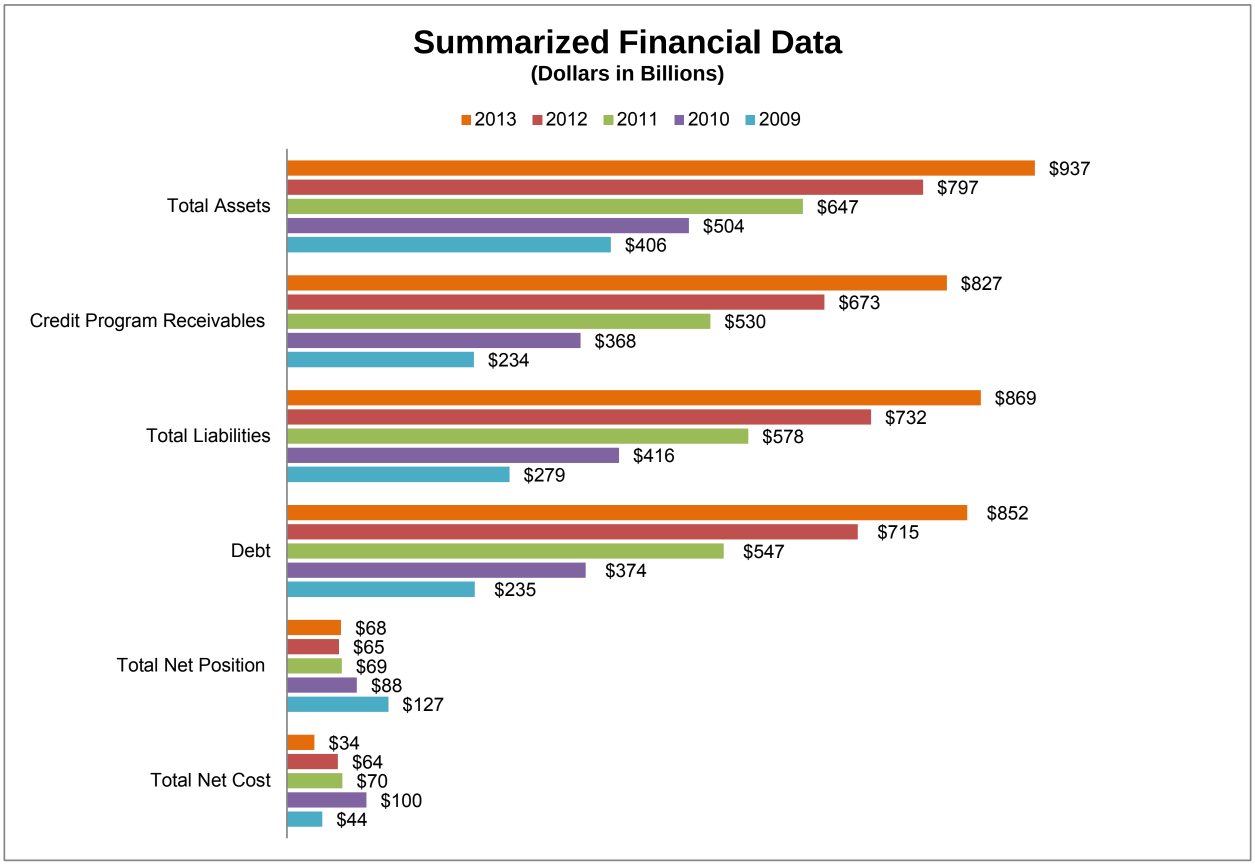
Table of Key Measures

As of September 2013, 2012, 2011, 2010, 2009

(Dollars in Millions)

	% Change FY 13/FY 12	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Costs						
Gross Cost	-31%	$ 61,353	$ 89,263	$ 89,910	$ 116,953	$ 55,412
Earned Revenue	+5%	(26,881)	(25,490)	(20,397)	(17,279)	(11,251)
Total Net Cost of Operations	-46%	**$ 34,472**	**$ 63,773**	**$ 69,513**	**$ 99,674**	**$ 44,161**
Net Position						
Fund Balance with Treasury	-11%	$ 108,732	$ 121,993	$ 114,085	$ 132,259	$ 168,032
Credit Program Receivables, Net	+23%	826,684	673,488	530,491	367,904	234,254
Other	+14%	1,642	1,446	1,966	3,501	3,659
Total Assets	+18%	**937,058**	**796,927**	**646,542**	**503,664**	**405,945**
Debt	+19%	852,432	715,303	547,108	374,335	235,385
Liabilities for Loan Guarantees*	-100%	-	1,037	10,025	14,479	20,543
Other	+9%	16,783	15,432	20,824	27,248	22,957
Total Liabilities	+19%	**869,215**	**731,772**	**577,957**	**416,062**	**278,885**
Unexpended Appropriations	-2%	71,371	72,686	71,729	94,371	127,269
Cumulative Results of Operations	+53%	(3,528)	(7,531)	(3,144)	(6,769)	(209)
Total Net Position (Assets minus Liabilities)	+4%	**$ 67,843**	**$ 65,155**	**$ 68,585**	**$ 87,602**	**$ 127,060**

* The presentations of the FY 2012 and earlier Liability for Loan Guarantees is in the Liability section of the Department's Balance Sheet; however, the presentation of the same F Y 2013 liability is in the Credit Program Receivables, Net Balance Sheet line item, due to its negative value.

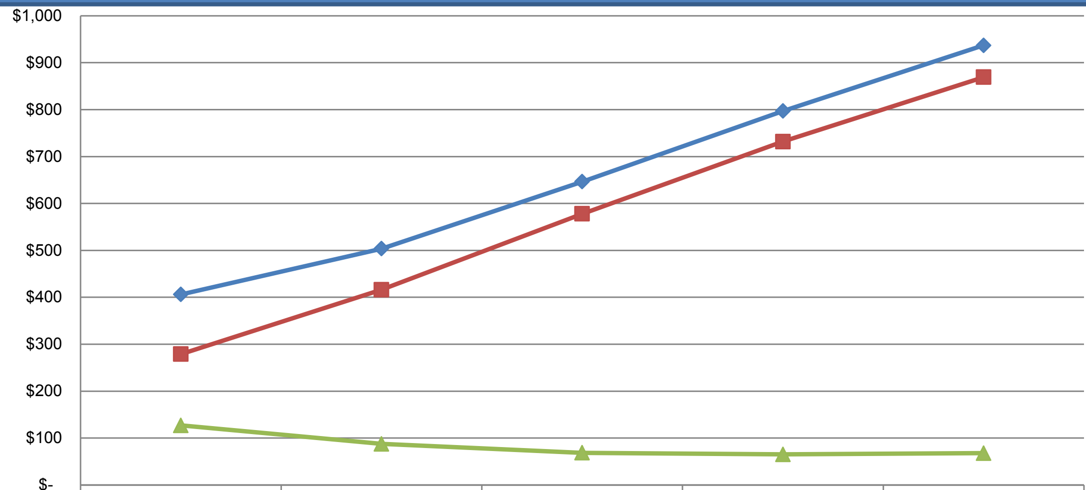


Balance Sheet

The Consolidated Balance Sheet is "as of a particular date" in time (the end of the fiscal year) and provides descriptions of Department "assets," "liabilities," and the difference, which is known as "net position."

Comparison of Department's Assets , Liabilities & Net Position for Fiscal Years 2009–2013

(Dollars in Billions)



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total Assets	$405,945	$503,664	$646,542	$796,927	$937,058
Total Liabilities	$278,885	$416,062	$577,957	$731,772	$869,215
Total Net Position	$127,060	$87,602	$68,585	$65,155	$67,843

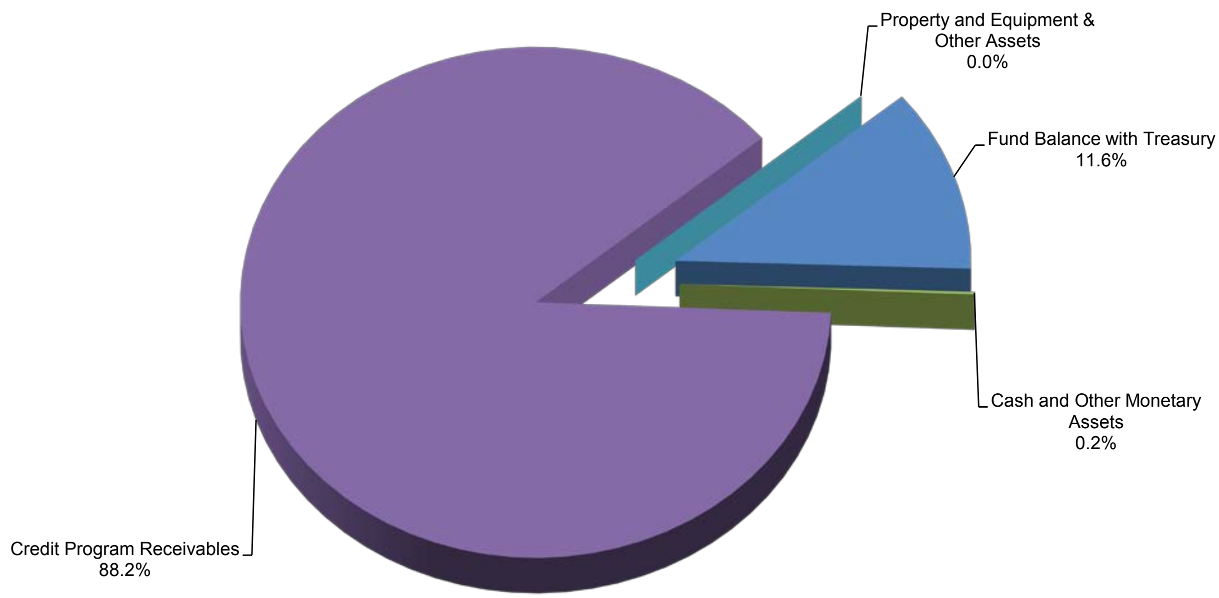
Table amounts are presented in millions.

Analysis of Assets

Assets of the Department totaled $937.1 billion as of September 30, 2013, an increase of about 18 percent over the FY 2012 balance. The vast majority of the increase in assets relates to the Credit Program Receivables, which increased by $153.2 billion, a 23 percent increase over FY 2012. This Credit Program Receivables increase is largely the result of Direct Loan disbursements for new loan originations and Federal Family Education Loan (FFEL) consolidations, net of borrower principal and interest collections, which increased the net portfolio for Direct Loans by $129.5 billion ($27.4 billion was disbursed for consolidated loans). Total Assets are primarily comprised of Credit Program Receivables.

The presentation of the FY 2012 Liability for Loan Guarantees is in the liability section of the Department's Balance Sheet, while the presentation of the FY 2013 liability is in the Credit Program Receivables, Net line item which is presented in the assets section of the Balance Sheet.

Composition of Assets
As of September 30, 2013
($937.1 Billion)



Assets as of September 30, 2013 and 2012 *(Dollars in Millions)*		**2013**		**2012**
Fund Balance with Treasury	$	108,732	$	121,993
Cash and Other Monetary Assets		1,482		1,307
Credit Program Receivables		826,684		673,488
Other Assets*		160		139
Total Assets	$	937,058	$	796,927

* The Other Assets amount includes Accounts Receivable, Property and Equipment, and Other.

The chart below depicts the Department's shift in the composition of its student loan portfolio from guaranteed to direct loans. While there has been a pronounced increase in the Direct Loan Program, FFEL Guaranteed Loans have been shrinking because no new FFEL Loans were made after June 30, 2010. This shift is in accordance with the provisions of the *SAFRA Act,* which has required the transition for new loans to full direct lending instead of guaranteeing the loans provided by the private sector.

Comparison of the Department's
Credit Program Receivables, Net and
FFEL Guaranteed Loans Principal Outstanding
for Fiscal Years 2009

(Dollars in Billions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Credit Program Receivables, Net*	$234	$368	$530	$673	$827
FFEL Guaranteed Loans Principal Outstanding	$457	$390	$328	$291	$264

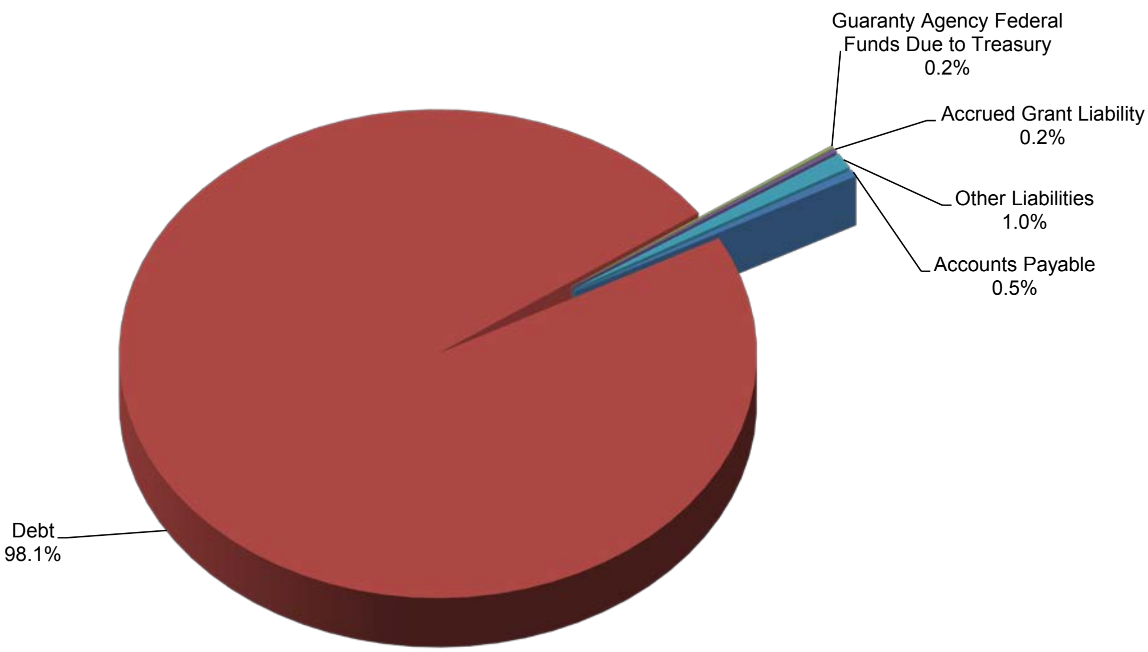
* Credit Program Receivables, Net are presented using net present value methodology as required by OMB A-129, Credit Reform Program Guidance, whereas FFEL Guaranteed Loans Principal Outstanding does not use present value methodology.

Analysis of Liabilities

Liabilities of the Department totaled $869.2 billion as of September 30, 2013, an increase of about 19 percent over the FY 2012 balance. The increase is the result of current year borrowing from Treasury (Debt) 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 $137.1 billion increase in Debt. Total Liabilities are primarily made up of Debt resulting from Credit Program Receivable activity.

The presentation of the FY 2012 Liability for Loan Guarantees is in the liability section of the Department's Balance Sheet, while the presentation of the FY 2013 negative liability is in the Credit Program Receivables Balance Sheet line item. As mentioned above, with the *SAFRA Act* legislation, the Department ceased to guarantee loans after June 30, 2010.

Composition of Liabilities
As of September 30, 2013
($869.2 Billion)



Liabilities as of September 30, 2013 and 2012 *(Dollars in Millions)*		**2013**		**2012**
Accounts Payable	$	4,129	$	4,129
Debt		852,432		715,303
Guaranty Agency Federal Funds Due to Treasury		1,482		1,307
Accrued Grant Liability		2,170		2,901
Liabilities for Loan Guarantees		-		1,037
Other Liabilities		9,002		7,095
Total Liabilities	$	869,215	$	731,772

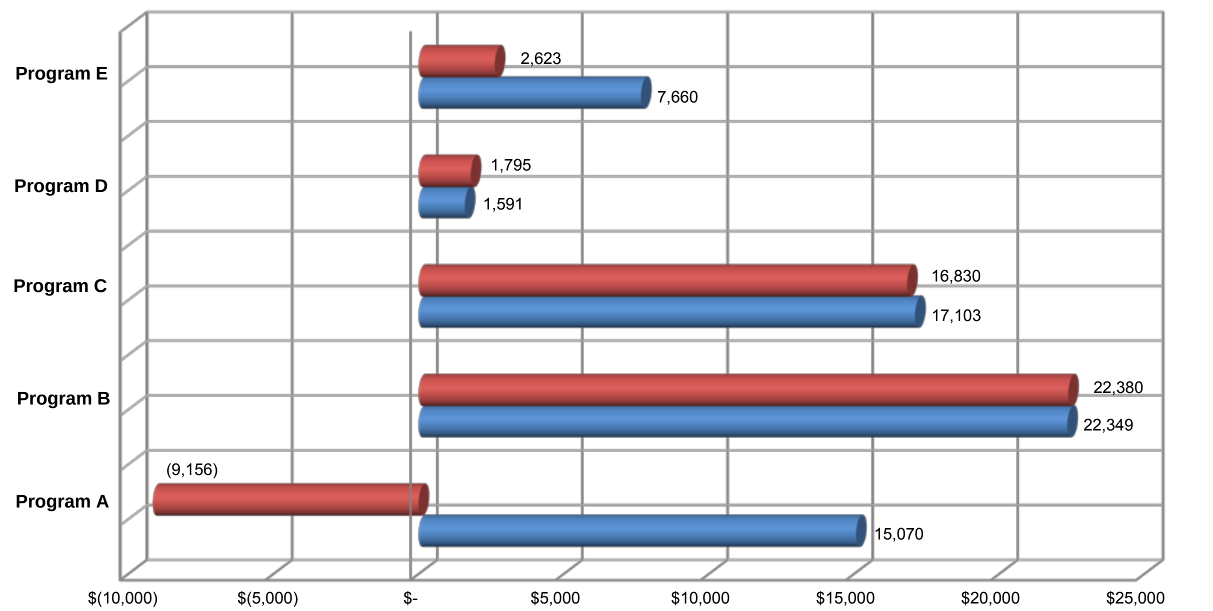
Statement of Net Cost

The Consolidated Statement of Net Cost reports the components of the net costs of the Department's operations for a "particular period" of time. The net cost of operations consists of the gross cost incurred by the Department less any exchange (i.e., earned) revenue from activities.

Net Costs of the Department totaled $34.5 billion for the year ended September 30, 2013, a 46 percent decrease compared to total program net costs for the prior year. The Department's negative net cost for Program A, as shown below, is derived using economic models that project, on a net present value basis, which results in a higher estimate of future cash inflows (net of outflows) related to the loan programs. Current year models predict the net present value of future cash flows will exceed program costs by $27 billion and $12.6 billion for Direct Loans issued in the current year and prior year, respectively, and are $8.8 billion higher for prior year FFEL. These estimated cash flows are amortized, or spread out, over 30 years and are re-valued each year based on current economic conditions.

Net Cost By Program FY 2013 & FY 2012

(Dollars in Millions)



	Program A: Increase College Access, Quality, and Completion	Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Program C: Ensure Effective Educational Opportunities for All Students	Program D: Enhance the Education System's Ability to Continuously Improve	Program E: American Recovery and Reinvestment Act and Education Jobs Fund
2013	(9,156)	22,380	16,830	1,795	2,623
2012	15,070	22,349	17,103	1,591	7,660

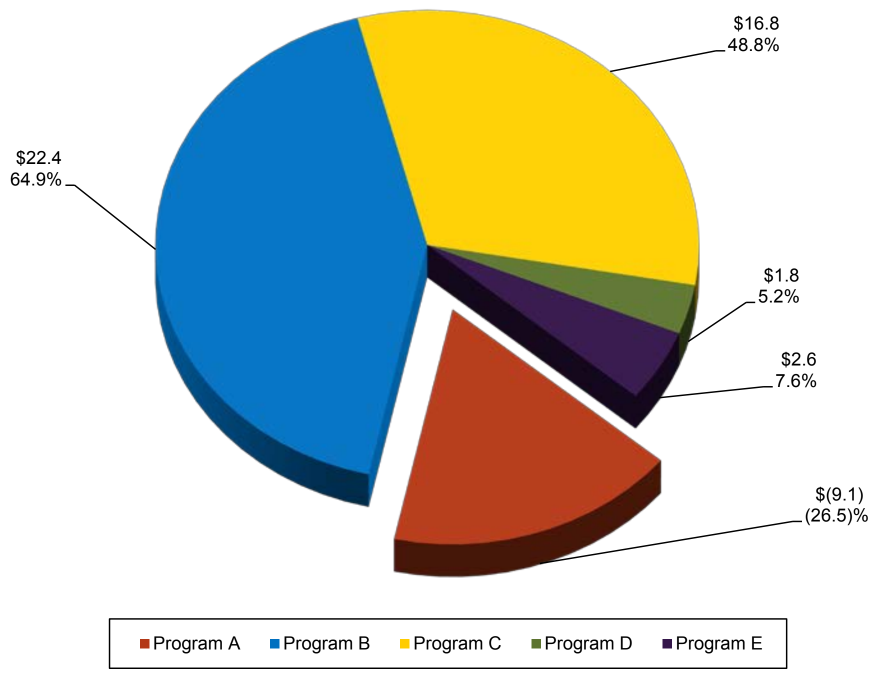
As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the goals presented in the Department's *FY 2011–2014 Strategic Plan*.

The Department has more than 100 grant and loan programs (http://www2.ed.gov/programs/gtep/gtep.pdf). In the Statement of Net Cost, they have been mapped to the Strategic Goals. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* (IDEA) grants. Each of these programs' FY 2013 appropriations exceeded $10 billion. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process, and formula grants, using formulas determined by Congress with no application process. Among the largest K-12 discretionary grants are: TRIO, RTT, and the Teacher Incentive Fund. Among the largest formula grants are: Title I Grants to LEAs (Title I, *Elementary and Secondary Education Act of 1965*, as amended) and IDEA grants.

Net Cost Program	Reporting Group/ Program Office	Strategic Goal
Program A: Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Vocational and Adult Education	**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.
Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Office of Elementary and Secondary Education Hurricane Education Recovery	**Goal 2: Elementary and Secondary Education.** Prepare all elementary and secondary students for college and career by improving the education system's ability to consistently deliver excellent classroom instruction with rigorous academic standards while providing effective support services. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Program C: Ensure Effective Educational Opportunities for All Students	Office of English Language Acquisition Office for Civil Rights Office of Special Education and Rehabilitative Services	**Goal 4: Equity.** Ensure and promote effective educational opportunities and safe and healthy learning environments for all students regardless of race, ethnicity, national origin, age, sex, sexual orientation, gender identity, disability, language, and socioeconomic status.
Program D: Enhance the Education System's Ability to Continuously Improve	Institute of Education Sciences Office of Innovation and Improvement	**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.
Program E: *American Recovery and Reinvestment Act* and Education Jobs Fund	*American Recovery and Reinvestment Act* Education Jobs Fund	Cuts across Strategic Goals 1–5

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

Composition of Net Cost by Program
For the Year Ended September 30, 2013
($34.5 Billion)

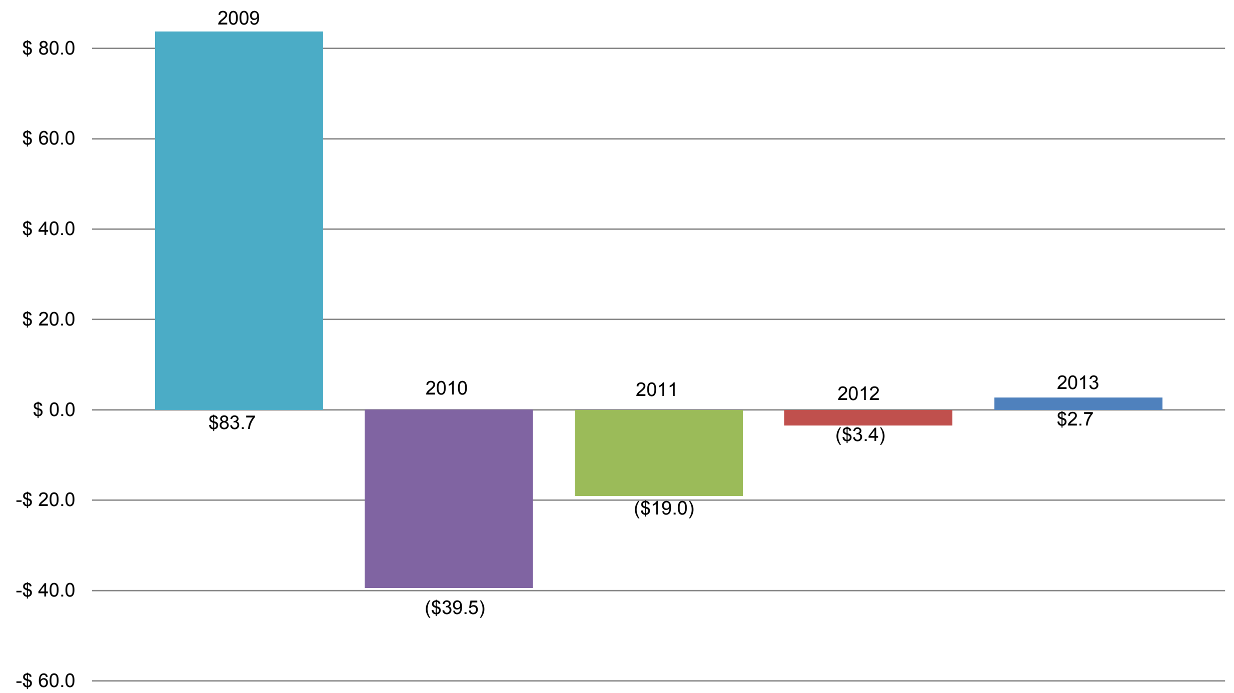


Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the beginning net position, the transactions that affect net position presented for a "particular period" of time, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for federal credit financing and liquidating funds, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net Position of the Department totaled $67.8 billion for the period ended September 30, 2013. This reflects a 4 percent increase over the prior fiscal year.

Changes in Net Position for FY 2009–2013

(Dollars in Billions)



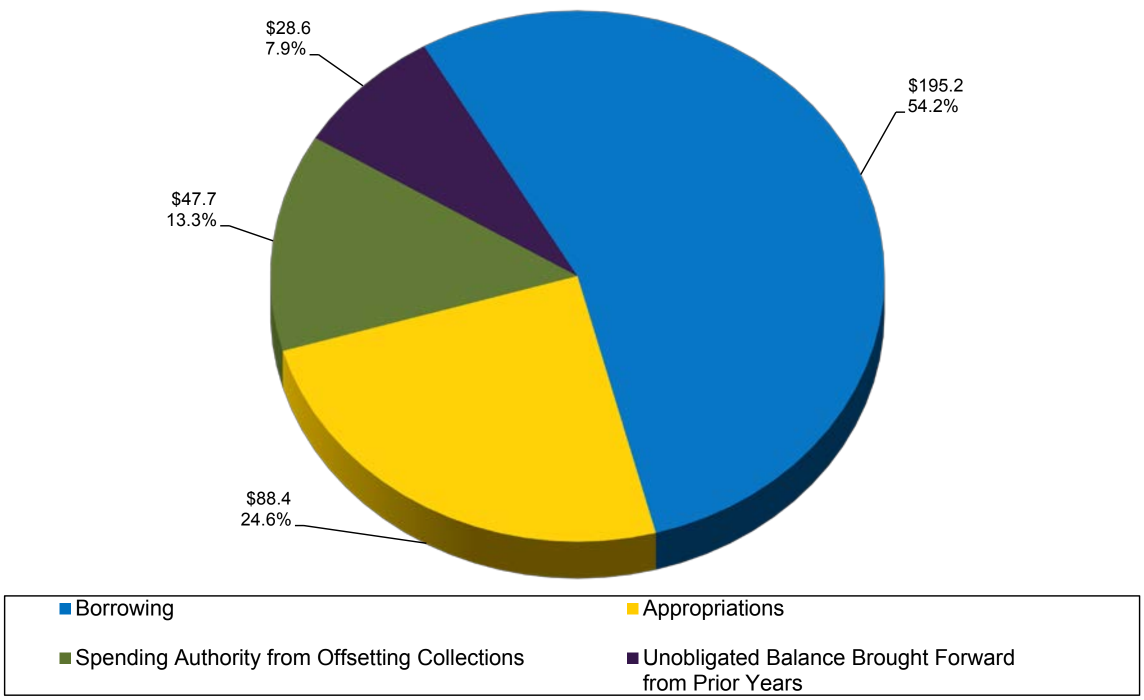
Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents information on how budgetary resources were made available and their status at the end of the fiscal year. Information in this statement is reported on the budgetary basis of accounting.

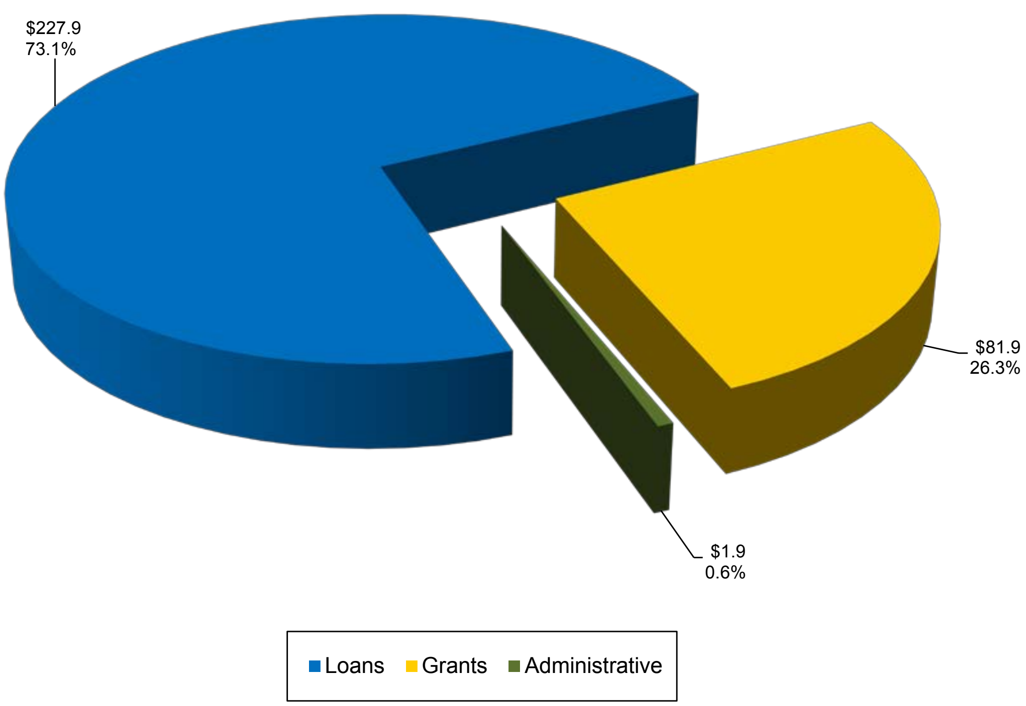
Budgetary resources of the Department totaled $359.9 billion for the period ended September 30, 2013, decreasing 4 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $102.5 billion and non-budgetary credit reform resources of $257.4 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

Gross outlays of the Department totaled $311.7 billion for the period ended September 30, 2013 and consisted of appropriated budgetary resources of $90.6 billion and non-budgetary credit reform funding of $221.1 billion.

Sources of Funds
For the Year Ended September 30, 2013
($359.9 Billion)



Gross Outlays
For the Year Ended September 30, 2013
($311.7 Billion)



Additional information on the Department's sources of funds and spending is shown in the Schedule of Spending on pages 134–135. This schedule includes sections titled, "What Money Is Available to Spend" and "How Was the Money Spent."

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 2013 and FY 2012, 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.

Analysis of Controls, Systems, and Legal Compliance

This section provides management assurances regarding compliance with the *Federal Managers' Financial Integrity Act of 1982* (P.L. 97-255) (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. It also provides an analysis of the Department's controls, systems, and legal compliance.

The Department is the smallest of the 15 cabinet level agencies in terms of government staff, yet it has the third largest grant portfolio among the 26 federal grant-making organizations. The Department manages the second largest loan portfolio in the federal government. As such, the Department relies heavily on its internal controls and system frameworks to ensure that the Department maintains appropriate stewardship over funds entrusted to it by the American people.

Controls Framework and Analysis

The FMFIA requires agencies to establish internal controls that provide reasonable assurance that the following objectives are achieved:

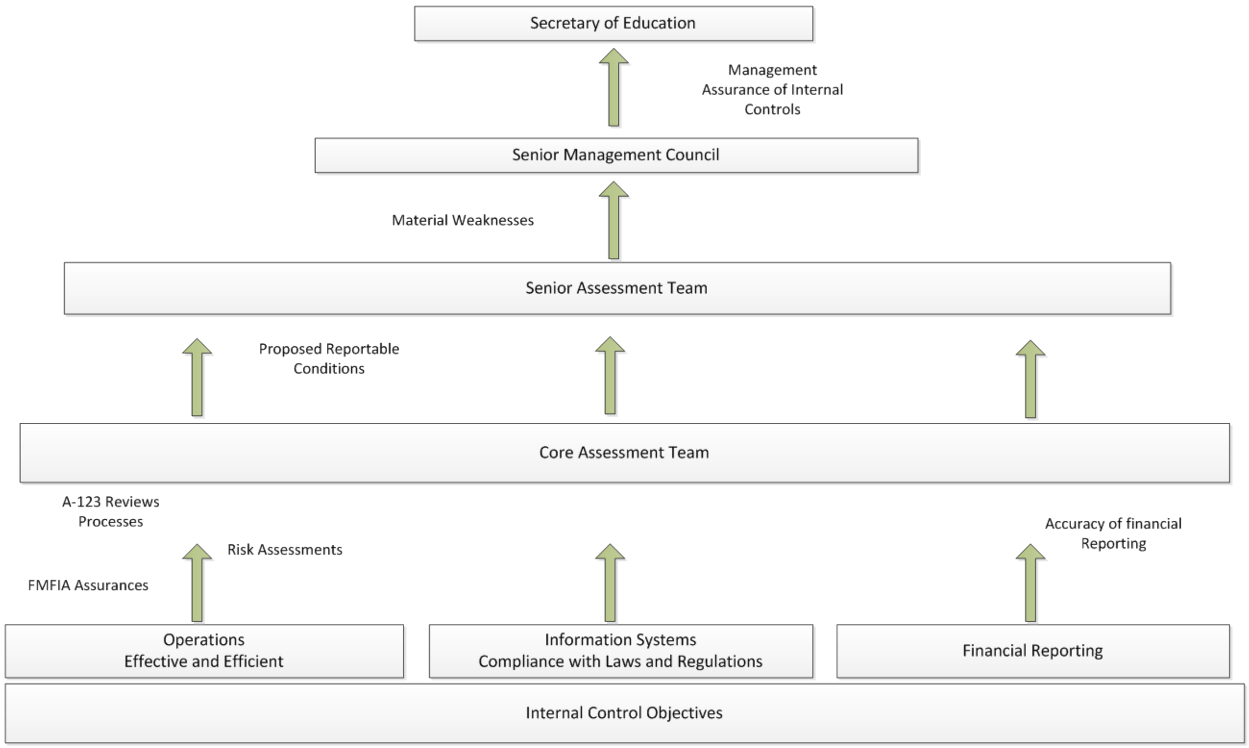
- effectiveness and efficiency of operations,
- compliance with applicable laws and regulations, and
- reliability of financial reporting.

OMB Circular A-123 implements the FMFIA and defines management's responsibility for internal control in federal agencies.

The Department's internal control framework is robust. Consistent with Circular A-123, the Department established a Senior Management Council (SMC) comprised of senior leaders from across the Department to provide oversight over the internal control framework. This oversight role includes identifying focus areas, determining when internal control deficiencies are significant, setting expectations for their correction, and monitoring the implementation of corrective actions. The Department also established a Senior Assessment Team (SAT) and Core Assessment Team (CAT) to help guide the internal control process.

Each principal office within the Department implements internal controls to achieve operational goals, which include internal controls over: operations, financial reporting, and information technology systems. The process begins with risk assessments of the Department's business processes and information technology systems. The SAT considers the potential impact of risks using a multi-dimensional framework comprised of numerous risk factors. The SAT recommends higher risk processes and systems for more frequent and rigorous internal control evaluations. Through the evaluations, Department offices document key controls, evaluate and test the design and effectiveness of those controls, and communicate results to the SAT. Each office must develop and implement corrective action plans for all reported deficiencies. Throughout this process, the CAT provides technical support.

The office of Federal Student Aid (FSA) maintains a parallel governance structure that is integrated with the Department's. FSA's Chief Operating Officer both chairs the FSA SMC and participates as a member of the Department's SMC, FSA's Chief Financial Officer both chairs the FSA SAT and participates as a member of the Department's SAT, and the chair of the Federal Student Aid CAT participates as a member of the Department's CAT. Additional information on Federal Student Aid's internal control framework, assessment of controls, and related assurances can be found in the Analysis of Systems, Controls, and Legal Compliance section of the *FY2013 Federal Student Aid Annual Report.*



Controls over Operations

The Department's two primary areas of operation are administering grants and loans. Other significant business activities include the management of contracts and interagency agreements, human capital, facilities, and legal enforcement activities. To ensure the efficient and effective implementation of these and other operations, including compliance with applicable laws and regulations, the Department issued a Directive, establishing in policy that all managers are responsible for ensuring the development, maintenance, documentation, evaluation, and improvement of internal control for the programs and administrative functions for which they are responsible. The Directive also designates the Chief Financial Officer (CFO) as the Senior Internal Control Official for the Department. In this role, the Office of the CFO develops and issues policies, procedures, and reporting requirements; develops and provides training and technical assistance; coordinates with the SMC, SAT, and CAT; conducts selected internal control reviews; and develops and maintains internal control and audit follow-up systems.

Each principal office assesses the design and operation of applicable key controls in their respective areas of responsibility and prepares an annual FMFIA assurance which highlights internal control processes and reports material weaknesses and significant deficiencies identified. These management assurances, along with the results of internal control reviews and external audits serve as the basis for the Secretary's assurance statement provided later in this section of the report.

In FY 2013, the Department identified no material weaknesses in internal controls over the effectiveness and efficiency of operations. The Department, however, continues to identify challenges in the administration of grants, loans, and other program operations. Additionally, the OIG has identified five FY 2014 management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. A summary of the OIG report with links to the full report are provided in the Other Information section.

Controls over Financial Reporting

Internal Control over Financial Reporting (ICOFR) is a subset of FMFIA, Section 2. For the Department to comply with ICOFR, each principal office must annually assess and report on the adequacy and effectiveness of the applicable internal controls they have in place to protect the reliability and integrity of the Department's financial reporting. The Office of Management and Budget (OMB) implementation guidance describes a process for accessing internal control over financial reporting. The Department's assessment of the effectiveness of control over financial reporting is performed in accordance with OMB Circular A-123, Appendix A (A-123A) and leverages the implementation guidance. A-123A requires each agency to provide an annual statement of assurance on the effectiveness of internal control over financial reporting as part of the overall FMFIA assurance statement.

Planning is a critical step in the A-123A compliance process. Key decisions that drive the assessment are made during the planning phase. Management must decide the materiality threshold, the scope of the assessments (e.g., which financial processes to review), and the test approach/methodology as well as other key decisions. Materiality levels were established for each of the four principal financial statements based on the Government Accountability Office (GAO) Financial Audit Manual (FAM) guidance and taking into consideration the Department's established materiality threshold.

Each year, as a function of the risk assessment and analysis process, management identifies areas to test. For any deficiency identified during testing, the CFO staff works with control owners to facilitate Corrective Action Plan development, approval, and implementation. The Department also considers the status of ongoing corrective actions and results of the financial statement audit.

In FY 2013, the Department focused on 10 business processes and assessed 60 key controls. The testing process was primarily focused on assessing whether key controls were operating effectively as of June 30, 2013. Additionally, follow-up testing and the results of the financial statement audit were considered to determine the effectiveness of controls as of September 30, 2013. The Department concluded that internal controls over financial reporting were in place and working.

FSA conducted its assessment of effectiveness of internal control over financial reporting and provided its assurances to the Department. Overall, the results of the FSA self-assessments revealed no material weaknesses.

In FY 2012, FSA identified and disclosed two material weaknesses related to the issues with the large-scale system conversions for the Debt Management Collection System/2 (DMCS2) and Affiliated Computer Services (ACS), Inc. Education Servicing (ACES) that occurred during that review period. Nine Corrective Action Plans (CAPs), with underlying action items, were developed to address those issues, and another CAP was added in FY 2013. At the end of FY 2013, nine of the ten CAPs have been closed and the issues remediated. The remaining

CAP continues to be worked and will be tracked and monitored through to resolution, or will be resolved through new contract actions.

In addition, throughout FY 2013, FSA has been committed to responding to external audit recommendations in its Report on Internal Controls over Financial Reporting. At the end of FY 2013, 22 CAPs have been developed to address the recommendations. Corrective actions taken in 2013 sufficiently remediated the underlying conditions such that, for the year ended September 30, 2013, these deficiencies no longer aggregate to a material weakness.

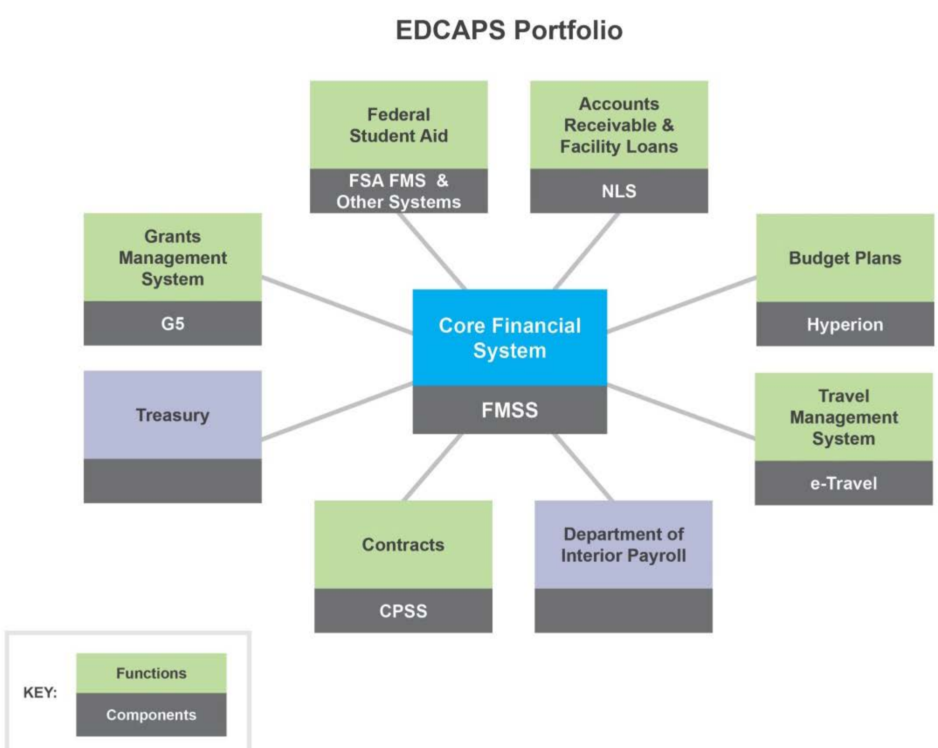
Additional information on FSA's assessment of controls and related assurances can be found in the Analysis of Systems, Controls, and Legal Compliance section of the *FY2013 Federal Student Aid Annual Report*.

Controls over Systems

Among the guidance applied by the Department in assessing controls over systems during FY 2013 were FMFIA (section 4) and OMB Circular A-127, *Financial Management Systems*, or Appendix D of OMB A-123, *Compliance with the Federal Financial Management Improvement Act of 1996.*

The Department's core financial applications have been brought together under the umbrella of the Education Central Automated Processing System (EDCAPS). EDCAPS is a suite of financial applications, including commercial off-the-shelf and custom code and interfaces that encompass the Department's core financial management processes.

The Department's financial management systems are designed to support effective internal controls and to produce accurate, reliable, and timely financial information. Our current financial systems (EDCAPS) portfolio is depicted in the image below:



The components of EDCAPS are linked through custom interfaces to provide the Department with real-time financial management capabilities. EDCAPS serves approximately 4,200 departmental users in Washington, DC, as well as 10 regional offices throughout the United States. EDCAPS also serves approximately 100,000 external users.

Components of EDCAPS

Financial Management System Software (FMSS)—The FMSS is the Department's core financial system. It provides financial management functions for the Department, including general ledger, financial statement production, funds control and budget reporting, cost accounting, and accounts receivable/administrative accounts payable functions.

Contracts and Purchasing Support System (CPSS)—The CPSS provides users with a central repository to enter, retrieve, manage, and view acquisition/contract-related data. The centralized data provides enhanced information dissemination with the ability to respond to internal and external information requests. Various other systems and processes are used to augment and supplement the business process management gaps in the current environment.

Federal Student Aid's Financial Management System (FSA's FMS)—FSA's FMS is an integrated financial management system, utilizing Oracle Federal Financials, which incorporates full financial business functionality, including general ledger, accounts payable, and accounts receivable across multiple FSA program areas. FMS supports FSA service areas, enterprise areas, and partners and provides timely and consistent financial data for strategic decision making. The core of FMS encompasses interfaces (file transfers of data) from program applications to the Oracle Financials application and the consolidation and centralization of all accounting and financial data into one system for FSA programs. There are also customized modules or extensions that provide additional functionality to FMS allowing for the collection of data from financial partners in various FSA programs. FMS, in turn, interfaces with the Department's general ledger and with other systems to provide accounting and payment transactions. In addition, FMS provides FSA with a fully auditable accounting system incorporating appropriate security, controls, and audit trails.

Grants Management System (G5)—G5 manages all grant activities from initial recipient contact, through grant processing, to payments and grant closeout. This single system approach provides improved grant information management, recipient response time, and accuracy of financial management information.

Travel Management System (TMS)—The Department participates in e-Travel. Under e-Travel, travel system functionality is provided under contract by E2 solutions. EDCAPS interfaces with E2 in accordance with an established memorandum of understanding.

Hyperion Budget Planning—Hyperion Budget Planning is used by the Department for preparing annual spending plans. The Plan versus Actuals Report is generated from this system.

EDCAPS also has interfaces with the Department of Interior for payroll data, the Department of Treasury for payment data, and the Nortridge Loan System (NLS) for promissory note data.

Self-Assessments

The Department is keenly aware of the importance of strong internal controls and adequate security controls over system access and data and continually looks for ways to strengthen these controls. The Department's System Security Plan (SSP) identifies management, operational, and technical security controls for EDCAPS. The SSP is based upon a review of the environment, documentation, and interviews with information system personnel. While the Department has not eliminated all risks, management reviews confirm that all favorable actions are taken to diminish deficiencies and strengthen internal control overall. Risks are routinely monitored and contingency and mitigation plans are maintained.

Because EDCAPS is a moderate-impact application per Federal Information Processing Standards (FIPS) 199, this system is subject to the moderate-impact baseline required by National Institute of Standards and Technology (NIST) Special Publication (SP) 800 53 Rev 3. Therefore, EDCAPS uses the NIST SP 800 53 Rev 3 moderate-impact baseline as its minimum security control requirements.

All internal EDCAPS user accounts are established using an EDCAPS Access Request Form. This form is used to grant initial access to EDCAPS subsystems and must be validated by the user's supervisor and the appropriate Information System Security Officer. Access is based on the user's role or job title. Principles of least privilege and segregation of incompatible duties are applied at all times. Access to all EDCAPS applications is protected by a user ID and password. Each application has a security administrator who is responsible for vetting individual EDCAPS access forms and for establishing their accounts. Access is granted based on the "need to know" and the least privilege the user requires performing his or her duties.

The *Federal Financial Management Improvement Act* (FFMIA) requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. Agencies are required to assess and report on whether these systems comply with FFMIA on an annual basis.

EDCAPS has been designed to deliver efficient and effective operations, while complying with FFMIA. In determining whether the Department's financial systems comply with system controls, management considered available information from annual audit reports and other relevant and appropriate information. The Department's determination leverages the results of related annual reviews. The Department is committed to continually improving all controls and acknowledges the ongoing efforts of security management to strengthen financial management systems.

Based on self-assessments and results of external audits, the Department has concluded that there are no material weaknesses in control over systems. However, self-assessments and external audits continue to identify significant challenges associated with maintaining highly effective controls over the multiple areas of system controls.

FSA conducted its assessment of effectiveness of internal control over financial reporting and has provided its assurances to the Department. A significant component of FSA's assessment includes Statements on Standards for Attestation Engagements (SSAE) 16 audits over its loan servicers' controls, including system controls. No material weaknesses were identified. Of the more than 3,200 controls tested, about 6 percent of them had control weaknesses. Overall, the impact of those weaknesses was immaterial to the FSA financial statements. Accordingly, FSA concluded that its systems substantially complied with the requirements of the *Federal Financial Management Improvement Act* (FFMIA). However, FSA considers the deficiencies to be significant and continues to act on them. Additional information on FSA's internal control framework, assessment of controls, and related assurances can be found in the Analysis of Systems, Controls, and Legal Compliance section of the FY 2013 Federal Student Aid Annual Report.

Management Assurances

Based on the assurances of the Department's management, which is responsible for internal controls, and assessment of the results of external audits, the Department is able to provide reasonable assurance that the internal controls and financial management systems in effect during FY 2013 met the objectives of both sections 2 and 4 of the FMFIA.

- FMFIA section 2 explains management's responsibility for, and its role in, assessment of accounting and administrative controls.
- FMFIA section 4 relates to the Department's analysis of systems, controls, and legal compliance related to financial reporting; internal controls and system frameworks included FMFIA, FFMIA, and the *Federal Information Security Management Act* (FISMA), as well as OMB Circulars A-123 and A-127, as addressed in previous sections of this report.

Statement of Assurance

The Department of Education's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*. The Department evaluated its internal controls to support (1) effective and efficient programmatic operations, (2) compliance with applicable laws and regulations, and (3) reliable financial reporting.

Internal Control Over Operations

For all program areas, the Department provides reasonable assurance that internal controls were in place and operating to meet the objectives of section 2 of FMFIA, no material weaknesses were identified, and we were in compliance with applicable laws and regulations as of September 30, 2013.

Internal Control Over Financial Reporting

The Department conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The Department has reasonable assurance that internal controls over financial reporting as of September 30, 2013, were operating effectively and no material weaknesses were found in the design or operation of the controls.

Internal Control Over Systems

The Department is required to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Based on the results of the Department's assessment in accordance with the requirements of section 4 of FMFIA, the Department's financial management systems substantially comply with *Federal Financial Management Improvement Act* as of September 30, 2013.

Notwithstanding the aforementioned assertions, I acknowledge that we have issues that we must remediate, including internal control and compliance issues identified by our auditors and the management challenges raised by the Office of the Inspector General in other sections of this report.

/s/

Arne Duncan
December 11, 2013

Financial Management Systems Strategy

The Department designated FMSS as a mission-critical system that provides core financial management services. The Department expects to improve the following performance outcomes: control and accountability over financial management services, including financial management system controls and practices that include cross-validation rules to prevent erroneous accounting transactions from being processed; and financial system reporting capabilities that continue to respond quickly to internal and external financial information inquiries. Additional areas of emphasis are the continued tight integration and streamlining with the office of Federal Student Aid and business processes; reduced manual reconciliation efforts for 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 Federal Financial Software Version 11.5.10 (11i). Oracle has issued version Release 12 of its software as a replacement for the 11i version. Release 12 has passed the necessary testing and is federally compliant for financial management. The Department is examining solutions for migrating to the Release 12 version. OMB has directed agencies to explore the possibility of utilizing a shared service provider (SSP) for financial management before implementing or migrating to new versions of financial applications. During FY 2014, the Department expects to begin the analysis of identifying the potential of using an SSP solution for financial management.

Legal Compliance

***Federal Financial Management Improvement Act* (FFMIA)—**requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. Section 803(c) (1) of the FFMIA requires the Department to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on a review of relevant factors. In determining whether the Department's financial systems substantially comply with FFMIA, management considered available information from audit reports and other relevant and appropriate information. The Department's determination leveraged the results of related reviews such as those required by FISMA and OMB Circular A-123. Key factors used in the determination included: agency improvements and ongoing efforts to strengthen financial management systems and the impact of instances of non-compliance on overall financial management system performance.

In FY 2012, management determined that the Department's systems were not in overall compliance with FFMIA based, in part, on self-reported FMFIA material weaknesses. These issues directly impacted the reliability of borrower account information and related financial statement balances throughout FY 2012. Corrective actions taken in FY 2012 and FY 2013 sufficiently remediated the underlying conditions such that, for the year ended September 30, 2013, these deficiencies no longer aggregate to a material weakness. However, some of the remaining FY 2012 issues, including new issues of lesser significance identified in FY 2013, continued to impact the reliability of borrower account information and related financial statement balances throughout FY 2013. The auditors have provided their recommendations to address these issues and the Department plans to implement them in FY 2014. Full and complete implementation of the auditor's recommendations and corrective actions to their findings will allow the Department to continue to strengthen and improve the internal controls of its financial management systems.

The Department places a priority on the importance of adequate security controls over system access and data and continually looks to ways to strengthen these controls. Management reviews during FY 2013 confirm that favorable actions have been taken to diminish weaknesses and strengthen internal controls overall. The Department is committed to continually improving its key controls and acknowledges the ongoing efforts of management to strengthen financial management systems. Additionally, based on the evaluation of the criteria listed in the FFMIA Indicators of Compliance and Risk Categories, the department's financial management system possesses low risk in complying with the FFMIA requirements based on the listed compliance indicators. None of the compliance indicators are rated at the high-risk level. Though the Department and its auditors have identified issues of non-compliance with some system requirements and significant internal control weaknesses exist, taken as a whole, the Department has determined that it is in substantial compliance with FFMIA in FY 2013 for its system of controls over loans, grants, contracts, payroll, and other key business activities.

Federal Information Security Management Act (FISMA)—requires that each agency perform an annual, independent evaluation of the information security program and practices of that agency to determine the effectiveness of such program and practices. The Department has been implementing a multiyear process to improve our reporting activities. In FY 2013, the Office of Inspector General (OIG) found that the Department has made progress in remediating issues identified in previous FISMA reviews. Specifically, they found the Department was compliant in 4 of the 11 reporting metrics. Their findings included issues related to: (1) configuration management; (2) identity and access management; (3) incident response and reporting; (4) risk management; (5) security training; (6) remote access management; and (7) contingency planning. Also, the findings in seven of the reporting metrics contained repeat or modified repeat findings from OIG reports issued from fiscal years 2010 through 2012.

In response to the reported issues, the Department established: a 24x7, on premise, Security Operations Center (EDSOC) that will operate in an integrated enterprise-wide program and respond to threats and vulnerabilities to the Department's information infrastructure and assets; a Risk Management Framework, using a suite of continuous monitoring tools; and initiatives intended to safeguard personally identifiable information. The Department has garnered significant benefits from previous years' audits and expects that the recommendations presented in FY 2013 will further improve the information security program by strengthening the associated management, technical and operational security controls. The Office of the Chief Information Officer has formulated a plan to address each of the findings and recommendations across the seven metric areas. The plan has been conveyed to and accepted by the OIG.

***Prompt Payment Act of 1982*—**requires federal agencies to make timely payments to vendors. When a payment is not processed within the timeframes specified in the act, payment of interest is required. During FY 2013, the Department made timely payments for 99.77 percent of the 6,998 vendor invoices processed. Virtually all recurring payments were processed by information technology audits in accordance with the provisions of the *Prompt Payment Act*.

***Anti-Deficiency Act*—**prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation, apportionment, or certain administrative subdivisions of those funds. The act also prohibits agencies from accepting voluntary services. For FY 2013, the Department had no *Anti-Deficiency Act* violations to report.