



## Management's Discussion and Analysis

## About the Management's Discussion and Analysis

This section provides information on performance results, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. The Department is committed to making each year's report more useful to all readers and to meet increasingly high standards for internal controls and good stewardship of federal investments. To help continue to improve the content of the *Agency Financial Report* (AFR), readers are encouraged to provide their feedback at: [AFRComments@ed.gov](mailto:AFRComments@ed.gov).

The Department continues to enhance the usefulness of the AFR as a summary of the Department's activities in FY 2014 by using the report and relevant web content. Our intent is to provide users with access to useful information about the Department and its financial activities. This year, the Department concentrated on improving disclosures and continuing its commitment to reader-friendly reporting, with a particular emphasis on making the Notes to the Financial Statements more reader-friendly.

Through its performance, the Department has demonstrated its commitment to education by, among other things: improving access to early learning programs, reforming elementary and secondary education, making higher education more accessible and affordable, and working to attract talented people to the teaching profession. Through its ongoing commitment to being good stewards of its resources, the Department seeks to demonstrate that we have in place well-controlled and managed business and financial management systems and processes. In addition, we continually strive to improve our enterprise risk management methods and the means to assess and test our assumptions about risk.

## 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 description of selected offices by function, as well as a link to the full list of [Department offices](#).

## Discussion of Performance

The Department has elected to produce separate financial and performance reports for the last six years. The *Agency Financial Report* for FY 2014 provides a high-level description of performance measures and goals based on the [FY 2014–2018 Strategic Plan](#), with a focus on the Agency Priority Goals (APGs) for 2014–15. A detailed discussion of performance information for FY 2014 will be provided in the Department's *Annual Performance Report* to be released at the same time as the President's FY 2016 Budget.

The section includes an overview of performance reporting, a report on the APGs for 2014–15, and high-level discussion of performance information. The Looking Ahead and Addressing Challenges section describes the challenges that the Department aims to address in order to achieve progress against the *FY 2014–2018 Strategic Plan*. The results achieved from Department expenditures are discussed at a high level in the AFR. For more details about performance, the reader should refer to the Department's [budget and performance](#) web page and [performance.gov](#).

To view information on all Department programs, visit the [Department's website](#).

## Financial Highlights

The Department has added information in the Financial Highlights section of the report and focused on enhancing the clarity of the Notes to the Financial Statements to provide a more understandable depiction of its key financial balances and activities for FY 2014 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 the allotted 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 ten-time recipient of the Association of Government Accountants' Certificate of Excellence in Accountability Reporting and having earned unmodified (or "clean") audit opinions for 13 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

To demonstrate effective stewardship of these resources, the Department has implemented 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.*

**Who We Are.** In 1867, the federal government recognized that furthering education was a national priority and created a federal education agency to collect and report statistical data. The Department was established as a cabinet-level agency in 1979. Today, the Department supports programs that positively impact every area and level of education.

The [Department](#) engages in four major types of activities: establishing policies related to federal education funding, including the distribution of funds, collecting on student loans, and using data to monitor the use of funds; supporting data collection and research on America's schools; identifying major issues in education and focusing national attention on them; and enforcing federal laws prohibiting discrimination in programs that receive federal funds.

**Our Public Benefit.** The Department is committed to helping to ensure that students throughout the nation develop skills to succeed in school, college, and the workforce. While recognizing the primary role of states and school districts in providing a high-quality education, the Department supports efforts to employ highly qualified teachers and administrators, establish challenging content and achievement standards, and monitor students' progress against those standards.

The Department's largest asset is the portfolio of student loans. Grants to states are the second largest item on the balance sheet, mostly for elementary and secondary education, awarded based on legislated formulas. The third biggest item is student aid to help pay for college through Pell Grants, Work Study, and other campus-based programs. The Department also carries out competitive grant programs to promote innovation, performs research, collects education statistics, and enforces civil rights statutes.

**Offices by Function.** [Federal Student Aid](#) (FSA) administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.

The offices of [Elementary and Secondary Education \(OESE\)](#), [Special Education and Rehabilitative Services \(OSERS\)](#), [Innovation and Improvement \(OII\)](#), [English Language Acquisition \(OELA\)](#), [Postsecondary Education \(OPE\)](#), and [Career, Technical, and Adult Education \(OCTAE\)](#) provide leadership, technical assistance, and financial support to state and local educational agencies and institutions of higher education for reform, strategic investment, and innovation in education.

[Institute of Education Sciences](#) (IES) is the research arm of the Department. The Department's goal is to provide rigorous and relevant evidence on which to ground education practice and policy and share this information broadly. By identifying what works, what doesn't, and why, IES aims to improve educational outcomes for all students, particularly those at risk of failure. Its goal is to transform education into an evidence-based field in which decision makers routinely

seek out the best available research and data before adopting programs or practices that will affect significant numbers of students.

The [Office for Civil Rights](#) (OCR) works to ensure equal access to education and to promote educational excellence throughout the nation through vigorous enforcement of civil rights. OCR serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues.

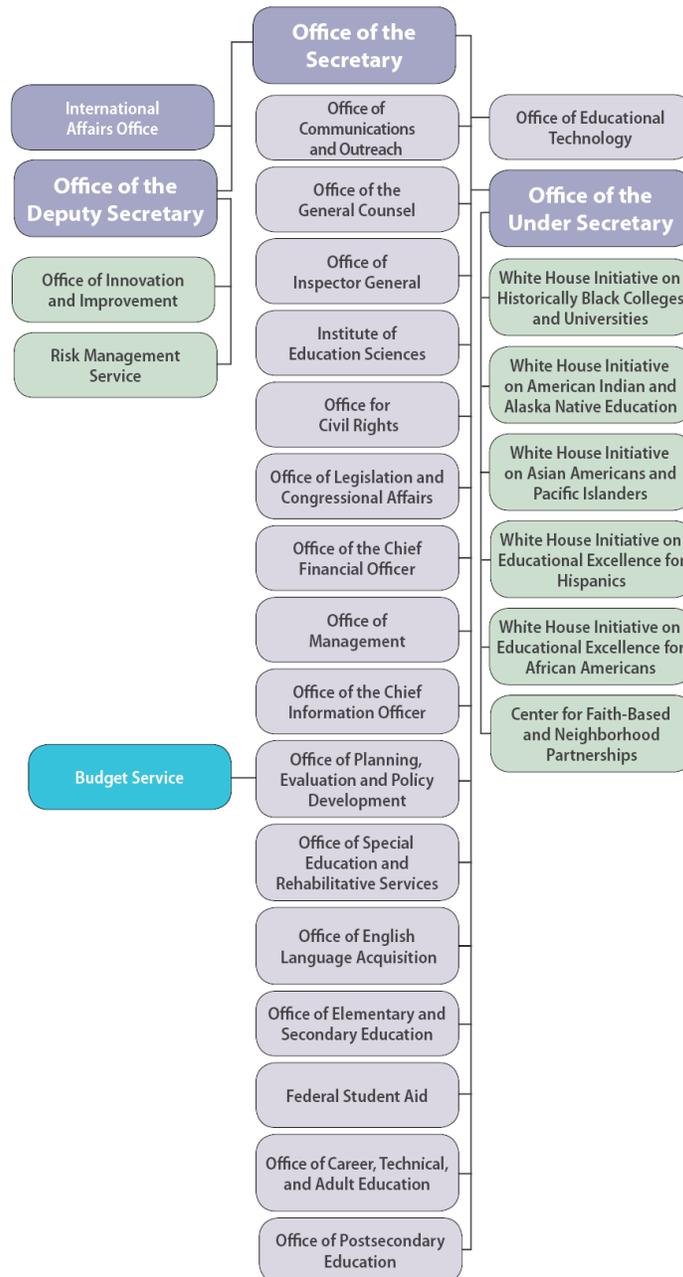
The [Office of Planning, Evaluation and Policy Development \(OPEPD\)](#) serves as the principal adviser to the Secretary on all matters relating to policy development and review, performance measurement and evaluation, budget processes and proposals, overseeing policy development, and reviewing policy recommendations. Two major components, the Budget Service and the Policy and Program Studies Service, are housed within OPEPD.

**Regional Offices.** The [Department has 10 regional offices](#) that provide points of contact and assistance for schools, parents, and citizens. Regional offices offer support through 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.

Descriptions of the [principal offices](#) and [overviews of the activities of the Department](#) and its programs can be found on the Department's website.

## Our Organization in Fiscal Year 2014

This chart reflects the statutory organizational structure of the U.S. Department of Education. [Interactive](#) and [text versions](#) of the coordinating structure of the Department are available.



## The Department's Approach to Performance Management

### Performance Management Framework

In accordance with the [GPR Modernization Act of 2010](#), the Department's framework for performance management starts with the *Strategic Plan*, including its Agency Priority Goals, which serve as the foundation for establishing long-term priorities and developing performance goals, objectives, and measures by which the Department can gauge achievement of its stated outcomes. Progress towards the Department's strategic and Agency Priority Goals is measured using data-driven review and analysis. This focus promotes active management engagement across the Department. Additional information is available in the [Department's Annual Performance Plans and Annual Performance Reports](#).

Based on data available as of June 30, 2014, 18 metrics in the [FY 2014–18 Strategic Plan](#) showed significant progress toward the established goals, including important areas such as postsecondary degree attainment, the resolution of civil rights investigations, increased access to data, and research studies related to education.

The [FY 2014–18 Strategic Plan](#) is comprised of six strategic goals and six Agency Priority Goals and aims to align the Administration's yearly budget requests and the Department's legislative agenda. The Department continues to welcome input from Congress, state and local partners, and other education stakeholders about the *Strategic Plan*. Questions or comments about the *Strategic Plan* should be e-mailed to [APP\\_APRComments@ed.gov](mailto:APP_APRComments@ed.gov).

## FY 2014–18 Strategic Plan

AGENCY MISSION		
<p><b>Mission:</b> To promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access</p>		
2014–2018 STRATEGIC PLAN		
Strategic Goals	Strategic Objectives	Priority Goals
<p><b>Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education.</b> Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.</p>	<p><b>Objective 1.1: Access and Affordability.</b> Close the opportunity gap by improving the affordability of and access to college and/or workforce training, especially for underrepresented and/or underprepared populations (e.g., low-income and first-generation students, English learners, individuals with disabilities, adults without high school diplomas, etc.).</p> <p><b>Objective 1.2: Quality.</b> Foster institutional value to ensure that postsecondary education credentials represent effective preparation for students to succeed in the workforce and participate in civic life.</p> <p><b>Objective 1.3: Completion.</b> Increase degree and certificate completion and job placement in high-need and high-skill areas, particularly among underrepresented and/or underprepared populations.</p> <p><b>Objective 1.4: Science, Technology, Engineering, and Mathematics Pathways.</b> Increase STEM pathway opportunities that enable access to and completion of postsecondary programs.</p>	<ul style="list-style-type: none"> <li>• Increase college degree attainment in America</li> </ul>
<p><b>Goal 2: Elementary and Secondary Education.</b> 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.</p>	<p><b>Objective 2.1: Standards and Assessments.</b> Support implementation of internationally benchmarked college- and career-ready standards, with aligned, valid, and reliable assessments.</p> <p><b>Objective 2.2: Effective Teachers and Strong Leaders.</b> Improve the preparation, recruitment, retention, development, support, evaluation, recognition, and equitable distribution of effective teachers and leaders.</p> <p><b>Objective 2.3: School Climate and Community.</b> Increase the success, safety, and health of students, particularly in high-need schools, and deepen family and community engagement.</p> <p><b>Objective 2.4: Turn Around Schools and Close Achievement Gaps.</b> Accelerate achievement by supporting states and districts in turning around low-performing schools and closing achievement gaps, and developing models of next-generation high schools.</p> <p><b>Objective 2.5: STEM Teaching and Learning.</b> Increase the number and quality of STEM teachers and increase opportunities for students to access rich STEM learning experiences.</p>	<ul style="list-style-type: none"> <li>• Support implementation of college- and career-ready standards and assessments</li> <li>• Improve learning by ensuring that more students have effective teachers and leaders</li> </ul>

2014–2018 STRATEGIC PLAN		
Strategic Goals	Strategic Objectives	Priority Goals
<p><b>Goal 3: Early Learning.</b> 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.</p>	<p><b>Objective 3.1: Access to High-Quality Programs and Services.</b> Increase access to high-quality early learning programs and comprehensive services, especially for children with high needs.</p> <p><b>Objective 3.2: Effective Workforce.</b> Improve the quality and effectiveness of the early learning workforce so that early childhood educators have the knowledge, skills, and abilities necessary to improve young children's health, social-emotional, and cognitive outcomes.</p> <p><b>Objective 3.3: Measuring Progress, Outcomes, and Readiness.</b> Improve the capacity of states and early learning programs to develop and implement comprehensive early learning assessment systems.</p>	<ul style="list-style-type: none"> <li>• Support comprehensive early learning assessment systems</li> </ul>
<p><b>Goal 4: Equity.</b> Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.</p>	<p><b>Objective 4.1: Equitable Educational Opportunities.</b> Increase all students' access to educational opportunities with a focus on closing achievement gaps and remove barriers that students face based on their race, ethnicity, or national origin; sex; sexual orientation; gender identity or expression; disability; English language ability; religion; socioeconomic status; or geographical location.</p> <p><b>Objective 4.2: Civil Rights Compliance.</b> Ensure educational institutions' awareness of and compliance with federal civil rights obligations and enhance the public's knowledge of their civil rights.</p>	<ul style="list-style-type: none"> <li>• Ensure equitable educational opportunities</li> </ul>
<p><b>Goal 5: Continuous Improvement of the U.S. Education System.</b> 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.</p>	<p><b>Objective 5.1: Data Systems and Transparency.</b> Facilitate the development of interoperable longitudinal data systems for early learning through employment to enable data-driven, transparent decision-making by increasing access to timely, reliable, and high-value data.</p> <p><b>Objective 5.2: Privacy.</b> Provide all education stakeholders, from early childhood to adult learning, with technical assistance and guidance to help them protect student privacy while effectively managing and using student information.</p> <p><b>Objective 5.3: Research, Evaluation, and Use of Evidence.</b> Invest in research and evaluation that builds evidence for education improvement; communicate findings effectively; and drive the use of evidence in decision-making by internal and external stakeholders.</p> <p><b>Objective 5.4: Technology and Innovation.</b> Accelerate the development and broad adoption of new, effective programs, processes, and strategies, including education technology.</p>	<ul style="list-style-type: none"> <li>• Enable evidence-based decision making</li> </ul>
<p><b>Goal 6: U.S. Department of Education Capacity.</b> Improve the organizational capacities of the Department to implement the Strategic Plan.</p>	<p><b>Objective 6.1: Effective Workforce.</b> Continue to build a high-performing, skilled, diverse, and engaged workforce within the Department.</p> <p><b>Objective 6.2: Risk Management.</b> Improve the Department's program efficacy through comprehensive risk management, and grant and contract monitoring.</p> <p><b>Objective 6.3: Implementation and Support.</b> Build Department capacity and systems to support states' and other grantees' implementation of reforms that result in improved outcomes, and keep the public informed of promising practices and new reform initiatives.</p> <p><b>Objective 6.4: Productivity and Performance Management.</b> Improve workforce productivity through information technology enhancements, telework expansion efforts, more effective process performance management systems, and state-of-the-art leadership and knowledge management practices.</p>	

## The Department's Agency Priority Goals

The Department identified six Agency Priority Goals (APGs) for FY 2014–15 that serve to focus its activities, with a particular emphasis over the next two years. These goals are consistent with the Department's five-year strategic plan, which will be used to monitor and report regularly on progress, reflect the Department's cradle-to-career education strategy, and help concentrate efforts on the importance of teaching and learning at all levels of the education system. Quarterly updates for the APGs are available on [performance.gov](http://performance.gov).

### Progress on the Department's FY 2014–15 Agency Priority Goals<sup>1</sup>

#### Agency Priority Goal: Increase college degree attainment in America

**Goal for FY 2014–2015:** By September 30, 2015, 45.6 percent of adults ages 25–34 will have an associate degree or higher, which will place the nation on track to reach the President's goal of 60 percent degree attainment by 2020.

#### *Supports Strategic Goal 1.*

**Overview:** In 2009, the President set a goal that, by 2020, the United States will have the highest proportion of college graduates in the world. Meeting this goal will require millions of additional Americans to earn a postsecondary degree by the end of this decade. The President's focus on the educational attainment among adults ages 25–34 allows the Department to assess progress in preparing the next generation of workers and to benchmark for international comparisons.

The Department's strategy to implement the President's College Value and Affordability Agenda comprises three areas of focus: (1) promoting evidence-based innovation and competition so that colleges offer students a greater range of affordable, high-quality options than they do today, (2) fostering institutional and student accountability in tandem with better consumer awareness, and (3) ensuring that student debt remains affordable. These strategies aim to support college attainment by reducing the cost and amount of time necessary to attain a degree, by measuring college performance and providing consumer information about cost and outcomes, by supporting the use of open educational low-cost textbooks, and by incentivizing state, institutional, and student behavior.

**Progress:** Starting from a baseline of 44.0 percent in 2012, the Department projected that the annual increase of educational attainment among adults ages 25–34 would grow progressively each year above the four-year historical average of 0.7 percentage points and established performance targets of 44.7 percent for 2014 and 45.6 percent for 2015. The Department is on pace to achieve this APG as 44.8 percent of adults ages 25–34 have an associate's degree or higher, exceeding the 2014 performance target (note that the rate reflects prior year data, in this case from 2013, but is reported in 2014 when data are available). Examples of the Department's activities that support this goal include collaborating with the White House to host College Opportunity Summits that bring together superintendents and college presidents; developing and refining the College Scorecard; and redesigning existing programs to encourage efforts to improve college fit, reduce the need for remediation, increase the availability of open educational resources, and implement evidence-based practices. These activities promote

<sup>1</sup> The performance information reported in this section is current as of Quarter 3 of FY 2014 (April 1–June 30, 2014).

innovation, competition, and accountability in the postsecondary sector, which will boost completion rates and educational attainment.

**Opportunities and Challenges:** One challenge toward achieving this goal is that the Department's budgetary proposals have not received traction in Congress, and it remains unclear whether recent proposals that reflect the President's agenda will gain support. As such, success will also depend largely on the extent to which states invest in higher education. Specifically, whether and to what extent states and institutions (a) implement policies and programs to increase college access and success, (b) reduce costs and time to completion, (c) support accelerated learning opportunities, including dual enrollment, (d) develop and adopt effective and innovative practices that improve student outcomes, and (e) promote seamless transitions from secondary to postsecondary education and among higher education institutions will influence the Department's success in achieving this APG. Although the Department has some limited leverage to influence states' policies and the practices of postsecondary institutions, the Department will use its available resources, including implementation and impact of programs and technical assistance, and the ability to convene stakeholders to encourage collaboration and best practices.

### **Agency Priority Goal: Support implementation of college- and career-ready standards and assessments**

**Goal for FY 2014–2015:** By September 30, 2015, at least 50 states/territories will be implementing next-generation assessments, aligned with 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 increasing the number of college graduates in the United States. Moreover, these standards must be coupled with high-quality formative and summative assessments that will measure the extent to which students are mastering them.

**Progress:** Most states have adopted college- and career-ready standards and are in the process of developing and testing the assessments aligned with those standards. The Race to the Top - Assessment (RTTA) consortia and the consortia developing alternate assessments based on alternate achievement standards completed the field testing of their assessments in preparation for operational administration in spring 2015.

**Opportunities and Challenges:** State capacity to implement college- and career-ready standards and assessments aligned with those standards varies. To address this challenge, 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 resources that support the implementation of college- and career-ready standards. Included in such a bank will be materials to assist in full and effective implementation of college- and career-ready standards developed or identified by offices across the Department.

The Department will continue to leverage the ESEA flexibility monitoring and renewal process to support full implementation of college- and career-ready standards and aligned, valid, and reliable assessments in states that have received ESEA flexibility. By using the ESEA flexibility

monitoring process, the Department can track state implementation and identify areas where technical assistance is needed. This monitoring approach follows the different kind of relationship the Department has built internally across its offices and externally with states during the ESEA flexibility approval process, including the use of cross-Departmental teams (including staff from the Implementation and Support Unit (ISU), Office of Special Education Programs (OSEP), and the Office of School Turnaround), reducing burden and duplication, and reducing overlap between other Department programs and ESEA flexibility.

### **Agency Priority Goal: Improve learning by ensuring that more students have effective teachers and leaders**

**Goal for FY 2014–2015:** 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.

#### ***Supports Strategic Goal 2.***

**Overview:** Teacher and principal evaluation and support systems enable the development and identification of effective educators and provide information to improve the educator workforce. The nation needs to do more to ensure that every student has an effective teacher, every school has an effective leader, and every teacher and leader has access to the preparation, ongoing support, recognition, and collaboration opportunities he or she needs to succeed. 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 and support systems that look at multiple measures, including, in significant part, student growth.

The Department will support states in the development and adoption of state requirements for comprehensive teacher and principal evaluations and support systems as well as in district development and implementation of comprehensive educator evaluation systems. This additional support is necessary so that teachers and educator evaluators are able, for example, to use and develop learning objectives to measure student growth and to implement new classroom observation tools.

**Progress:** The performance targets for this APG are based on state implementation timelines provided through original ESEA flexibility requests. These timelines indicated that 37 states expected to implement the systems by September 30, 2015. As of June 30, 2014, 10 states have fully implemented teacher and principal evaluation and support systems.<sup>2</sup>

**Opportunities and Challenges:** Providing support to states to do this work well is resource-intensive. Additionally, it is difficult for the Department to maintain the momentum for reform, given districts' and states' current political situations and potential changes in leadership. However, as states continue work to implement teacher and leader evaluation systems, the Department will continue to provide robust technical assistance. In addition to monitoring, the Department has designed a one-year ESEA flexibility extension process for Window 1 and 2 states. States that are on track to meet their original ESEA flexibility commitments relating to evaluation and support systems will be able to use this process to continue their work in 2014–15. The Department will work with states that have requested changes to their timelines

<sup>2</sup> "Fully implemented" is defined as the school year in which teachers and principals receive effectiveness ratings.

or sequencing of events outside of the extension process to ensure that they, too, can continue their work in the 2014–15 school year and are making continuous improvement in their systems.

### **Agency Priority Goal: Support comprehensive early learning assessment systems**

**Goal for FY 2014–2015:** 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.

#### ***Supports Strategic Goal 3.***

**Overview:** Kindergarten entry assessments (KEAs), when properly designed, are included in a state's comprehensive early learning assessment system, improve student achievement and early learning programs' effectiveness, and inform professional development to improve the early learning workforce. KEAs also can inform instruction and support students' educational success by identifying the early learning needs of each child. As such, KEAs provide an opportunity for teachers and families to understand the status of children as they are entering kindergarten and an opportunity to provide policy makers with information needed to support high-quality early learning programs that ensure children enter school prepared for success.

**Progress:** The Department is on track to achieve this APG. As of June 30, 2014, the Early Learning Challenge Technical Assistance Center (ELC TAC) reported that six states are collecting and reporting disaggregated data on the status of children at kindergarten entry using a common measure. Additionally, the Department's Office of Early Learning conducted an analysis of the Race to the Top - Early Learning Challenge (RTT-ELC) grantees' annual performance reports and found that four states are in the process of revising their current statewide KEAs, five other states are beginning a phased-in implementation of KEAs, and six others are pilot testing their KEAs. Although there are challenges with the implementation of KEAs, the Department is optimistic about achieving the APG.

**Opportunities and Challenges:** The Department plans on releasing an annual report about RTT-ELC grantees that includes information on how states are engaging stakeholders in KEA development, providing more professional development to teachers, and evaluating what is and is not working in order to improve the KEA process. The sharing of these lessons learned will advance progress toward this goal. Additionally, the Department will reach out to external organizations that share our interest in advancing quality KEAs to develop strategies that may increase our collective impact.

Because assessment in early learning is new, many states are in the early stages of developing valid and reliable measures for KEAs. Constructing and testing these instruments and implementing them across every school in the state will be challenging and will take time. In addition, new measures and systems require significant investment and state budget cuts could impact deployment. The Department will continue to convene states and share resources that support states in their collecting and reporting of disaggregated data on the status of children at kindergarten entry using a common measure.

### **Agency Priority Goal: Ensure equitable educational opportunities**

**Goal for FY 2014–2015:** By September 30, 2015, the number of high schools with persistently low graduation rates will decrease by 5 percent annually. The national high school graduation rate will increase to 83 percent, as measured by the Adjusted Cohort Graduation Rate, and disparities in the national high school graduation rate among minority students, students with disabilities, English learners, and students in poverty will decrease.

#### ***Supports Strategic Goal 4.***

**Overview:** Equality of opportunity is a core American value. Young people in this country—regardless of wealth, home language, zip code, gender, sexual preference, race or disability—must have the chance to learn and achieve. Through Race to the Top (RTT), the School Improvement Grant (SIG) program, ESEA flexibility, and other federal programs, the Department is providing significant resources to improve the nation's lowest-achieving schools dramatically by using intensive turnaround models and identifying the low-achieving schools that are showing strong evidence of successfully turning around. The Department continues to focus on supporting innovation, not just compliance monitoring, and on spurring growth in achievement, not just absolute achievement measures as done in the past.

Increasing the national high school graduation rate and decreasing disparities in the graduation rate is critical to achieving the President's college graduation goal. The nation has made significant progress in increasing graduation rates, but gaps between rates for different student groups continue to persist. This APG aims to reduce that gap.

**Progress:** The Department announced the Excellent Educators for All initiative, a 50-state strategy to support state efforts to ensure that low income students and students of color have equal access to qualified and effective teachers and leaders. This initiative will include a new technical assistance network, educator equity data profiles, guidance for states on developing educator equity plans, and state submission of new educator equity plans. The Department expects this initiative, as well as the support provided through the programs that contribute to this APG, will result in continued improvement to the high school graduation rate and a reduction in the number of high schools with persistently low graduation rates.

**Opportunities and Challenges:** One key challenge in achieving this APG is providing differentiated support to states based on their current status and progress in increasing graduation rates. While all states have room for improvement, some states are farther behind than others, particularly for different subgroups of students. Recently, the Department addressed one major barrier, which was the incomparability of graduation rate data across states. All states are now required to use an adjusted cohort graduation rate, and the Department is reporting these data at the state, district, and school levels. However, differences in how states define a regular high school diploma, and other technical features of their calculations, continue to make comparisons challenging. The Department will continue to improve its data release processes to ensure that data on graduation rates are released to the public on a regular schedule and on a timely basis to help states and districts better use data to drive improvement. The Department will also use the upcoming ESEA flexibility renewal process as an opportunity to support states in continuously improving their systems of differentiated recognition, accountability, and support to ensure that they are effectively identifying and supporting schools with low graduation rates for all students and for particular subgroups of students.

Another challenge for this APG is sustaining the reforms in schools after SIG funding ends. Insufficient focus or funding for comprehensive turnaround efforts at the state and local levels compounds this challenge. As such, the Department will develop and disseminate guidance and technical assistance on sustainability strategies to help states and districts continue reforms after federal funding ends. Additionally, the Department will provide states with guidance on how to implement recent legislative changes to the SIG program that extended the length of the grants that the Department can award. The guidance will encourage states to use the additional time for both planning and sustainability activities during the grant period.

### **Agency Priority Goal: Enable evidence-based decision making**

**Goal for FY 2014–2015:** By September 30, 2015, the percentage of select new (non-continuation) competitive grant dollars that reward evidence will increase by 70 percent.

#### ***Supports Strategic Goal 5.***

**Overview:** There is an increasing emphasis from the Department and among stakeholders on the importance of using evidence to support government program funding decisions. In support of this APG, the Department is increasing its internal capacity to make competitive grant awards based on the existing strength of evidence. For example, with the inclusion of a common evidence framework in the Education Department General Administrative Regulations (EDGAR), competitive grant programs may select from four tiers of evidence to use as priorities<sup>3</sup> or selection criteria, as appropriate. Additionally, through its mix of grants, contracts, and internal analytic work, the Department aims to support the use of research methods and rigorous study designs that provide evidence that is as robust as possible.

**Progress:** In FY 2014, five competitions in the Office of Innovation and Improvement (OII), the Office of Elementary and Secondary Education (OESE), and the Office of Postsecondary Education (OPE) are using evidence through eligibility requirements, competitive preference priorities, and selection criteria. As such, the Department anticipates meeting its performance target for this APG.

**Opportunities and Challenges:** The Department is exploring ways to support and build the capacity of program offices as they shift to evidence-based funding models. For example, the Department leverages the Regional Educational Laboratories' (RELs) resources about logic models and evaluation design by sharing them with applicants, grantees, and program offices. Although these resources support both internal and external stakeholders, the Department has limited resources to provide direct and targeted technical assistance to applicants and grantees, which vary in their comfort with and understanding of evaluation and use of evidence. To continue building the capacity of the education field to use and generate evidence, it is important that the Department is able to provide appropriate technical assistance to its grantees and applicants. The Department anticipates achieving this year's performance target for this APG based on projections about which competitive grant programs may make new awards during FY 2014.

<sup>3</sup> The Department may use a priority as an absolute priority, meaning applicants must propose projects that meet it to be eligible to receive funds, or as a competitive preference priority, meaning applicants may choose to address it and could receive additional points depending on how well the priority is addressed.

## Cross-Agency Priority Goals

In accordance with the *GPR Modernization Act of 2010*, interim Cross-Agency Priority Goals (CAP Goals) were published on [performance.gov](http://performance.gov) in March 2014. The CAP Goals are divided into two categories:

Mission CAP Goals	Management CAP Goals
<ul style="list-style-type: none"> <li>• Cybersecurity</li> <li>• Climate Change (federal actions)</li> <li>• Insider Threat and Security Clearance</li> <li>• Job-creating Investment</li> <li>• Infrastructure Permitting Modernization</li> <li>• STEM Education</li> <li>• Service Member and Veterans Mental Health</li> </ul>	<ul style="list-style-type: none"> <li>• Customer Service</li> <li>• IT Delivery</li> <li>• Strategic Sourcing</li> <li>• Shared Services</li> <li>• Benchmarking and Mission-support Operations</li> <li>• Open Data</li> <li>• Lab to Market</li> <li>• People and Culture</li> </ul>

[Performance.gov](http://Performance.gov) is updated on a quarterly basis for each CAP Goal. The website will include information required by law, such as goal leader(s), contributing agencies, organizations, programs, targets, key milestones, and major management challenges, as well as plans to address these challenges. Quarterly Performance Updates for the website on progress will be provided by the goal leader in coordination with the Performance Improvement Council, the Office of Management and Budget (OMB), corresponding government-wide management council, and contributing agencies. (A-11, Part 6, 220.5)

Each CAP Goal has a goal leader(s) and deputy goal leader(s) who will manage the processes by which goals are executed. Goal leaders are given flexibility when managing CAP Goals and are encouraged to leverage existing structures as much as practicable (e.g., existing working groups, interagency policy committees, councils). Every CAP Goal will have a governance team chaired by the goal leader, a deputy goal leader, and representatives from agencies contributing to the goal, OMB, and others as determined by the goal leader. Each governance team will develop an action plan explaining how the Federal Government will execute on the goal, including agencies' contributions, areas where cross-agency coordination is needed, and anticipated risks or obstacles. The action plan will be updated as experience is gained and new information is learned. (A-11, Part 6, 220.9)

In addition to the Agency Priority Goals, the Department contributes to CAP Goals as required by the *GPR Modernization Act of 2010*, including:

**Customer Service:** Deliver world-class customer services to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.

**Science, Technology, Engineering, and Math (STEM) Education:** In support of the President's goal that the United States 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, the number of STEM teachers with corresponding undergraduate degrees, and students' access to quality STEM learning experiences.

Real time information on [Cross-Agency Priority Goals](http://Cross-Agency Priority Goals) is available at [performance.gov](http://performance.gov).

## Management Performance

The Department continues to make a substantive commitment and investment in improving its working capacity and infrastructure, to further leverage policy and programmatic aims to reform the nation's educational system. Goal 6 of the *Strategic Plan* (U.S. Department of Education Capacity: Improve the organizational capacities of the Department to implement the *Strategic Plan*) supports those aims by ensuring that the Department's hiring, staffing, training, culture, systems, and procedures enable the Department to deliver programs and resources in ways that are faster, smarter, and better year after year. Thus, the commitment and the investments are both short- and long-range in nature.

Examples of the Department's strategies are seen in the thrust for greater employee engagement, improvements and increases in diversity and inclusion, more rigorous hiring targets and goals, and expansion of its leadership and knowledge management efforts in key, cross-cutting areas, such as Information Technology (IT). These areas of focus also align with the FY 2014 President's Management Agenda. That agenda includes management goals related to customer service, benchmarking and mission support, IT delivery, Open Data, strategic sourcing, lab to market, shared services, and organizational culture.

The Department is making major efforts to bolster its impact in the people and culture element, with an enterprise-wide workgroup on employee engagement, which is also leveraging and piloting several strategic engagement initiatives throughout the Department. Those strategies include formalized supervisor and peer recognition; intensive manager training and development pilots; increased development and usage of telework policies and flexibilities; and employee wellness, lifestyle balance, and volunteerism campaigns.

IT delivery is another area of focus to which the Department has committed a considerable amount of resources. The Chief Information Officer has led a push for greater technology innovation to improve the workload capacity for employees. Efforts to improve security, gain efficiency in storage, improve network service and responsiveness, increase system speed, and increase the footprint of Wi-Fi and other wireless and mobility solutions in the Department's facilities and for those working remotely, have significantly improved the employee computing experience. These efforts have laid a foundation to clarify the Department's ongoing needs and provide a clear vision for how technology can better enable work over the next decade.

Another vital accomplishment and significant progress to date can be seen in the Department's emphasis on Cybersecurity, one of the President's mission CAP goals. During FY 2014, the Department significantly reduced the number of threats and risks, including security breaches. In another effort, the technology group reported increases in electronic signature usage at nearly 150 percent of its target. These advances in cybersecurity have been the result of steady and focused strategies to proactively seek innovation as a major resource in the campaign to improve.

## Looking Ahead and Addressing Challenges

Quality education continues to be a vital component to the nation's long-term economic prosperity and recent economic gains. It is an investment that is valued highly by Americans, for both present needs and its future promise. The Department continues to support state formula grant programs while supporting the creation of models through competitive programs, including [Race to the Top](#), [Promise Neighborhoods](#), [Investing in Innovation](#) (i3) grants, and a redesigned [School Improvement Grants](#) program. Those commitments are bolstered by increasing the extent to which evidence is used in programs and strategic decision-making.

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.

Additionally, the Department will continue to strengthen the support systems necessary for all students to succeed. This includes promoting preschool access for all students, K-12 strategic reforms, and college affordability. Ultimately, the Department looks to create ladders of opportunity to help all students.

### **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.**

Dramatically boosting completion rates for bachelor's and associate's degrees is essential for the United States to successfully compete in a global economy. A college education is one of the most important investments that Americans can make to increase the likelihood of higher earnings and lower the risk of unemployment. Unfortunately, for many low- and middle-income families, college is slipping out of reach. Over the past three decades the average tuition at a public four-year college has more than tripled, while a typical family's income has increased only modestly. Lodging, food, books, and other related expenses have also increased dramatically. More students than ever are relying on loans to pay for college.

Today, 71 percent of those earning a bachelor's degree graduate with debt, which averages \$29,400. While most students are able to repay their loans, many feel burdened by debt, especially as they seek to start a family, buy a home, launch a business, or save for retirement. As such, the Department continues to focus on efforts intended to make college more affordable and loan repayments more manageable by implementing initiatives from the President's Value and Affordability Agenda.

As noted elsewhere in this report, many of the Department's initiatives depend, in large part, on the extent to which states invest in higher education and on actions taken by states and institutions. The Department will use its available resources and programs, administrative

action, bully pulpit, technical assistance, and ability to convene stakeholders to drive collaboration and best practices to support states and institutions in making these investments.

**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.**

The 2012 high school graduation rate—80 percent—is the highest in America's history. Graduation rate increases between 2008 and 2012 showed that an additional 100,000 Latino students and 40,000 African-American students graduated from high school. That is 140,000 students of color alone with a better chance of getting a good job, owning their own home, and supporting a family. Despite this achievement, the nation needs to push beyond 80 percent.

The adoption of internationally benchmarked college- and career-ready standards is the foundation to improving educational outcomes for all students. These standards must be coupled with high-quality formative and summative assessments to measure the extent to which students are mastering the standards. A challenge facing the Department over the next two years is supporting states both in their plans to implement these standards and aligned assessments for all students, including English learners, students with disabilities, and low-achieving students, and in their development and implementation of teacher and principal evaluation and support systems. As noted elsewhere in this report, the Department aims to address these challenges by developing and targeting technical assistance activities that will increase state capacity to leverage limited resources and by identifying and disseminating information on promising practices.

**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.**

Every child should have the opportunity for a great start in life. According to recent [Civil Rights Data Collection](#) data, big opportunity gaps start at the very beginning of formal education. Nationwide, 60 percent of school districts have public preschool programs but 40 percent—almost 7,000 districts—do not offer these programs. Nearly 10,000 school districts today have a public, district-based preschool program, but more than half of those districts—57 percent—offer only part-day programs, and barely half of the school districts that have public preschool programs make them available to all children within the district.

Additionally, the most recent State Preschool Yearbook from the National Institute for Early Education Research (NIEER) shows fewer than 30 percent of 4-year-olds in the U.S. are enrolled in state-funded preschool programs; and for those who do attend, 41 percent were served in programs that met fewer than half of the NIEER quality standards benchmarks.

The Department will keep working to improve access to high-quality early learning through our implementation of the [Preschool Development Grants](#), support of RTT-ELC state systems of early learning, [Enhanced Assessment Grants](#) (EAG) grantees that are designing and

developing KEAs, and continued close partnership with the Department of Health and Human Services.

Expanding access to high-quality early learning programs and constructing, testing, and implementing assessment of early learning outcomes are challenging and resource-dependent initiatives. States are beginning the development of valid and reliable measures for KEAs. New measures and systems are expensive, and budget cuts could impact deployment. Additionally, EAG grantees that are consortia experience challenges in the coordination across states due to differences in their policies and procedures.

#### **Goal 4. Equity: Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.**

Identifying opportunity gaps is the first step that schools and districts should take to address educational inequities. The real power of the [Civil Rights Data Collection](#) lies not just in the numbers themselves, but in the real-world impact they can have when coupled with courage and the will to change. These data are providing—and will continue to provide—important markers and starting points for discussion within the Department and among education stakeholders. Further, as noted previously, the Department is focused on supporting innovation and efforts that demonstrate growth in student achievement.

Multiple Department programs aim to improve educational equity, and it can be challenging to ensure states and districts coordinate these efforts. Key barriers and challenges to aligning the work of these programs and improving education equity include sustaining reforms in schools after their SIG program grants end; addressing capacity challenges at state, district, and school levels; focusing on comprehensive turnaround efforts at the state and district level beyond the SIG program; ensuring alignment between SIG, RTT, ESEA flexibility, and other programs and initiatives; and accessing quality and completeness data that would allow others to define success.

#### **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.**

Through its mix of grants, contracts, and internal analytic work, the Department continues to support the use of research methods and rigorous study designs that provide robust evidence. Using evidence to award competitive grants requires a shift in culture and capacity-building across the Department and in the field. Although the Department utilizes [Regional Educational Laboratories](#) (RELs), the [Education Resource Information Center](#) (ERIC), and the [What Works Clearinghouse](#) (WWC) to make information about research and evaluation available, the Department has limited resources to provide technical assistance to applicants and grantees to support their understanding of evidence standards and conducting rigorous evaluations that would produce evidence of effectiveness.

In addition to its efforts to increase evidence-based decision-making, the Department also considers transparency, participation, and collaboration as vital to the success of improving the quality and accessibility of education. An important component of that commitment is the Department's Open Government Plan. The [Department's 2014 Open Government Plan](#) provides an update on existing programmatic work and highlights of Department actions to

achieve its goals of improving student achievement and educational opportunity. The flagship initiatives of the Plan include: A fully operational beta version of the [Education Data Inventory](#), a repository of data that the Department collects; early public participation and input in policy- and rule-making; a new version of the [Federal Registry for Educational Excellence](#) (FREE), making it easier to find digital teaching and learning resources; the Integrated Student Experience (ISE) initiative, resulting in increased financial aid awareness and a simplified application and servicing experience; and the Department's Disclosure Review Board (ED-DRB), which is responsible for the review and approval of the disclosure avoidance protections used to protect privacy in the Department's public data releases. Additionally, the Department launched an initiative called the [Future Ready District Pledge](#), a commitment by superintendents to develop and implement technology plans that would support a transition to digital learning.

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

Recently, the Department participated in a series of government-wide benchmarking exercises, as a part of the President's Management Agenda, and the findings have been very useful in key areas, including technology, real estate, and financial management. As a result of the findings, comparisons to other agencies and identifying best practices, the Department's technology group has identified the potential for greater savings in certain service sectors and found objective confirmation for many of its cost-saving plans for the future, such as driving down specific network and e-mail storage costs by transitioning services to the cloud environment. This effort has also caused the Department to consider additional shared service arrangements that may help garner more efficiency and lower costs.

A major effort is underway to freeze and reduce the Department's occupied space footprint in facilities across the nation. The Department's space modernization initiative will help identify and gain efficiencies in various ways, including consolidating employees and work groups into existing spaces as facilities' leases expire, for projected rent savings; reducing space requirements and related rental per square footage rates; increasing the extent and impact of telework and other mobility strategies; and redesigning workspaces to reduce the need for isolated, individual spaces while adding more collaborative ones.

In financial management, the Department continues to assess its business processes to ensure that they are effectively and efficiently supporting the mission. Those activities include process re-engineering, enhanced automation, strengthening internal controls, and expanding the use of shared service solutions where practical.

Finally, greater emphasis and development for the management and supervision cadre is an essential element of the strategy to build capacity and infrastructure. The Department continues to explore and identify innovative training and development opportunities, while also looking for tangible ways to gauge the effectiveness and return on the investments in this area. Getting this approach right is critically important to the Department's ability to sustain consistent and continuous improvement, as well as safeguarding the ability to manage the knowledge, expertise, and functionality to deliver on its strategic mission and goals.

**Reporting on Progress Made on Strategic Goals and Objectives:** The Department continues to use tools and processes, such as quarterly performance reviews, to assess progress toward achieving strategic goals and outcomes. Additionally, the Organizational Performance Review contributes to the Department's data-driven performance discussions by

servicing as a tool for principal offices to improve their efficiency and effectiveness by focusing on operational priorities and initiatives at the principal office level.

To support the tracking and reporting of progress against the goals and objectives, the Department provides regular updates to its data profile on [performance.gov](http://performance.gov) for key policy and programmatic topics. The effective implementation of the Department's strategic and Agency Priority 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.

In addition, the Department's success in achieving its strategic goals is closely tied to its capacity and funding. In addressing capacity, the Department will invest in the continuous improvement of its workforce and employ comprehensive risk management to ensure prudent use of public dollars by mitigating risk through increased oversight and support of grantees and contractors.

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 educators, administrators, and policy makers.

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

## Financial Highlights

### Introduction

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

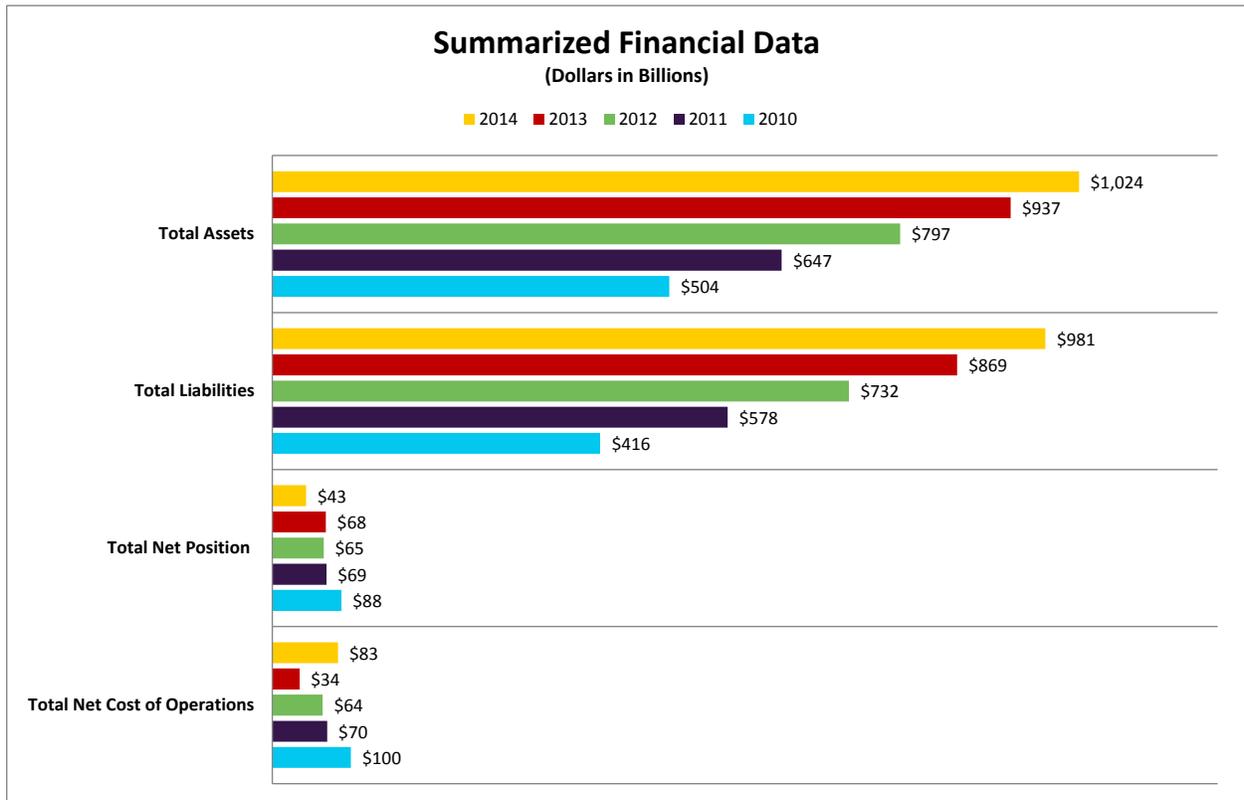
The Department consistently produces accurate and timely financial information. Our financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the format and content specified by 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 thirteen consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2014 are on pages 54–94 and the Independent Auditors' Report begins on page 102.

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, accurate, 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 timely and accurately. Additionally, the Department's complete and accurate financial data enables it to provide transparency pertaining to the finances of the Department and how it is spending federal funds. Further information on management's assessment of internal controls can be found in the Analysis of Controls, Systems, and Legal Compliance section that begins on page 37.

### Trend Analysis

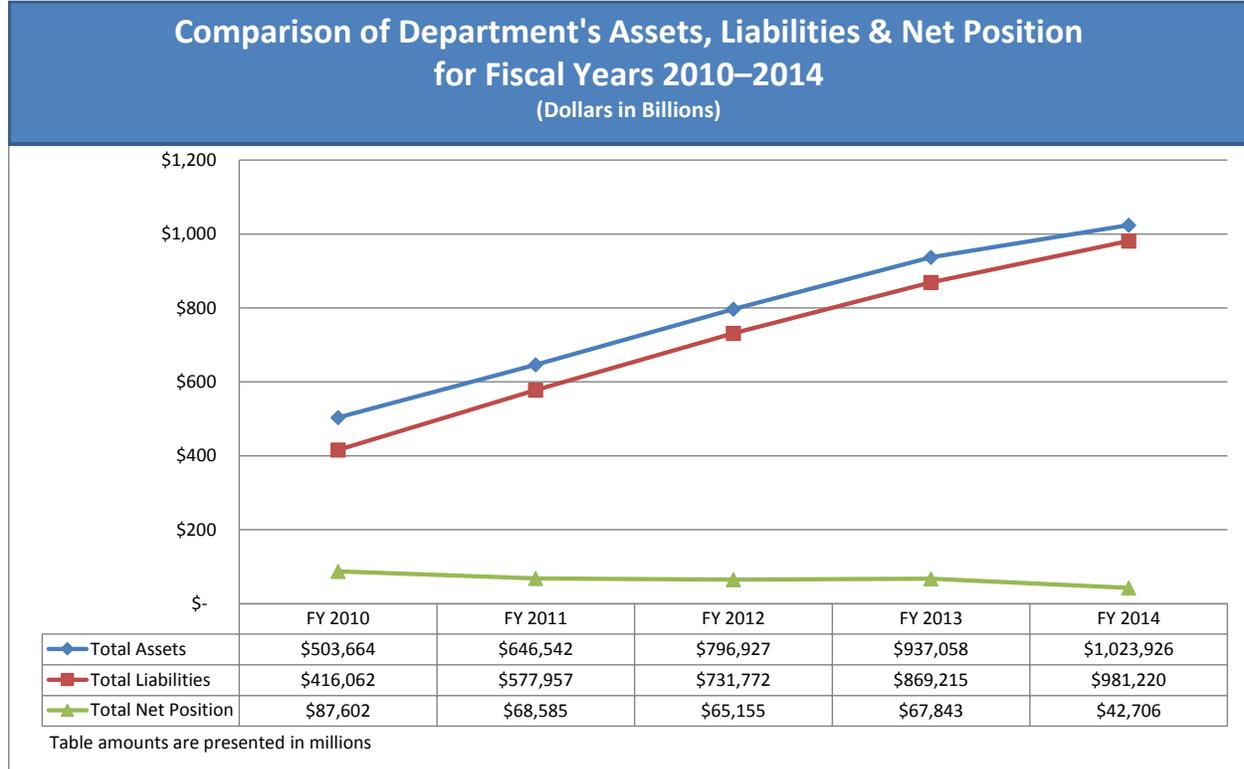
The tables below summarize trend information about components of the Department's financial condition. The Table of Key Measures summarizes trend information about components of the Department's Consolidated Balance Sheet and Statement of Net Cost, and provides a snapshot of the Department's financial condition as of September 30, 2014, compared with the end of fiscal years 2013–2010, displaying assets, liabilities, net position, and net cost, rounded to the millions. The Summarized Financial Data graphic presents the table data, as a graph, for an alternate display over the same five consecutive years, rounded to the billions.

<b>Table of Key Measures</b>						
<b>As of September 2014, 2013, 2012, 2011, and 2010</b>						
<b>(Dollars in Millions)</b>						
	<b>% Change FY 14 / FY 13</b>	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2010</b>
<b>Consolidated Balance Sheet</b>						
Fund Balance with Treasury	-9%	\$ 98,696	\$ 108,732	\$ 121,993	\$ 114,085	\$ 132,259
Credit Program Receivables, Net	+12%	923,545	826,684	673,488	530,491	367,904
Other	+3%	1,685	1,642	1,446	1,966	3,501
<b>Total Assets</b>	<b>+9%</b>	<b>1,023,926</b>	<b>937,058</b>	<b>796,927</b>	<b>646,542</b>	<b>503,664</b>
Debt	+13%	966,671	852,432	715,303	547,108	374,335
Liabilities for Loan Guarantees*	+0%	-	-	1,037	10,025	14,479
Other	-13%	14,549	16,783	15,432	20,824	27,248
<b>Total Liabilities</b>	<b>+13%</b>	<b>981,220</b>	<b>869,215</b>	<b>731,772</b>	<b>577,957</b>	<b>416,062</b>
Unexpended Appropriations	-7%	66,447	71,371	72,686	71,729	94,371
Cumulative Results of Operations	-573%	(23,741)	(3,528)	(7,531)	(3,144)	(6,769)
<b>Total Net Position</b>	<b>-37%</b>	<b>\$ 42,706</b>	<b>\$ 67,843</b>	<b>\$ 65,155</b>	<b>\$ 68,585</b>	<b>\$ 87,602</b>
* The presentation 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 FY 2013 and FY 2014 liability is in the Credit Program Receivables, Net Balance Sheet line item, due to its negative value.						
<b>Consolidated Statement of Net Cost</b>						
Gross Cost	+83%	\$ 112,295	\$ 61,353	\$ 89,263	\$ 89,910	\$ 116,953
Earned Revenue	+8%	(29,125)	(26,881)	(25,490)	(20,397)	(17,279)
<b>Total Net Cost of Operations</b>	<b>+141%</b>	<b>\$ 83,170</b>	<b>\$ 34,472</b>	<b>\$ 63,773</b>	<b>\$ 69,513</b>	<b>\$ 99,674</b>



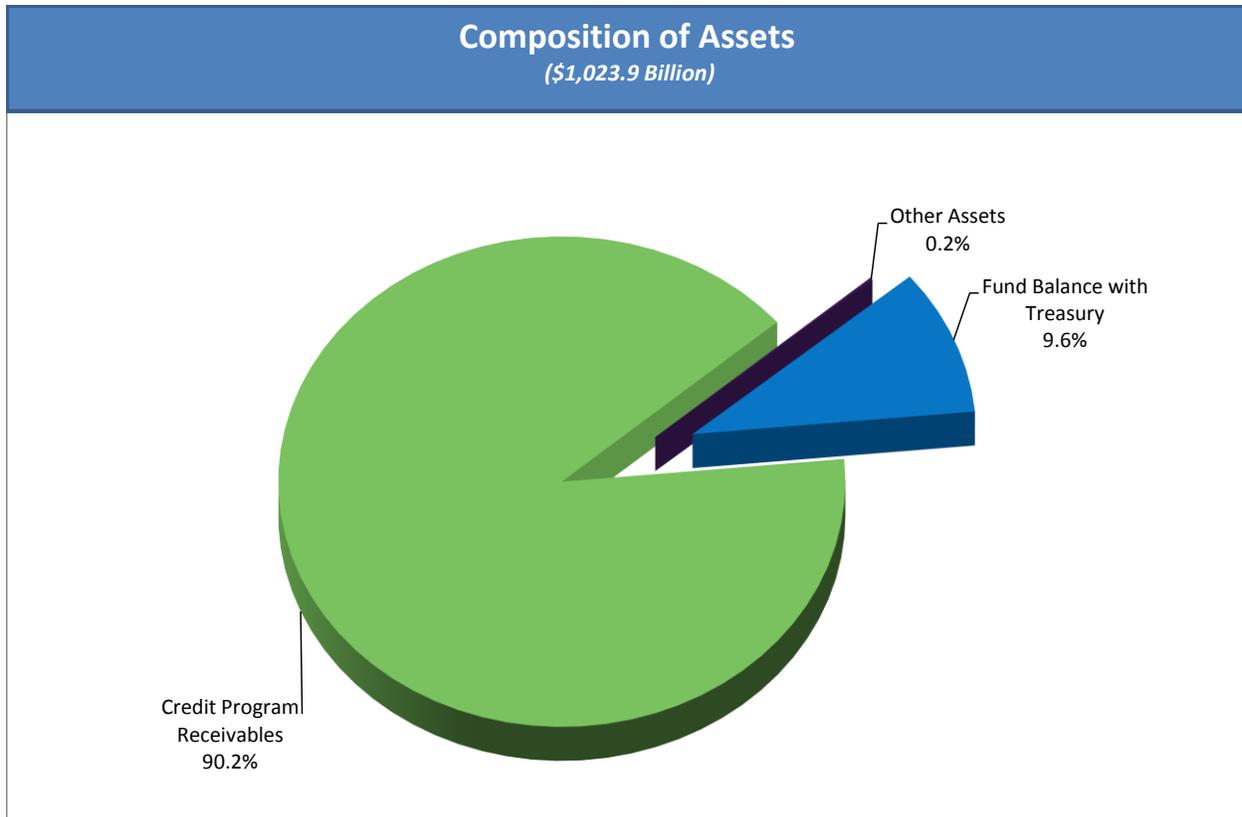
## Balance Sheet

The Consolidated Balance Sheet presents, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and the difference, which is known as net position.



## Analysis of Assets

The Department's assets totaled \$1,023.9 billion as of September 30, 2014, an increase of \$86.8 billion, or approximately 9 percent, over the FY 2013 balance of \$937.1 billion. The vast majority of the increase in assets relates to Credit Program Receivables, which increased to \$923.5 billion, a 12 percent increase over \$826.7 billion in FY 2013. The 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 \$99.4 billion (\$134 billion was disbursed for consolidated loans). The Department's total assets are composed of Fund Balance with Treasury, Credit Program Receivables, and Other Assets.

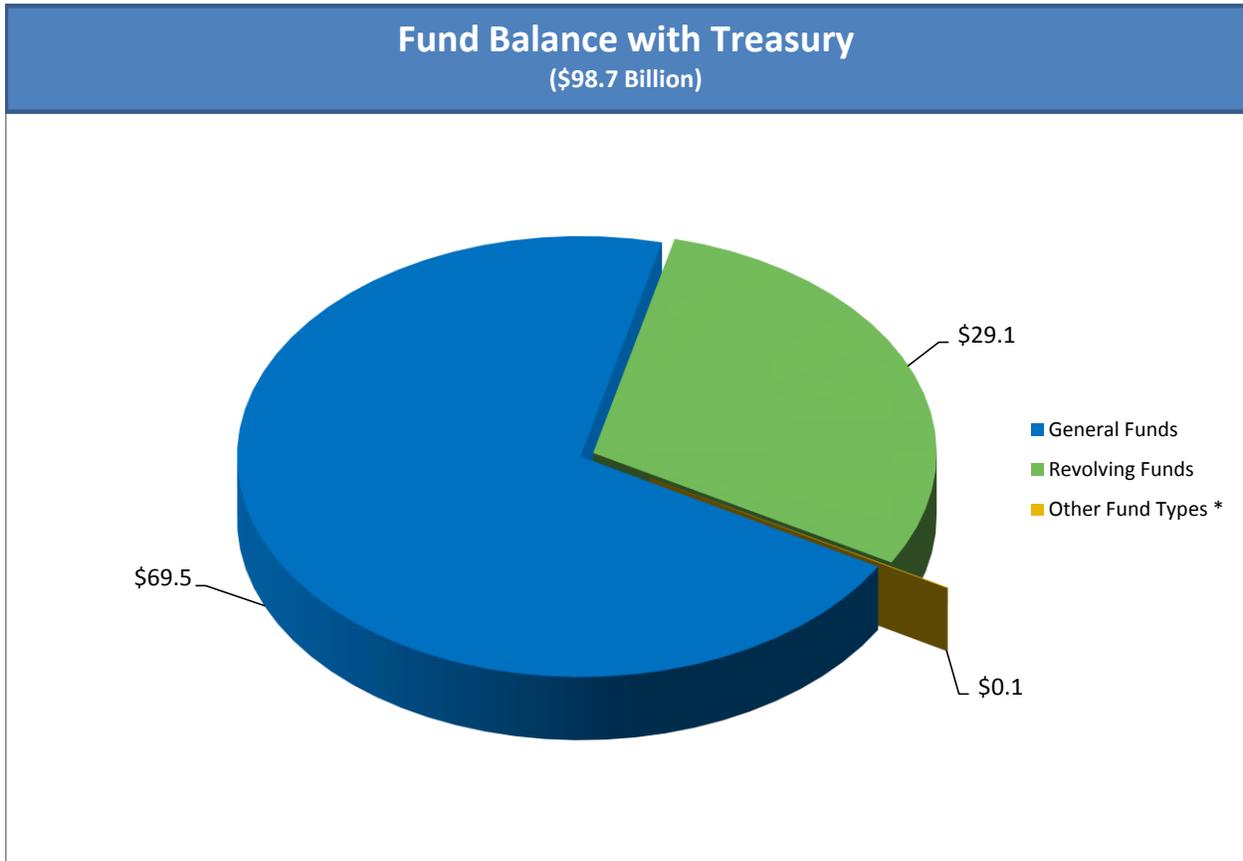


**Assets as of September 30, 2014 and 2013**  
(Dollars in Millions)

	2014	2013
Fund Balance with Treasury	\$ 98,696	\$ 108,732
Credit Program Receivables	923,545	826,684
Other Assets*	1,685	1,642
<b>Total Assets</b>	<b>\$ 1,023,926</b>	<b>\$ 937,058</b>

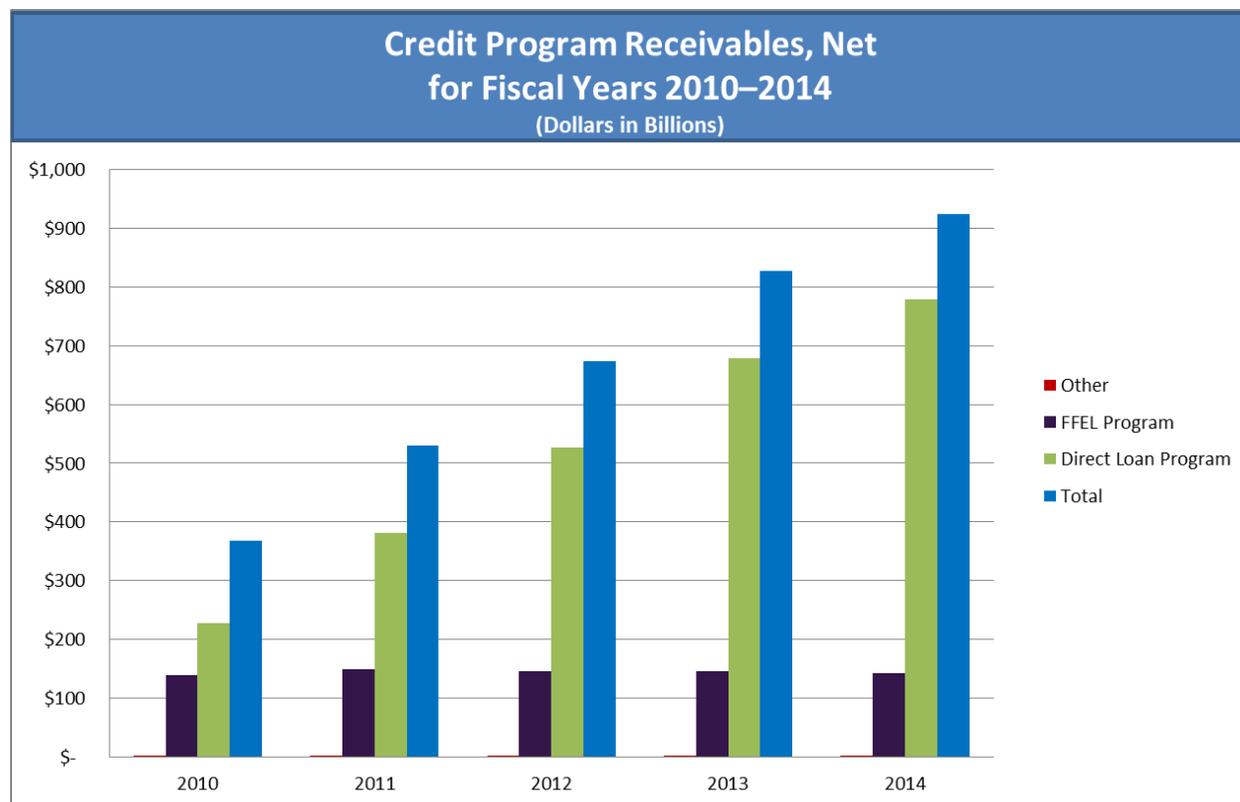
\* The Other Assets amount includes Cash and Other Monetary Assets, Accounts Receivable, Property and Equipment, and Other.

The chart below displays the composition of funds held with the U.S. Treasury (Fund Balance with Treasury) as of September 30, 2014. A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Other Funds include special funds that include fees collected on delinquent or defaulted Perkins loans, and trust funds for the hurricane relief activities.



\*Other fund types include special, trust, clearing, non-entity deposit, and receipt funds.

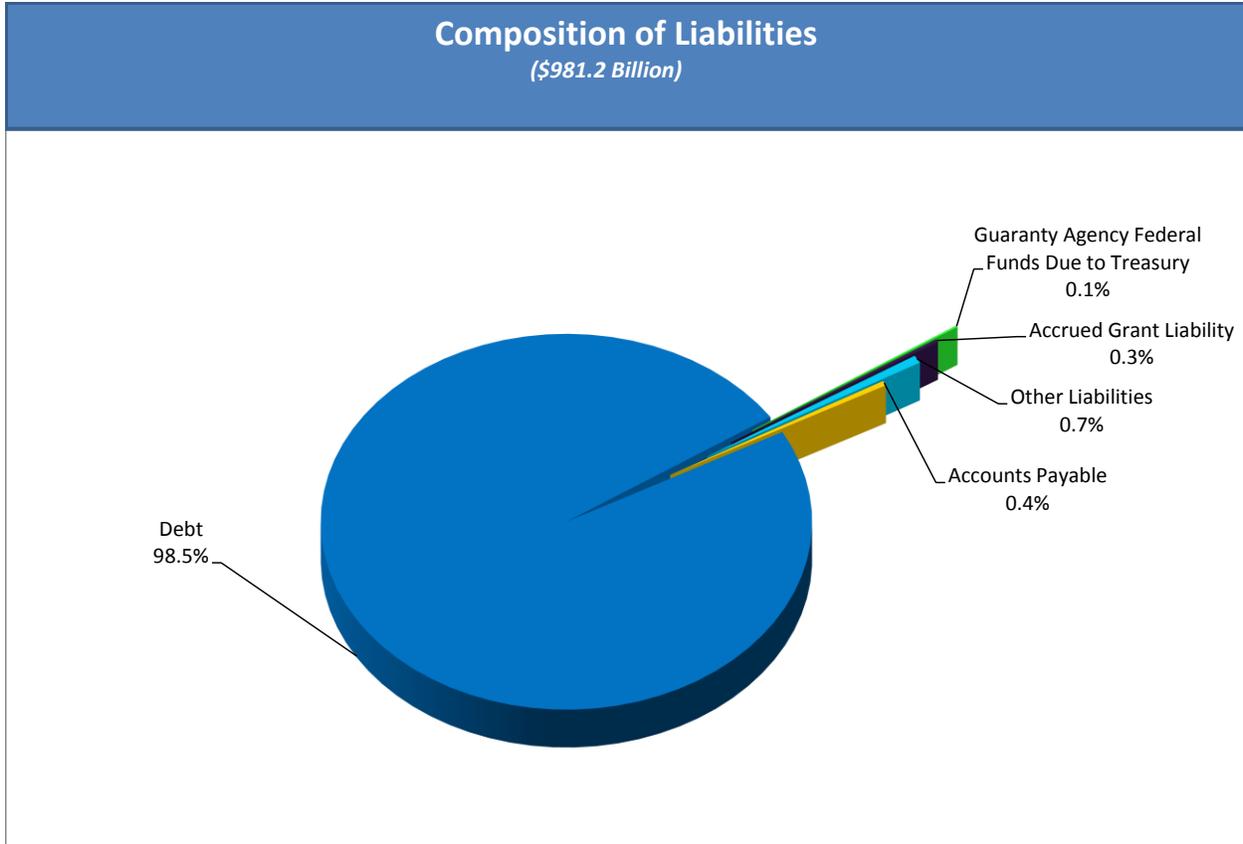
The chart below presents the Department's Credit Program Receivables, Net, for fiscal years 2010–2014. This chart shows the Department's shift in the composition of its loans receivable portfolio from guaranteed loans to direct loans. FFEL Guaranteed Loans Receivable have not grown during the past five years because no new loans were made after June 30, 2010. This shift in the loans receivable portfolio is consistent with the provisions of the *SAFRA Act*, which required the transition from the Department guaranteeing the loans provided by the private sector to full direct lending. As a result, there has been a pronounced increase in the Direct Loan Program. This change caused the Department's Credit Program Receivables to grow significantly, from \$368 billion in FY 2010 to \$924 billion in FY 2014, a \$556 billion increase.



### Analysis of Liabilities

Liabilities of the Department totaled \$981.2 billion as of September 30, 2014, an increase of \$112.0 billion, or approximately 13 percent over the FY 2013 balance of \$869.2 billion. Total Liabilities are primarily made up of Debt resulting from Credit Program Receivable activity. The increase is principally related to current year borrowing from Treasury for the Direct Loan and FFEL Programs that provided funding for Direct Loan disbursements and FFEL Program payment of credit program outlays. Current year borrowing, net of repayments, resulted in a \$114 billion increase in Debt.

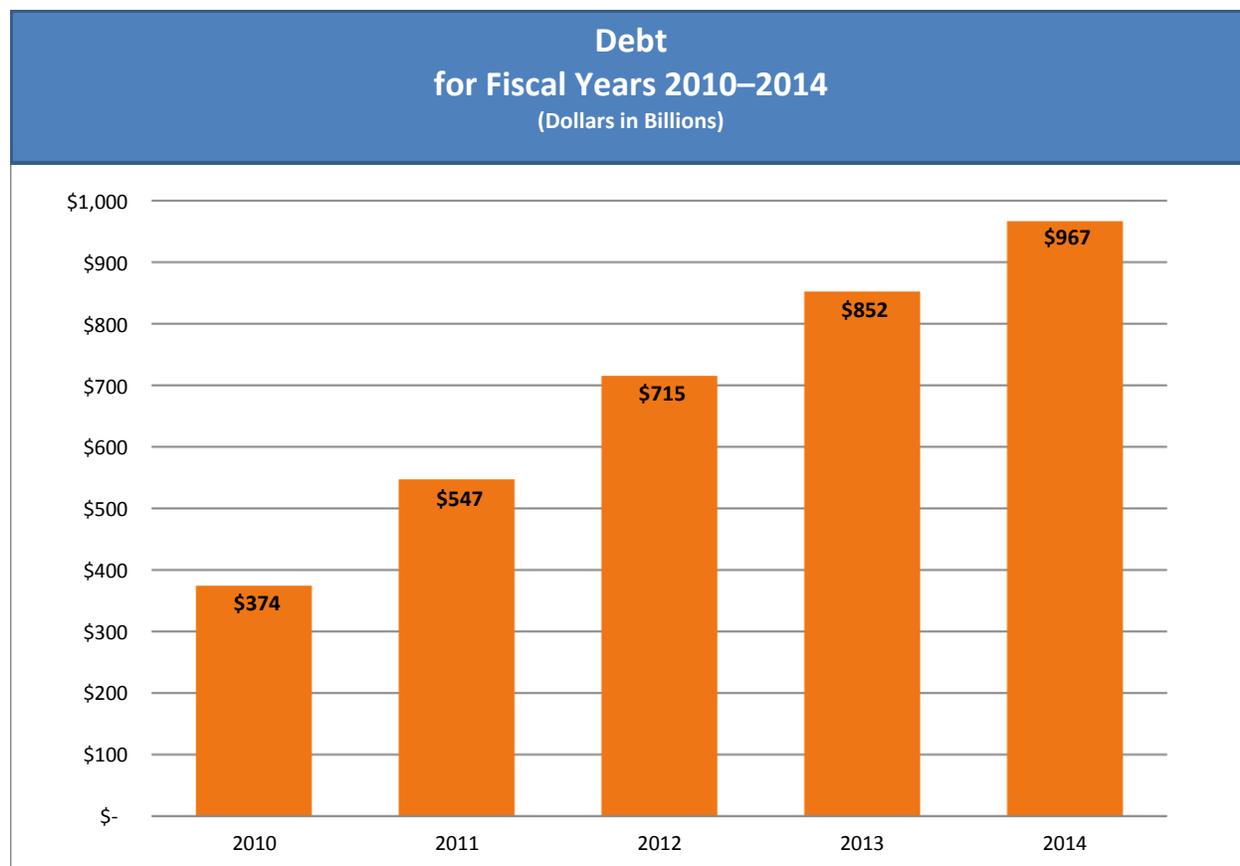
The FY 2010–2012 Liability for Loan Guarantees are presented in the liability section of the Department's Balance Sheet, while the FY 2013 and FY 2014 Liability for Loan Guarantees are presented in the Credit Program Receivables because they resulted in a negative liability.



**Liabilities as of September 30, 2014 and 2013**  
(*Dollars in Millions*)

	<b>2014</b>	<b>2013</b>
Accounts Payable	\$ 4,001	\$ 4,129
Debt	966,671	852,432
Guaranty Agency Federal Funds Due to Treasury	1,471	1,482
Accrued Grant Liability	2,487	2,170
Other Liabilities	6,590	9,002
<b>Total Liabilities</b>	<b>\$ 981,220</b>	<b>\$ 869,215</b>

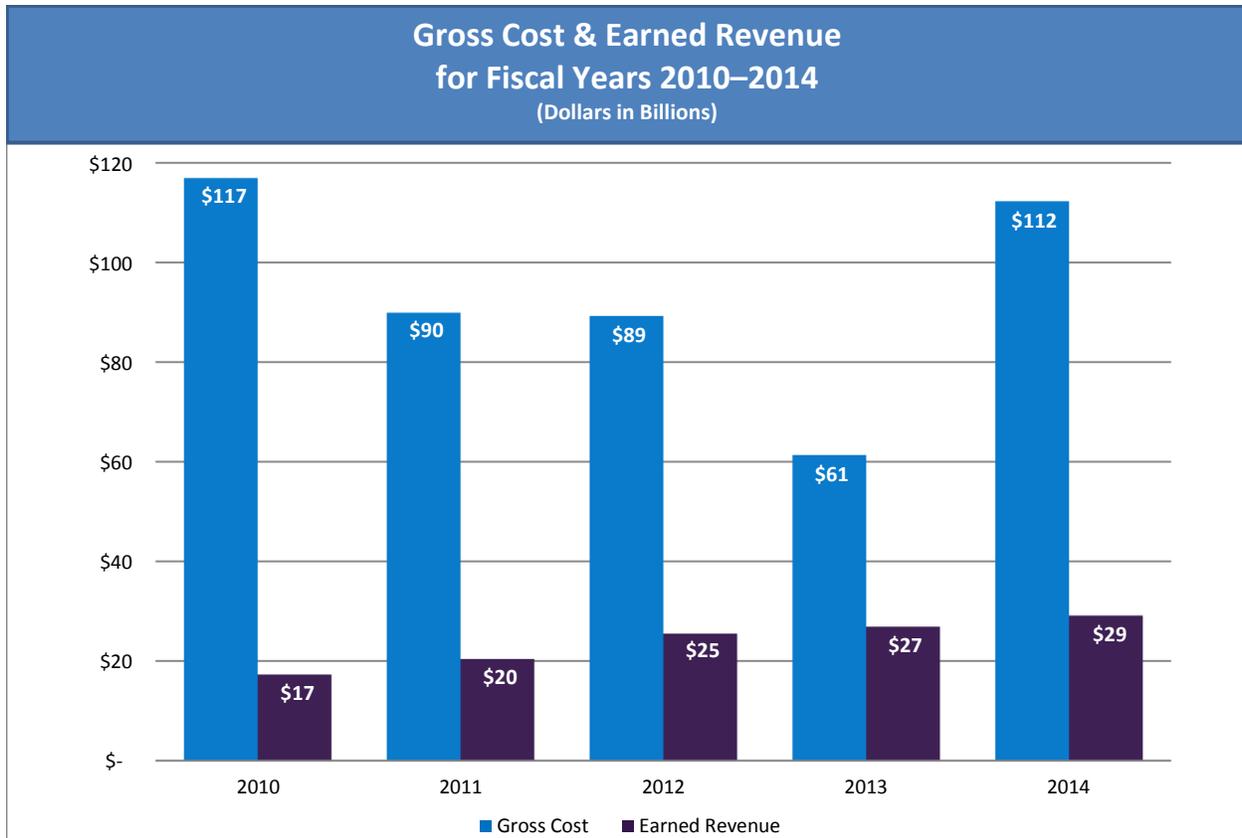
The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays. The majority of the increase in Debt is due to the borrowing used to fund the Direct Loan Program. During FY 2014, Debt increased 13 percent from \$852 billion in the prior year to \$967 billion. The new financing was used to disburse new loans and make negative subsidy transfers to the Treasury's General Fund.



### Statement of Net Cost

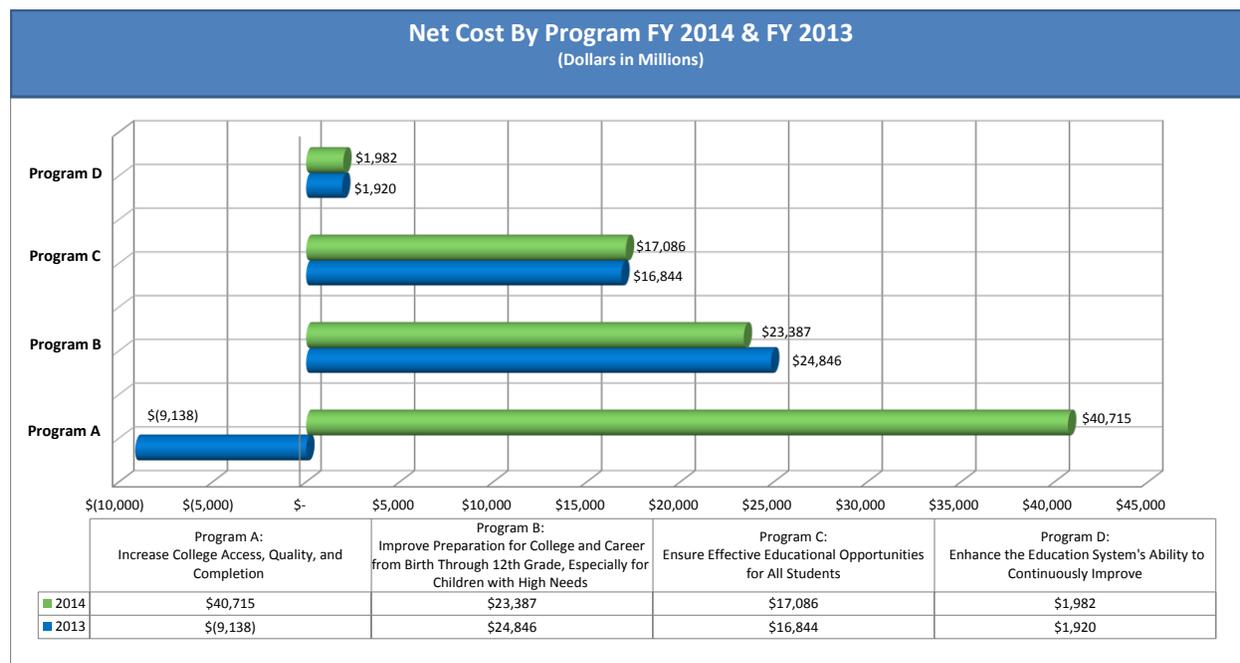
The Consolidated Statement of Net Cost reports the Department's components of the net costs of operations for a particular period of time (for a fiscal year). The Department's net cost of operations consists of the gross cost incurred less any exchange (i.e., earned) revenue from activities.

Net Cost of Operations totaled \$83.2 billion for the year ended September 30, 2014, a \$48.7 billion or 141 percent increase compared to the prior year of \$34.5 billion. This increase is primarily due to an upward subsidy re-estimate of \$30.2 billion for the Direct Loan Program. The primary drivers of the upward subsidy re-estimate are changes in the type and availability of repayment plans and increases in default rates.



The Department's gross cost is composed of the cost of credit programs, grant programs, and operating costs. The cost of credit programs, also called subsidy, is derived using economic models that project cash inflows (net of outflows) on a net present value basis. These estimated cash flows are amortized, or spread out, over 30 years and are re-valued each year based on current economic conditions. In practical terms, a negative subsidy occurs when the interest rate and/or fees charged to the borrower are more than sufficient to cover the costs of the risk of default. Costs are tracked through "cohort" accounting, segregating loans into annual cohorts and tracking cost over the life of the loans. A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years. Factors such as interest rates charged to the borrower, interest rate on Treasury debt, default rates, fees, the re-estimate of prior subsidy cost, and other costs impact this calculation and help determine whether the result is positive or negative subsidy. In recent history, the Department's credit programs have had negative subsidy as a result of lending interest rates being greater than the rates at which the Department borrows from Treasury.

The following table presents a breakdown of net cost by program area for FY 2014 and FY 2013.



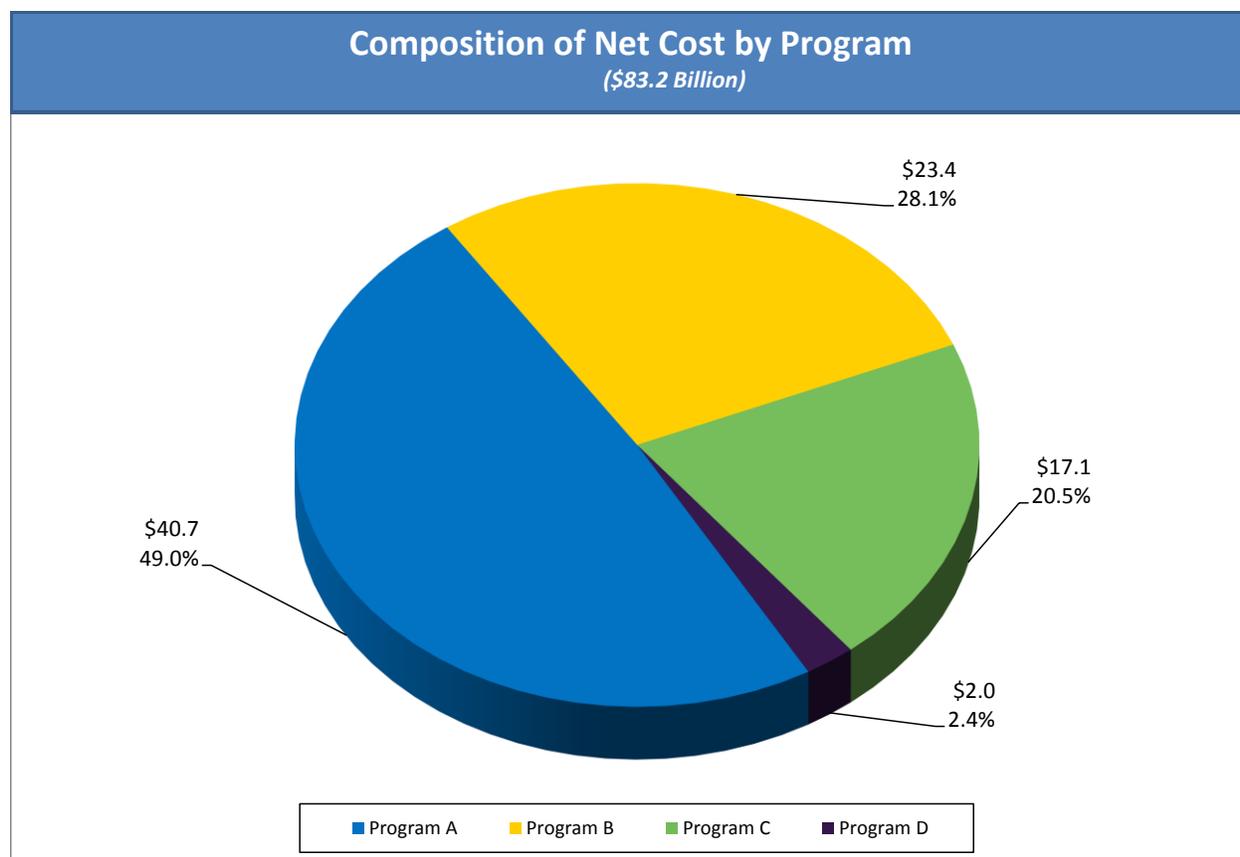
As required by the *GPR Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the Department's *FY 2014–2018 Strategic Plan*.

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 2014 appropriations exceeded \$1 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 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.

As of FY 2014, disclosure of the *American Recovery and Reinvestment Act of 2009* (ARRA) for FY 2013 has been reclassified to present ARRA funding under the specific program offices distributing the funding.

Net Cost Program	Program Office	Strategic Goal
<p><b>Program A:</b> Increase College Access, Quality, and Completion</p>	<p>Federal Student Aid  Office of Postsecondary Education  Office of Career, Technical, and Adult Education</p>	<p><b>Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education.</b> Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.</p>
<p><b>Program B:</b> Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs</p>	<p>Office of Elementary and Secondary Education  Hurricane Education Recovery</p>	<p><b>Goal 2: Elementary and Secondary Education.</b> 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. <b>Goal 3: Early Learning.</b> 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.</p>
<p><b>Program C:</b> Ensure Effective Educational Opportunities for All Students</p>	<p>Office of English Language Acquisition  Office for Civil Rights  Office of Special Education and Rehabilitative Services</p>	<p><b>Goal 4: Equity.</b> Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.</p>
<p><b>Program D:</b> Enhance the Education System's Ability to Continuously Improve</p>	<p>Institute of Education Sciences  Office of Innovation and Improvement</p>	<p><b>Goal 5: Continuous Improvement of the U.S. Education System.</b> 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.</p>

As further described in the Performance section of the MD&A, *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.



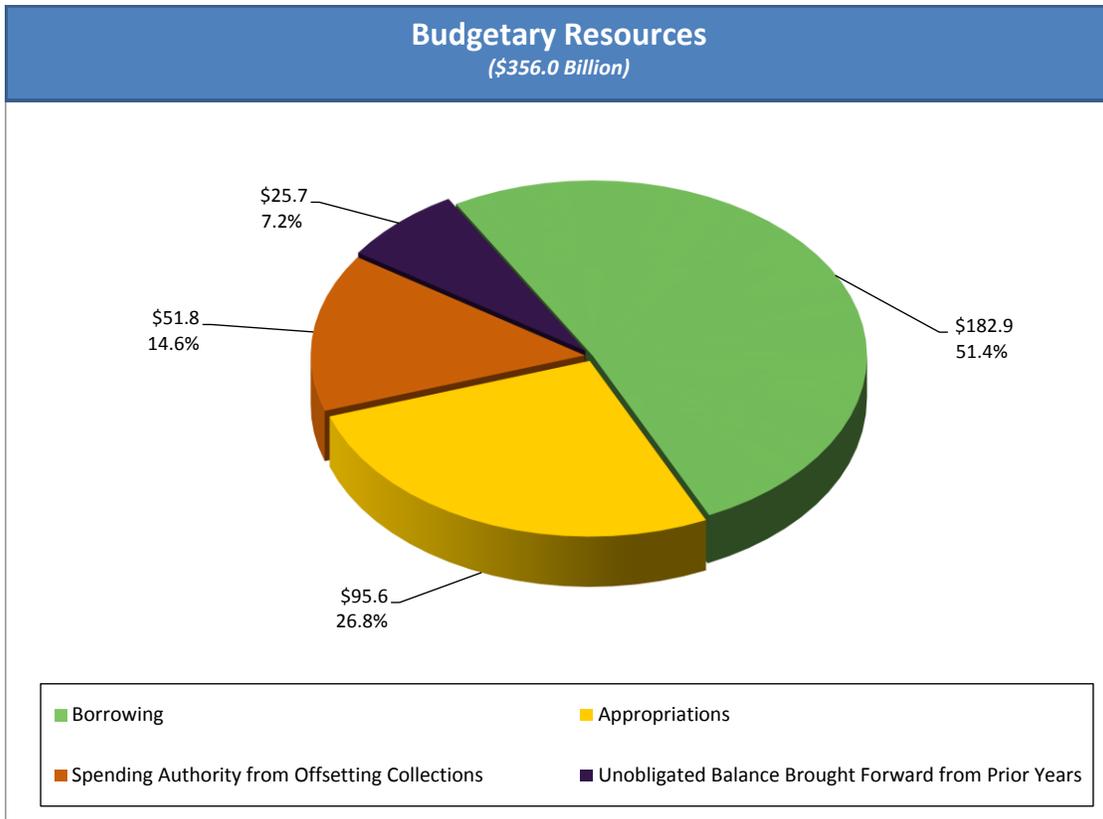
## Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the beginning net position, the summary effect of transactions that affect net position, presented for a particular period of time (for a fiscal year), and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net Position of the Department totaled \$42.7 billion for the year ended September 30, 2014. This reflects a 37 percent decrease over the net position of \$67.8 billion from the prior fiscal year.

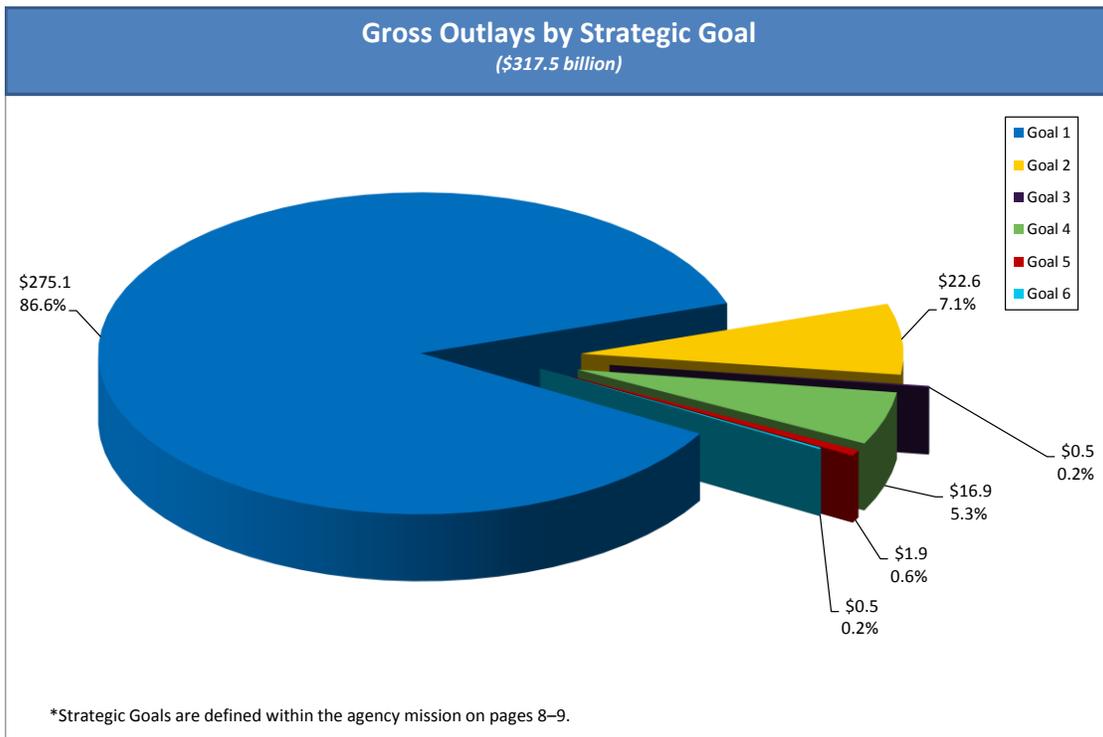
## Statement of Budgetary Resources

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 as prescribed by OMB and Treasury.

The Department's Budgetary Resources totaled \$356.0 billion for the year ended September 30, 2014, decreasing from \$359.9 billion, or approximately 1 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of \$112.4 billion and nonbudgetary credit reform resources of \$243.6 billion. The nonbudgetary credit reform resources are predominantly borrowing authority for the loan programs.



Gross outlays of the Department totaled \$317.5 billion for the year ended September 30, 2014, and consisted of appropriated budgetary resources of \$99.9 billion and nonbudgetary credit program funding of \$217.6 billion.



Gross Outlays are primarily comprised of credit program loan disbursements and claim payments, and credit program subsidy interest payments to Treasury. Additional information on the Department's sources of funds and spending is shown in the Schedule of Spending on page 137. This schedule includes sections titled, "What Money Is Available to Spend," "How Was the Money Spent," and "Who Did the Money Go To."

### **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 2014 and FY 2013, 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

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

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) revisions to [Circular A-123, Management's Responsibility for Internal Control](#). It also provides an analysis of the Department's controls, systems, and legal compliance. In future years, the Department will assess compliance in accordance with GAO's recently updated [Standards for Internal Control in the Federal Government](#) (Green Book).

### Controls Framework and Analysis

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

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

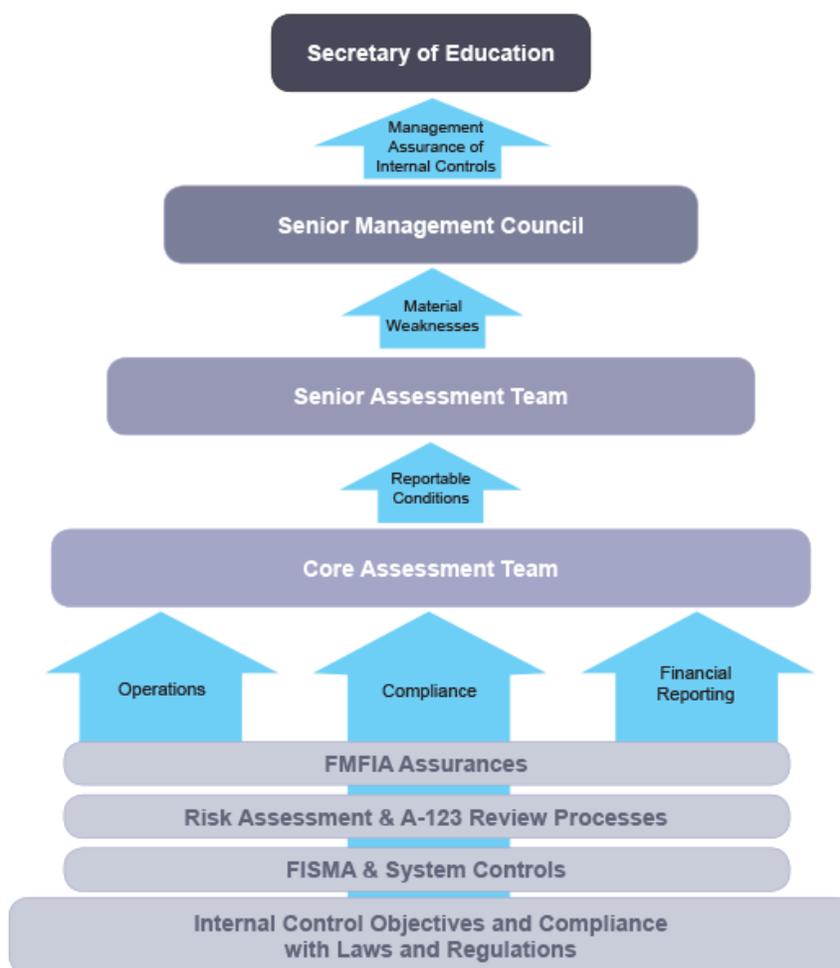
OMB Circular A-123 implements the FMFIA and defines management's responsibility for internal control in federal agencies. Appendix A is intended to assist federal managers with implementing a process for assessing the effectiveness of the entity's internal control over financial reporting. Appendix B prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. Appendix C acknowledges payment accuracy as a high-risk area and describes the requirements for effective measurement and remediation of improper payments. Appendix D defines new requirements for financial management systems in compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

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 oversee 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 programmatic goals, which include internal controls over operations, financial reporting, and information technology systems. The internal control implementation begins with risk assessments of the Department's business processes and functional units. The SAT considers the potential impact of risks using a multidimensional framework comprised of numerous risk factors. The SAT then recommends processes and systems with high risk factors for more frequent and rigorous internal control evaluations. Through the evaluations, Department offices document key controls, evaluate and test the design and effectiveness of controls, and

communicate results to the SAT. Each office must develop and implement corrective action plans for reported deficiencies. The CAT provides technical guidance throughout the process.

Federal Student Aid (FSA) maintains a parallel governance structure which is integrated within the Department's governance structure. FSA's Chief Operating Officer chairs FSA's SMC and participates as a member of the Department's SMC. FSA's Chief Financial Officer chairs FSA's SAT and participates as a member of the Department's SAT. The chair of FSA's CAT participates as a member of the Department's CAT. 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 2014 Federal Student Aid Annual Report](#).



The Secretary designated 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; leads selected internal control reviews; and develops and maintains internal control and audit follow-up systems.

## Controls over Operations

The Department's two primary areas of operation are the administration of 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.

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 identified material weaknesses and significant deficiencies. 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 2014, the Department identified no material weaknesses in internal controls over the effectiveness and efficiency of operations. The Department, however, continues to address significant deficiencies (reportable conditions) in the administration of grants, loans, and other program operations. These are consistent with OIG's report, [FY 2015 Management Challenges](#). The Department is committed to continuous improvement, making corrections in accordance with OIG findings. A summary of the OIG report is provided in the Other Information section.

## Controls over Financial Reporting

Internal Control over Financial Reporting (ICOFR) is a subset of FMFIA, section 2. The Department's assessment of the effectiveness of internal control over financial reporting is performed in accordance with Office of Management and Budget (OMB) circular [A-123 Appendix A \(A-123A\)](#). Additionally, the Department leverages the [A-123A Implementation Guidance](#), which describes the process for assessing internal control over financial reporting and requires each agency to provide an annual statement of assurance on the effectiveness of internal control over financial reporting as part of its overall FMFIA assurance statement.

Planning is a critical step in our assessment of the effectiveness of internal control over financial reporting. Key decisions that drive the assessment are made during the planning phase. Management decides on the materiality threshold, risk factors, the scope of the assessments (e.g., which financial processes to review), and the test approach/methodology, as well as other key decisions. Based on this assessment, management identifies specific areas to test. For any deficiency identified during testing, OCFO staff work with process owners to facilitate the development, approval, and implementation of Corrective Action Plans (CAPs). The Department also considers the status of ongoing corrective actions and results of the financial statement audit.

In FY 2014, OCFO strengthened its framework for internal control over financial reporting by creating end-to-end process documentation for eight (8) significant business processes and 32 subprocesses that support the Department's financial statements. OCFO also catalogued controls within these processes.

Beginning in FY 2014, the Department strengthened its influence over key system controls that impact financial management operations by making OCFO the new segment owner of the

Department's Financial Management Line of Business (FMLoB). This change in ownership from the Office of the Chief Information Officer to the OCFO was intended to help guide the FM modernization strategy towards one that not only maintains tightly integrated Department-owned systems, but also seeks to make prudent investments that will yield efficient and effective financial management business processes, maximize shared services opportunities, maintain strong internal controls within the systems, ensure compliance with pertinent laws and regulations, and improve the reporting and analytic capabilities available to the FM workforce. In addition, FMLoB investments will support the FM mission of the Department, which is to provide objective financial data and performance information to its stakeholders, promote sound financial management, support data-driven decision-making, and enhance financial reporting and compliance activities.

The goals of the FMLoB Modernization Plan are:

- sustain and/or modernize Financial Management segment's integrated hardware, software, and system support,
- optimize utilization of Treasury solutions and shared services where feasible,
- ensure that IT investments support effective and efficient Financial Management business processes,
- build analytic capacity to support data-driven decision-making and enhance financial reporting and compliance activities,
- pay the Department's fair share of government-wide cost, and
- maximize interoperability between Financial Management Segment and other Department Segments.

In FY 2014, the Department identified no material weaknesses in internal controls over financial reporting.

## Controls over Systems

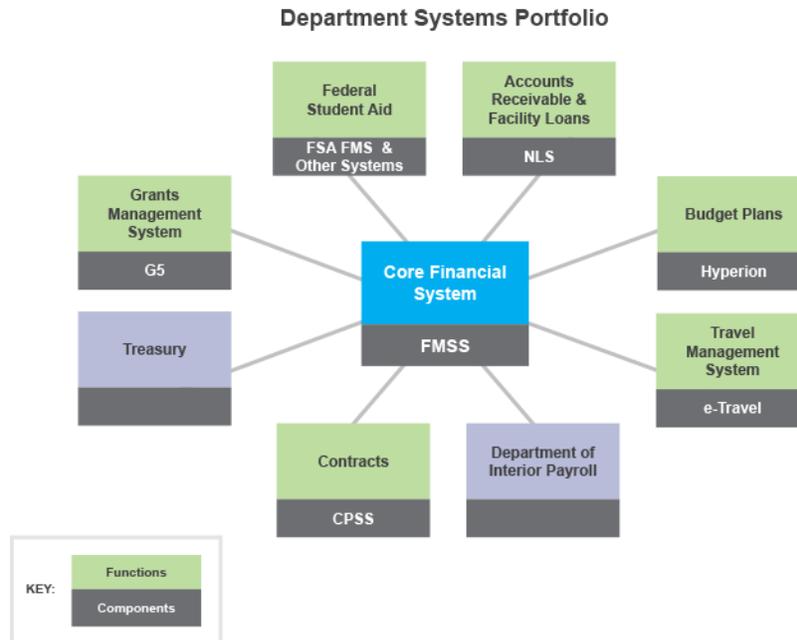
Internal controls over systems support all three internal control objectives: operations, compliance, and financial reporting. In particular, system controls have a significant impact on financial reporting and have been the Department's and FSA's primary area of focus for addressing deficiencies in internal control.

The Department has garnered significant benefits from previous years' audits and expects that implementation of the recommendations presented in FY 2014 will further improve the information security program by strengthening the associated management, technical, and operational security controls.

Among the guidance applied by the Department in assessing controls over systems during FY 2014 were FMFIA (section 4) and Appendix D of OMB A-123. We also assessed the Department's automated systems for compliance with key provisions of 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. The current systems 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 Support System (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.

**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 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.

### **2014 Internal Control Results**

In FY 2014, system-level general controls tests were performed on all financially significant systems similar to those performed in FY 2013.

The Department is keenly aware of the importance of strong internal controls and adequate security controls over system access and data and continuously seeks 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.

EDCAPS is a moderate-impact application per [Federal Information Processing Standards \(FIPS\) 199](#), and is subject to the moderate-impact baseline required by National Institute of Standards and Technology (NIST) Special Publication (SP) 800 53 Rev 4. Therefore, EDCAPS uses the 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.

EDCAPS has been designed to deliver efficient and effective operations, while complying with FFMIA. Management considered available information from annual audit reports and other relevant, appropriate information to determine whether the Department's financial systems comply with system controls. 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 in FY 2014, the Department has concluded that there are no material weaknesses in control over systems. However, self-assessments and external audits continue to identify control deficiencies in the areas of security management, personnel security, access controls, and configuration management across these systems. That is consistent with the management challenges OIG identified for IT security as well as system development and implementation.

## Management Assurances

Based on internal control monitoring and the individual assurances provided by Principal Operating Components, the Department is able to provide reasonable assurance that the internal controls and financial management systems in effect during FY 2014 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 all internal controls, including controls over operations, compliance, and financial reporting.
- FMFIA section 4 relates to the Department's analysis of systems, controls, and legal compliance related to financial reporting, and internal controls and system frameworks, including FMFIA, FFMIA, and the *Federal Information Security Management Act* (FISMA), as well as OMB Circular A-123, including Appendix D, 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, 2014, with the exception noted in the Legal Compliance section below.

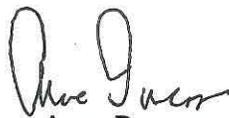
### Internal Control Over Financial Reporting

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, 2014, were operating effectively and there were no material weaknesses 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 the *Federal Financial Management Improvement Act* as of September 30, 2014.

Notwithstanding the aforementioned assertions, I acknowledge that we have internal control- and compliance-related issues, such as those identified by our auditors and the management challenges raised by the Office of Inspector General in other sections of this report. We are committed to resolving them.



Arne Duncan

November 14, 2014

## Financial Management Systems Strategy

The *Federal Information Security Management Act of 2002* (FISMA) requires federal agencies to implement a mandatory set of processes and system controls designed to ensure the privacy, confidentiality, integrity, availability, and security of system-related information. The Department has been implementing a multiyear process to improve its reporting activities, as described in the Controls over Systems section.

The Department has designated the 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. The Office of Management and Budget (OMB) has directed agencies to explore the possibility of utilizing a federal shared service provider (FSSP) for financial management before implementing or migrating to new versions of financial applications. During FY 2015, the Department expects to explore potential options pertaining to using an FSSP solution for core financial management services.

## Legal Compliance

Compliance with applicable laws and regulations is an integral component of the Department's internal control program. This section is a partial list of those applicable laws for which the Department's internal controls ensure compliance, with the exceptions noted below.

***Federal Financial Management Improvement Act (FFMIA)***—requires that agency financial management systems comply with federal financial management systems requirements, applicable federal accounting standards and the [U.S. Standard General Ledger \(USSGL\)](#) at the transaction level in order to provide uniform, reliable, and more useful financial information. Agencies are required to assess and report on whether these systems comply with FFMIA on an annual basis.

The results of tests of FFMIA section 803(a) requirements disclosed no instances in which the Department's financial management systems did not substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, or (3) the USSGL at the transaction level.

***The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)***—requires agencies to annually report information on improper payments to the President and Congress, focusing on risk assessments, statistical sampling, and corrective actions. The statute requires OMB to provide guidance to agencies on reimbursement of costs between agencies, retention and timely destruction of records, and prohibiting the duplication and disclosure of records, including creation and maintenance of a Do Not Pay list to facilitate federal agencies' review of payment or award eligibility for purposes of identifying and preventing improper payments.

***Federal Information Security Management Act of 2002 (FISMA)***—requires federal agencies to implement a mandatory set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information.

***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.

***Anti-Deficiency Act of 1870 (with amendments in 1982)***—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.

***Debt Collection Improvement Act of 1996***—enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*. The primary purpose of the *Debt Collection Improvement Act* (DCIA) is to increase the collection of nontax debts owed to the federal government.

The *Digital Accountability and Transparency Act* (DATA Act), Public Law 113-101, enacted on May 9, 2014, amended the DCIA to require referral of delinquent debt to the Department of Treasury's Offset Program within 120 days. The Department is in communication with Treasury regarding implementation of the DCIA, and is working to determine the best course of action, including, as needed, modifications to existing regulations and/or systems and processes, to fully comply with the DCIA. This determination of noncompliance with this provision of the DCIA does not represent a material weakness in the Department's internal controls.

***Federal Credit Reform Act of 1990***—enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guarantees. The purposes of Title V of the act are to measure more accurately the costs of federal credit programs; place the cost of credit programs on a budgetary basis equivalent to other federal spending; encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and improve the allocation of resources among credit programs and between credit and other spending programs (See Notes 1 and 6 in the Financial Section).

***The Cash Management Improvement Act of 1990***—The purpose of this law is to improve the transfer of federal funds between the federal government, the states, territories, and the District of Columbia. The law focuses on two recurrent intergovernmental issues: states drawing federal funds in advance of need; and the federal government providing late grant awards to states.

***Single Audit Act of 1984***—The [Single Audit Act of 1984](#) (with amendment in 1996) and [OMB Circular A-133](#) ("Audits of State, Local Governments, and Non-Profit Organizations") provide

audit requirements for ensuring that grant funds to state, local, and tribal governments, colleges, universities and other nonprofit organizations (nonfederal entities) are expended properly.

***Government Performance and Results Act of 1993 as amended by the GPRA***

***Modernization Act of 2010***—The GPRA of 1993 established strategic planning, performance planning, and reporting as a framework for agencies to communicate progress in achieving their missions. The *GPRA Modernization Act of 2010* established important changes to these existing requirements.

The foundations of GPRA are: (1) agencies are required to develop five-year strategic plans that must contain a mission statement as well as long-term, results-oriented goals covering each of its major functions; (2) agencies are required to prepare annual performance plans that establish the performance goals for the applicable fiscal year, a brief description of how these goals are to be met, and a description how these performance goals can be verified; and (3) agencies must prepare annual performance reports that review the agency's success or failure in meeting its targeted performance goals.

***Elementary and Secondary Education Act***—The current reauthorization of ESEA is the [No Child Left Behind Act](#) of 2001. It emphasizes equal access to education, sets high standards for academic performance, and demands a rigorous level of accountability from schools and districts. ESEA authorizes an important group of education programs administered by the states. These programs support eligible schools and districts eager to raise the academic achievement of struggling learners, and address the complex challenges that arise among students who live with disability, mobility problems, learning difficulties, poverty, transience, and the need to learn a second language.

***Higher Education Opportunity Act of 2008***—intended to strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education. It increased federal money given to universities, created scholarships, and gave low-interest loans for students.

***Individuals with Disabilities Education Act of 2004***—governs how states and public agencies provide early intervention, special education, and related services to children with disabilities.

***General Education Provisions Act***—provides general administrative requirements that govern the implementation of all Department grant programs.

***Department of Education Organization Act***—established the Department, defines its mission, and sets out key components of its organizational structure.

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