Management's Discussion and Analysis

About the Management's Discussion and Analysis

The Department continued to enhance the usefulness of the *Agency Financial Report* (AFR) as a summary of the Department's activities and results in FY 2015 by augmenting this report with relevant web content. To take advantage of the multiple hyperlinks embedded in the report, we recommend reading it on the Internet. Our intent is to provide users with access to helpful information about the Department and its financial and performance activities. This year, we focused on improving disclosures about our performance management, internal controls, and legal compliance. To help continue to improve the content of the AFR, readers are encouraged to provide their feedback at: AFRComments@ed.gov.

This section highlights information on the Department's performance, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address select challenges.

Through its performance, the Department demonstrated its continuing commitment to fortifying the education system by directing federal resources to, among other things: improving access to early learning programs, reforming elementary and secondary education to strengthen critical outcomes, making higher education more accessible and affordable, and working to attract talented people to the teaching profession. The Department also demonstrated good stewardship of federal resources by ensuring that its business and financial management systems and processes are well controlled and managed.

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 link to the full list of Department offices with a description of selected offices by function.

Discussion of Performance

The Department elected to produce separate financial and performance reports. The *Agency Financial Report* for FY 2015 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 FY 2014–15. A detailed discussion of performance information for FY 2015 will be provided in the Department's *Annual Performance Report* (APR) to be released at the same time as the President's FY 2017 Budget.

The section includes an overview of performance reporting, a report on the APGs for FY 2014–15, and a high-level discussion of performance information. The Looking Ahead and Addressing Challenges section describes the challenges that the Department aims to address to achieve progress against the *FY 2014–2018 Strategic Plan*. Finally, the results achieved from Department expenditures are discussed at a high level in the AFR. For more details about performance, please 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 expends a substantial portion of its budgetary resources and cash on multiple loan and grant 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. Accordingly, the Department has included more high-level details about sources and uses of the federal funds received and net costs by program.

Analysis of Systems, Controls, and Legal Compliance

The Department's internal control framework and its assessment of controls in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control,* provide assurance to Department leadership and external stakeholders that financial data produced by the Department's business and financial processes and systems are complete, accurate, and reliable.

Because the Department produces an *Agency Financial Report,* detailed performance reporting is included in the *Annual Performance Report*, as specified in OMB Circular No. A-11, Part 6, Section 260. A high-level summary of performance is included in the AFR to provide context for reporting of financial data and assessment of controls.

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 in 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.

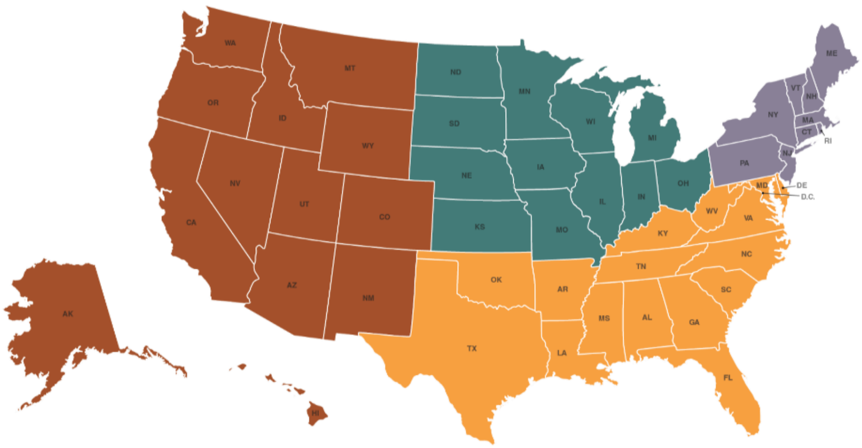
Our Public Benefit. The Department is committed to helping to ensure that students throughout the nation develop skills to succeed in school, college, and the workforce. While recognizing the primary role of states and school districts in providing a high-quality education, the Department supports efforts to employ effective teachers, principals, and district leaders; establish challenging content and achievement standards; ensure equity and access for all students to achieve according to high expectations; and monitor students' progress against those standards.

The Department's largest asset is the portfolio of student loans (see the Financial Highlights and Notes sections). Grants to states are the second-largest item, mostly for elementary and secondary education, awarded based on statutory formulas (see the chart on the following page). The third biggest item is student aid to help pay for college through Pell Grants, Work Study, and other campus-based programs (see the Notes section). The Department also carries out competitive grant programs to promote innovation, supports research, collects education statistics, and enforces civil rights statutes (see the Performance section).

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 civil rights enforcement offices in federal regions, civil rights 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 are available on the Department's website.

FY 2014 Actual Formula Grant Distribution by Region and State



The figures in these tables are made up of funding, from multiple programs, allocated to states based on statutory formulas. These do not include discretionary grants, need-based grants, or federal loans. For more details, view the Department's State Budget Tables.

West	Grades K-12	Postsec	All Other
Alaska	253	46	12
Arizona	820	1,464	77
California	3,953	4,117	394
Colorado	431	519	48
Hawaii	170	84	16
Idaho	162	179	20
Montana	163	78	16
Nevada	244	159	24
New Mexico	344	223	27
Oregon	368	419	56
Utah	269	409	43
Washington	622	495	65
Wyoming	107	40	11
TOTAL	**$7,906m**	**$8,232m**	**$809m**

South	Grades K-12	Postsec	All Other
Alabama	517	554	70
Arkansas	350	294	54
Delaware	111	69	16
Dist. of Columbia	91	154	20
Florida	1,806	2,099	214
Georgia	1,080	1,086	81
Kentucky	499	435	57
Louisiana	626	404	46
Maryland	506	448	58
Mississippi	398	335	51
North Carolina	956	887	124
Oklahoma	450	337	51
South Carolina	492	431	66
Tennessee	644	588	84
Texas	3,106	2,301	298
Virginia	682	746	86
West Virginia	217	254	41
TOTAL	**$12,531m**	**$11,422m**	**$1,417m**

NOTE: Data is current as of October 21, 2015.

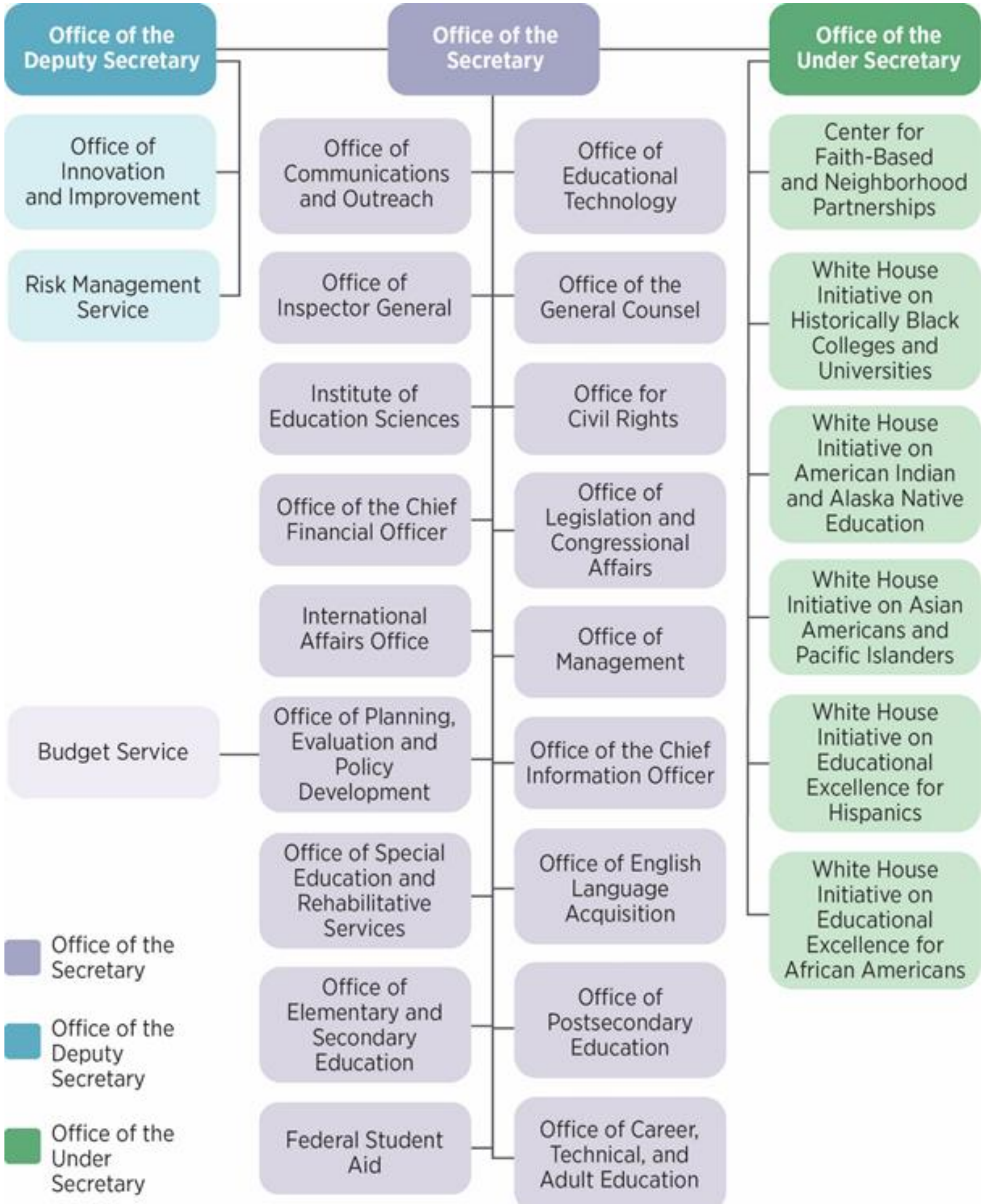
Midwest	Grades K-12	Postsec	All Other
Illinois	1,458	1,367	132
Indiana	653	837	71
Iowa	269	451	33
Kansas	322	274	25
Michigan	1,171	1,024	107
Minnesota	456	592	59
Missouri	612	632	73
Nebraska	204	159	23
North Dakota	117	51	12
Ohio	1,256	1,015	128
South Dakota	158	110	12
Wisconsin	549	464	71
TOTAL	**$7,225m**	**$6,976m**	**$746m**

Northeast	Grades K-12	Postsec	All Other
Connecticut	319	308	32
Maine	145	127	20
Massachusetts	623	564	64
New Hampshire	126	133	14
New Jersey	842	656	76
New York	2,396	2,083	188
Pennsylvania	1,239	1,007	143
Rhode Island	128	127	17
Vermont	91	55	18
TOTAL	**$5,909m**	**$5,060m**	**$572m**

Other	Grades K-12	Postsec	All Other
American Samoa	24	6	1
Freely Associated States	7	18	1
Guam	42	17	3
Indian Set Aside	236	n/a	37
Northern Mariana Islands	17	5	1
Puerto Rico	704	800	80
US Virgin Islands	28	6	3
All Other	368	n/a	50
TOTAL	**$1,426m**	**$852m**	**$176m**

Our Organization in Fiscal Year 2015

This chart reflects the 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 GPRA Modernization Act of 2010 (GPRAMA), the Department's framework for performance management starts with the *Strategic Plan,* including the six FY 2014–15 APGs, 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. The Department monitors progress toward its strategic goals and its APGs using data-driven review and analysis. This focus promotes active management engagement across the Department. Additional information on performance management is available in the *Annual Performance Plans and Annual Performance Reports*.

Based on data available as of quarter 3 of FY 2015, 14 metrics in the *FY 2014–18 Strategic Plan* showed progress toward the established goals.

The *FY 2014–18 Strategic Plan* is comprised of six strategic goals and six APGs for FY 2014–15 and aims to align the administration's annual budget requests with the Department's legislative agenda, supported by the considerable experience and resources available from its internal staff. The Department welcomes input from Congress, state and local partners, and other education stakeholders about the *Strategic Plan.* During FY 2015, the Department reached out to Congress by following up with the chairs and ranking members of authorizing, appropriations, and oversight committees requesting consultation and feedback on its proposed FY 2016–17 APGs, as required by OMB Circular A-11 and the GPRAMA. Questions or comments about the APGs or the *Strategic Plan* should be emailed to APP_APRComments@ed.gov.

FY 2014–18 Strategic Plan

AGENCY MISSION

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

FY 2014–18 STRATEGIC PLAN

Strategic Goals	Strategic Objectives	FY 2014–15 APGs
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.	**Objective 1.1:** ***Access and Affordability.*** 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.). **Objective 1.2:** ***Quality.*** Foster institutional value to ensure that postsecondary education credentials represent effective preparation for students to succeed in the workforce and participate in civic life. **Objective 1.3:** ***Completion.*** Increase degree and certificate completion and job placement in high-need and high-skill areas, particularly among underrepresented and/or underprepared populations. **Objective 1.4:** ***Science, Technology, Engineering, and Mathematics Pathways.*** Increase STEM pathway opportunities that enable access to and completion of postsecondary programs.	• Increase college degree attainment in America
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.	**Objective 2.1:** ***Standards and Assessments.*** Support implementation of internationally benchmarked college- and career-ready standards, with aligned, valid, and reliable assessments. **Objective 2.2:** ***Effective Teachers and Strong Leaders.*** Improve the preparation, recruitment, retention, development, support, evaluation, recognition, and equitable distribution of effective teachers and leaders. **Objective 2.3:** ***School Climate and Community.*** Increase the success, safety, and health of students, particularly in high-need schools, and deepen family and community engagement. **Objective 2.4:** ***Turn Around Schools and Close Achievement Gaps.*** 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. **Objective 2.5:** ***STEM Teaching and Learning.*** Increase the number and quality of STEM teachers and increase opportunities for students to access rich STEM learning experiences.	• Support implementation of college- and career-ready standards and assessments • Improve learning by ensuring that more students have effective teachers and leaders

FY 2014–18 STRATEGIC PLAN

Strategic Goals	Strategic Objectives	FY 2014–15 APGs
Goal 3: *Early Learning.* Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.	**Objective 3.1: *Access to High-Quality Programs and Services.*** Increase access to high-quality early learning programs and comprehensive services, especially for children with high needs. **Objective 3.2: *Effective Workforce.*** 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. **Objective 3.3: *Measuring Progress, Outcomes, and Readiness.*** Improve the capacity of states and early learning programs to develop and implement comprehensive early learning assessment systems.	• Support comprehensive early learning assessment systems
Goal 4: *Equity.* Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.	**Objective 4.1: *Equitable Educational Opportunities.*** 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. **Objective 4.2: *Civil Rights Compliance.*** Ensure educational institutions' awareness of and compliance with federal civil rights obligations and enhance the public's knowledge of their civil rights.	• Ensure equitable educational opportunities
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.	**Objective 5.1: *Data Systems and Transparency.*** 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. **Objective 5.2: *Privacy.*** 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. **Objective 5.3: *Research, Evaluation, and Use of Evidence.*** 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. **Objective 5.4: *Technology and Innovation.*** Accelerate the development and broad adoption of new, effective programs, processes, and strategies, including education technology.	• Enable evidence-based decision making
Goal 6: *U.S. Department of Education Capacity.* Improve the organizational capacities of the Department to implement the *Strategic Plan*.	**Objective 6.1: *Effective Workforce.*** Continue to build a high-performing, skilled, diverse, and engaged workforce within the Department. **Objective 6.2: *Risk Management.*** Improve the Department's program efficacy through comprehensive risk management, and grant and contract monitoring. **Objective 6.3: *Implementation and Support.*** 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. **Objective 6.4: *Productivity and Performance Management.*** 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.	

U.S. Department of Education Management and Communications Priority Themes

The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. To fulfill this mission, the Department's *Strategic Plan* revolves around the following themes:

- Early Learning;
- K–12 Education Reform;
- Access, Affordability, and Completion of Postsecondary Education, Career and Technical Education, and Adult Education; and
- Equity.

The following examples highlight the Department's focus for 2015.

Early Learning

This year the Department published *A Matter of Equity: Preschool in America*, a report on the status of preschool in the United States and recent progress to expand preschool for low-income children throughout the states. The Department recognizes that without a focus on children's preschool experiences, the country runs the risk of limiting opportunity for an entire generation of children by having education gaps between low-income and other children before they enter kindergarten. Recently, the federal government has increased its investment in providing high-quality early education. The Department's involvement in this investment has included the following.

Race to the Top - Early Learning Challenge (RTT-ELC) Grant Program: This program is jointly administered by the Department and the Department of Health and Human Services. It provides 20 states with funding to improve early childhood workforce preparation and training; strengthen health services and family engagement; link early childhood and K–12 data systems to learn more about how children's early learning experiences influence their school success; and ensure that parents have information about high-quality early learning programs in their communities.

Preschool Development Grants: This four-year federal and state partnership provides 18 states with funding to expand the number of children enrolled in high-quality preschool programs in high-need communities. The Department estimates that the programs funded by these grants will enroll 177,000 additional children, who otherwise would not have had the opportunity for a high-quality preschool education.

K–12 Education Reform

The Department supported K–12 reform through its grant programs and highlighted the lessons learned from grant and other programs publicly through blogs and a series of videos. Additionally, the Department has created a policy initiative through outreach to the education community.

***Elementary and Secondary Education Act* (ESEA) Flexibility:** Since 2012, the Department has partnered with state and district leaders to provide relief from some provisions of the *No Child Left Behind Act of 2001* in exchange for taking bold actions to improve student outcomes and ensure equity for all students. Under current law, schools were given many ways to fail but very few opportunities to succeed. The law forced schools and districts into one-size-fits-all solutions, regardless of the individual needs and circumstances in those communities.

Under ESEA flexibility, states continue to focus resources on comprehensive, rigorous interventions in their lowest-performing schools to help support the neediest students meet high expectations alongside their peers. States also have focused on improving teacher and principal effectiveness across the country with evaluation and support systems that are used for continual improvement of instruction and provide clear, timely, and useful feedback, including feedback that identifies needs and guides professional development. These systems also can be used to recognize and reward highly effective educators, as well as to inform important conversations about ensuring equitable access to effective educators for students from low-income families and students of color.

State Plans to Ensure Equitable Access: Equal educational opportunity means ensuring that all schools have the resources they need to provide meaningful opportunities for all students to succeed, regardless of geography, family income, or race. Too often, students from low-income families and students of color are more likely than their peers to attend a school staffed by inexperienced educators or educators rated as ineffective. These inequities are unacceptable.

Helping all students reach their full potential is, quite simply, the life work of America's great teachers and principals. Far too frequently, these educators know the enormous challenges that students growing up in poverty can face. To help ensure that all students are positioned for success, all students must have equitable access to a safe and healthy place to learn, high-quality instructional materials and support, rigorous expectations and coursework, and—most critically—excellent educators to guide learning.

To help combat existing inequities, in July 2014, the Department announced a comprehensive Excellent Educators for All Initiative to help states and districts support great educators for all students, including the students who need them most. Under this initiative, the Department provided states with technical assistance through the Equitable Access Support Network (EASN) and required each state to submit a State Plan to Ensure Equitable Access to Excellent Educators (State Plan) on June 1, 2015. As of September 30, 2015, the Department has approved 16 State Plans, which include a range of strategies to ensure equitable access to excellent educators including: supporting, strengthening, and modifying teacher preparation programs; investing in school leadership; providing financial incentives; and implementing strategies that are focused on predicting, reducing, and eliminating critical shortages in the teaching force.

Postsecondary Education, Career and Technical Education, and Adult Education

The Department has made great strides in providing the public with information and transparency around quality postsecondary education. The Department has made progress in several arenas, including:

- dealing with the cost of a degree and the debt assumed to get that degree;
- emphasizing outcomes when assessing postsecondary education; and
- helping to drive innovation in the higher education sector.

The Department has supported the President's America's College Promise plan that would enable 9 million students to attend one of 1,300 community colleges tuition free. This program would make two years of college as universal as high school and would benefit both students and the nation's economy. Since 2008, total annual financial aid to students has increased by over $50 billion, all part of a total of about $150 billion in grants and loans each year for postsecondary education. The Department is working to rein in ineffective providers that have left students with burdensome debt and limited prospects for a well-paying job. Additionally, the Department has:

- developed a simpler online Free Application for Federal Student Aid (FAFSA) form and announced that it will provide students with earlier and easier access to complete the FAFSA;
- strengthened oversight to ensure that career training programs eligible for federal student aid dollars do not leave students buried in debt with poor employment outcomes;
- expanded the capabilities of the College Scorecard to include new data on outcomes and college value that give consumers better information to help them make the right college choices for them; and
- created opportunities to make college debt more manageable through income-driven repayment plans that tie payments to income to help struggling borrowers.

The Department believes that the top priority for postsecondary institutions should be to focus on outcomes so that students can get good jobs with their degrees. The Department has urged states and private institutions to view higher education as a public good by continuing to invest in their students without reducing funding for postsecondary education. At the same time, the Department supports a broad range of efforts to foster innovation that will help to drive down the cost of attaining a college degree. The Department is also working to identify ways to give colleges and universities more flexibility in their offerings that move beyond traditional requirements associated with class time and the location of where instruction takes place and consider new technologies that can reach more learners and measure growth in student competencies.

Equity

The Department continues to be true to its mission to promote and support equal access to a quality education. It has ramped up its civil rights protection efforts in the following ways.

Civil Rights Data Collection (CRDC): The CRDC shows school and state-by-state statistics on such topics as diversity of school staffing, financing, the degree to which students are college- and career-ready when they graduate, and rates of disciplinary actions by race and ethnicity. This information makes the characteristics of a school transparent to the public and allows for comparisons. Regarding discipline, for example, the data show that African American and Latino students and students with disabilities tend to be disciplined proportionately more than their peers. In response to that finding, the Department released Rethink Discipline: Resource Guide for Superintendent Action to provide suggestions for finding more effective ways of handling behavior in schools.

Processing of Civil Rights Information and Cases: The Department's Civil Rights Report, published in April 2015, outlines accomplishments in this area. For example, the Department:

- Wrote and released 11 comprehensive policy guidance documents in FY 2013–14 to notify schools and other recipients of their legal obligations and to help them comply with the law;
- In FY 2013, received 9,950 complaints, initiated 30 compliance reviews and directed inquiries, and resolved 10,128 cases overall. In FY 2014, the Department received a record-high 9,989 complaints, initiated 38 compliance reviews and directed inquiries, and resolved 9,407 cases in total;

- Instituted a new policy of publicizing lists of schools under investigation by the Office for Civil Rights (OCR), including a list of colleges subject to pending sexual violence cases, and of uploading nearly every resolution agreement and letter reached during FY 2014 and beyond onto its website. As a result, schools and the public can now access more than 500 resolutions on the OCR website, which provide examples of what schools are doing to come into compliance with civil rights laws.

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.

The ability of the United States to compete successfully in a global economy continues to depend, in large part, on increasing rates of completion for postsecondary certificates and degrees, which provide students with the skills needed to be effective in today's economy. Regretfully, the dream of obtaining a postsecondary education is swiftly falling beyond the reach of many students and their families. As costs for college tuition and other related fees and expenses continue to soar, family savings and nonfederal aid sources are diminishing as a percentage of those costs. There is growing concern that the rising costs of obtaining a postsecondary certificate or degree will continue to greatly outpace availability of funds and ultimately overwhelm the traditional resource mix that so many rely on remaining intact. Accordingly, providers of postsecondary education must work with federal, state, and other stakeholders to help bend this unsustainable cost curve.

While most students are able to repay their loans, many feel burdened by the enormity of their aggregate debt, especially as they seek to find a well paying job, start a family, buy a home, launch a business, or save for retirement. To address this problem, the Department continues to focus on efforts intended to make postsecondary education more affordable and loan repayments more manageable by implementing initiatives from the President's Value and Affordability Agenda. The Department continues to work on numerous activities to safeguard student borrowers, including new methods to communicate with borrowers regarding the availability of income-based repayment programs; expanding the Pay as You Earn income-based repayment plan to cover additional borrowers; working to strengthen and clarify matters related to the discharge of federal student loans under a variety of circumstances; and collaborating with Treasury and the Consumer Financial Protection Bureau on a series of statutory, regulatory, and administrative recommendations. Other examples of the emphasis in this area can be seen in the President's proposal for the America's College Promise program, supporting subsidized tuition at community colleges; UpSkill America, with numerous corporate partners making commitments to support frontline workers in developing improved skills, additional training, and needed certifications; and the recently proposed College Opportunity and Graduation Bonus Program, which would provide an infusion of $7 billion in mandatory budget authority to support colleges and universities in enrolling and graduating a significant number of low- and middle-income students, as well as improving their institutional performance.

APG: 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: The President set a goal for the United States to 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 ages 25–34 allows us to assess progress in preparing the next generation of United States workers and to benchmark for international comparisons.

Progress: Starting from a baseline of 44.0 percent in 2012, the Department projected that the annual increase of educational attainment among ages 25–34 would grow progressively each year above the four-year historical average of 0.7 percentage points and established a performance target of 45.6 percent. This APG has been achieved, as 45.7 percent of adults ages 25–34 have an associate's degree or higher, exceeding the performance target (note that the rate reflects prior-year data, in this case from 2014, but is reported in 2015 when data are available). Department activities that support this goal include redesigning the College Scorecard to include additional information that helps students make more informed choices, promoting institutional innovation to foster college completion, and implementing evidence-based practices that support student success.

Opportunities and Challenges: Continued success toward achieving this goal will depend largely on whether and to what extent states and institutions: (a) implement policies and programs to increase 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. Although the Department has 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.

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 goal for America's educational system is clear: every student should graduate from high school ready for college, career training, or a career. Every student should have meaningful opportunities from which to choose upon graduation from high school. Over the past few years, states, districts, and schools have initiated groundbreaking reforms and innovations to try to meet this goal. According to the 2015 *Building a Grad Nation* report, the national high school graduation rate hit a record high of 81.4 percent, and for the third year in a row, the nation remained on pace to meet the goal of 90 percent on-time graduation by 2020. This sixth annual update on America's high school dropout challenge shows that these gains have been made possible by raising graduation rates for groups of students that have traditionally struggled to earn a high school diploma. The report also includes a comprehensive look at the student groups and geographic areas that contribute to this progress and that will be key in meeting the 90 percent goal.

APG: 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 college- and career-ready standards, coupled with high-quality formative and summative assessments to measure the extent to which students are mastering the standards, is the foundation to improving educational outcomes for all students.

Progress: Most states have adopted college- and career-ready standards and are in the process of developing and testing assessments aligned with those standards. The Race to the Top - Assessment (RTTA) consortia, which included 29 states, DC, and the U.S. Virgin Islands, completed the operational administration of their assessments during spring 2015. In September 2015, the Office of Elementary and Secondary Education (OESE) released revised criteria, procedures, and guidance for the Department's peer review of state assessment systems under Title I of the *Elementary and Secondary Education Act* (ESEA).

Opportunities and Challenges: A challenge facing the Department over the next two years is supporting states in their plans to implement these standards and aligned assessments for all students, including English learners, students with disabilities, economically disadvantaged students, and low-achieving students. To address this challenge, the Department is developing and targeting technical assistance activities that aim to increase state capacity to leverage limited resources and continue to identify promising practices across multiple states. The Department will also begin conducting peer review of state assessment systems, providing examples of promising and best practices in the field. Additionally, the Department will build a library of existing resources to assist state educational agencies in full and effective transition to college- and career-ready standards, leveraging work that has occurred during Race to the Top with other partner organizations, such as Achieve, Student Achievement Partners, the National Parent Teacher Association, and others, and work internally to coordinate the provision of technical assistance across OESE, the Office of Special Education Programs (OSEP), and other related offices and programs. The Department also funds a Center on Standards and Assessments Implementation (part of the ESEA Comprehensive Centers program) to help build the capacity of state educational agencies to implement college- and career-ready standards.

The Department continues to leverage ESEA flexibility to support full adoption and implementation of college- and career-ready standards, with high-quality, aligned, valid, and reliable assessments. Additionally, the OSEP Results Driven Accountability (RDA) framework and State Systemic Improvement Plan (SSIP) development process help states increase their focus on college- and career-readiness for students with disabilities and close achievement gaps between students with disabilities and their nondisabled peers. By collaborating across OSEP, OESE, and other offices on RDA and SSIP, the Department will help states similarly coordinate across offices in their agencies.

APG: 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: 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. However, as part of the renewal process, the Department offered states the flexibility to adjust their timelines. As of June 30, 2015, eight states have fully implemented teacher and principal evaluation and support systems.[1]

Opportunities and Challenges: Providing support to states to do this work well is resource-intense. Additionally, it is difficult for the Department to maintain the momentum for reform, given districts' and states' 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 will continue to use its ESEA flexibility renewal process to provide support and encourage forward motion in implementing evaluation and support systems.

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.

The effectiveness of early learning is well documented. Every child should have the opportunity for a great start in life. According to recent Civil Rights Data Collection data, big opportunity

[1] "Fully implemented" is defined as the school year in which teachers and principals receive effectiveness ratings.

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. Based on the most recent CRDC data from SY 2011–12, 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 United States 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 its implementation of grants already in the field and continued close partnership with the Department of Health and Human Services.

APG: 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, can be used to inform professional development to improve the early learning workforce, be included in a state's comprehensive early learning assessment system, and improve student achievement and program effectiveness.

Progress: The Department anticipated exceeding the goal of at least nine states collecting and being able to report disaggregated data on the status of children at kindergarten entry using a common measure by September 30, 2015. Five RTT-ELC states implemented KEAs in the 2014–15 school year, and the Department expects 7 additional RTT-ELC states to begin implementing their KEAs in the 2015–16 school year, bringing the total to 12 states projected to implement a KEA during the 2015–16 school year.

Opportunities and Challenges: Constructing, testing, and implementing KEAs across every school in every state will be challenging and will take time. In addition, states will need to ensure that the KEAs are implemented in a balanced way that does not result in the loss of a significant amount of instructional time. Additionally, two of the three Enhanced Assessment Grants grantees that are consortia may experience challenges coordinating across states due to differences in their policies and procedures. The Department is working with these grantees to minimize these coordination challenges.

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

Equal opportunity is a core American value that helps form a national identity, solidify democracy, and strengthen the economy. Far too many students, especially in disadvantaged groups and communities, lack access to a high-quality education, including strong teaching, rigorous coursework, high standards, engaging enrichment activities, safe environments, high-quality preschools, and affordable higher education. The outcomes of our education system continue to reflect unacceptable inequities. Schools with many students from low-income families are more likely to be under-resourced schools.

According to the most recent data from the FY 2012 School District Finance Survey, in 23 states, 6.6 million students from low-income families are at risk when it comes to state and local education funding. In these states, districts serving the highest percentage of students from low-income families spend fewer state and local dollars per pupil than the lowest poverty districts, even though students from low-income families have greater educational needs. Since 2002, the gap between per pupil expenditures in high- and low-poverty school districts has actually grown wider—from a gap of 10.8 percent to a gap in the 2011–12 school year of 15.6 percent.

All young people in this country must have the chance to learn and achieve. Identifying opportunity gaps is the first step that schools and districts should take to address educational inequities. The Civil Rights Data Collection is a powerful tool, because it documents real-world impact. These data provide important markers and starting points for discussion within the Department and among education stakeholders.

APG: 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: Through Race to the Top (RTT), the School Improvement Grant (SIG) program, *Elementary and Secondary Education Act* (ESEA) flexibility, and other federal programs, the Department is providing significant funding, technical assistance, and accountability intended to improve the nation's lowest-achieving schools dramatically by, among other strategies, using intensive turnaround models and identifying the low-achieving schools that are showing strong evidence of successfully turning around. The Department is focused on supporting innovation, not just compliance monitoring, and on spurring growth in achievement, not just absolute achievement measures.

Increasing the national high school graduation rate and decreasing disparities in the graduation rate is critical to achieving the President's goal of once again having the highest proportion of college graduates in the world. The nation has made significant progress in increasing both high school graduation rates and degree attainment rates, but gaps between rates for different student groups continue to persist.

Progress: The Department received and is reviewing State Plans to Ensure Equitable Access to Excellent Educators. In June 2015, the Department hosted 19 local educational agencies with high dropout rates among students of color to provide technical assistance and support. The

Department also began the CRDC collection of data for the 2013–14 school year, which is including for the first time collection of the number of students absent 15 or more days.

Opportunities and Challenges: One key challenge for this APG is sustaining the reforms when an individial school's 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 has provided 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.

Additional challenges include: capacity challenges at state, district, and school level mean some intervention challenges persist; ensuring alignment between SIG, RTT, ESEA flexibility, and other programs and initiatives; and lack of data to define success. 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.

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.

The foundation for improving systemic capacity is an infrastructure that supports data-driven decision-making. Stakeholders must have access to relevant, useful, and timely data; and they need the skills to better understand and make use of the data. With relevant and actionable data and the ability to use it, policymakers and educators will be able to appraise how states, districts, schools, and students are currently performing; measure progress; pinpoint gaps; improve practice; better address student needs; and make sound decisions. States are developing systems that will yield valid, reliable data that are essential to achieving these purposes, but there is much more work to do. The Department will continue ongoing efforts to develop effective statewide longitudinal data systems, design voluntary common data standards to increase interoperability, and develop the capacity of institutions and staff to utilize data to improve teaching and learning.

APG: 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: Through its mix of grants, contracts, and internal analytic work, the Department supports the use of research methods and rigorous study designs that provide evidence that is as robust as possible and fit for the purpose. This APG tracks whether the Department is increasing its internal capacity to make competitive grant awards based on the existence of (and amount of) evidence in support of projects, where appropriate.

Progress: The Department surpassed the FY 2014 performance target for increasing the percentage of select new (noncontinuation) discretionary grant dollars that reward evidence. In FY 2014, 15.92 percent of the Department's discretionary dollars was awarded to new projects with supporting evidence of effectiveness, with five competitions in the Office of Innovation and Improvement, OESE, and Office of Postsecondary Education using evidence through eligibility requirements, competitive preference priorities, and selection criteria. The Department anticipates, based on internal projections and on past performance, that it will again meet its FY 2015 target.

Opportunities and Challenges: Using evidence to award competitive grants entails a shift in culture and capacity building across the Department to do it well. Additionally, goal targets are based on reasonable projections about which competitive grant programs may make new awards in a given fiscal year, but the actual dollar amount awarded will depend on final appropriations amounts and other funding decisions and trade-offs. Through the Regional Educational Laboratories and the What Works Clearinghouse, the Department continues to develop resources and webinars on evidence-related topics, such as creating high-quality logic models and designing rigorous evaluations. However, grantees vary in their comfort with and understanding of evaluation and use of evidence and the Department has limited resources to support grantees in conducting rigorous evaluations that would produce evidence of effectiveness.

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

Improving critical infrastructure, systems, and overall capacity continues to be the fundamental thrust and focus of Goal 6 of the *Strategic Plan*. Several priorities are essential to ensure that capacity is measurably increasing and improving. These include transformation of the human resources function and hiring process; and implementation of telework as a work benefit and flexibility, along with enhancing wide-scale productivity. A significant management focus is to increase the extent and quality of employee engagement efforts; promote continuous improvement in financial management; and hold contractors accountable for their work.

In information technology (IT), priorities include creating new strategies and tools, such as two-factor authentication and other threat mitigation activities, to decrease the ongoing cybersecurity threats to the Department's personnel, programs, contractual partners, and delivery systems. The Department is modernizing and consolidating its real estate portfolio, in an effort to meet the President's mandate to "freeze the footprint," and plans to make tangible reductions in total square footage used over the next several years.

Management Performance

The Department continues to make notable progress toward transforming its human resources system and hiring process. Following efforts begun in FY 2014, the Department enhanced leadership and technical expertise to the human resources team, helping to streamline hiring, bolster employee and labor relations and human capital policy development, for example. Human resources also introduced innovative strategies and resources to expand the hiring pools used by managers, which reduced the time to hire, and allowed the team to focus on other critical customer issues and capacity concerns.

The President's Management Agenda includes both mission-oriented and management-oriented Cross-Agency Priority Goals (CAP Goals), emphasized in FY 2015, and defined more fully, below. One of the standing CAP goals that relates to all agencies is on Cybersecurity. Recent, massive data breaches have occurred in both the private sector and in the federal government, testing and motivating the Department to place more investment and attention toward threat mitigation and IT security of its most critical infrastructure and related assets. These IT security incidents have also required an urgent, governmentwide response to both prepare for and defend against continuous and pervasive attacks against systems and agencies. The introduction of several new tools and processes has helped to secure the Department's IT security posture and has enabled employees to participate in identifying, reporting, and repelling known attacks. However, the increased capacity has also alerted the Department to an even greater volume of attacks than seen before. The Department's capacity for defense can be seen in certain key metrics, such as the number of agency IT security incidents, which continues to show fewer occurrences than targeted and anticipated, and which the Department managed to about 15 percent less incidents than expected. Increased investments in and creation of two-factor authentication, eradication of privileged user accounts, and continued security remediation through improved standard operating procedures and communication to stakeholders are showing some early signs of effectiveness and possible, repeatable successes.

In FY 2015, the Department continued making major efforts to bolster its impact in the people and culture element, with an enterprise-wide campaign to address employee engagement at the principal office component level, the basic work unit structure. The campaign's agenda covered employee engagement planning, including the development of a roadmap of essential and best practices, as well as engagement of the top-level management in each principal office component unit. Additionally, the Department met the Office of Personnel Management's (OPM's) newly mandated performance standard, with every senior executive being required to address employee engagement as a part of the annual performance agreement for the executives. Final participation rates resulting from the 2015 OPM Federal Employee Viewpoint Survey show significant gains in this area, with a 73 percent survey response rate—3 percent above the Department's target—and over 9 percent more than the 2014 response rate.

Other management elements that are critical to sound management are showing positive trends and results as well. The Department enhanced and improved its IT services and network delivery by increasing and moving storage capacity to a more secure and less expensive cloud based facility. It also made improvements to network speed, mobility solutions to enable telework, and data security. The Department reduced the cost of managing accounts receivables by outsourcing the management of most of that portfolio to a federal shared service provider, significantly reducing the cost per transaction. The Department recently launched a new initiative to migrate to 100 percent electronic vendor invoicing by FY 2018, which will both improve customer service and significantly reduce the internal processing costs of invoices. The Department's percent of compliance with contractor performance reporting requirements is the best in government, currently over 98 percent. To put these numbers in greater context, this performance ranks the Department as one of only four agencies that have compliance rates of 90 percent or more.

The Department's human resource team is producing much needed policy guidance at a faster rate than in the previous three years, publishing pivotal guidance, such as those related to the telework program, alternative work schedules, and the merit promotion plan, a clear result of improved staff technical and leadership capability. Finally, a major change in management and culture-impacting effort is underway as the Department implements the OMB directive to reduce significantly its real estate "footprint" and space inventory. While reduction of the overall square footage is the primary goal, this is a long-term endeavor of many years, and the Department recognizes that it must manage several other indirect dependencies that can derail the expected progress. However, the Department has made significant progress toward the first phase of the modernization of its headquarters building and is completing plans to effect the move of two regional offices from more expensive leased space to less expensive federally owned space.

These efforts, taken as a whole, are positioning the Department to benefit from and leverage continuous improvement to increase its overall capacity to deliver on and achieve its *Strategic Plan* goals.

Cross-Agency Priority Goals

In accordance with the *GPRA Modernization Act of 2010*, interim CAP Goals were published on performance.gov in March 2014. The CAP Goals are divided into two categories:

Mission CAP Goals	Management CAP Goals
• Cybersecurity • Climate Change (Federal Actions) • Insider Threat and Security Clearance Reform • Job-creating Investment • Infrastructure Permitting Modernization • STEM Education • Service Members and Veterans Mental Health	• Customer Service • Smarter IT Delivery • Strategic Sourcing • Shared Services • Benchmark and Improve Mission-support Operations • Open Data • Lab-to-Market • People And Culture

Performance.gov is updated quarterly for each CAP Goal. The website includes goal statements and other information, such as accountable senior leader(s) and contributing agencies. Quarterly performance updates for the website on progress will be provided by the goal leader in coordination with the Performance Improvement Council (PIC), the Office of Management and Budget (OMB), corresponding governmentwide management council, and contributing agencies. (A-11, Part 6, 220.5)

In addition to the APGs, the Department contributes to the following four CAP Goals.

Cybersecurity Goal Statement: Improve awareness of security practices, vulnerabilities, and threats to the operating environment by limiting access to only authorized users and implementing technologies and processes that reduce the risk from malicious activity.

A progress update through FY 2015 Q3 is available on Performance.gov. The update further clarifies the President's commitment and sense of urgency in addressing cybersecurity threats, which are deemed to be significant threats to national security, public safety, and economic viability, particularly given recent major data breaches, such as that which occurred at OPM. In response to that incident and other threats of potential breaches, the Department participated in the White House's "30-day sprint" to address known vulnerabilities, secure network infrastructures, and restrict access through improved authentication, among other key strategies.

The third quarter update shows substantive progress in three critical areas:

- **Information Security Continuous Monitoring (ISCM)**—Impactful increase in the number of *Chief Financial Officers Act of 1990* (CFO Act) agencies that met the Secure Configuration Management target;
- **Identify, Credentialing and Access Management (ICAM)**—Notable increase in the percentage of civilian users (privileged and unprivileged) using Personal Identification Verification (PIV) cards; and
- **Anti-Phishing and Malware Defense**—Encouraging increase in the number of CFO Act agencies that met the Blended Defense target.

Customer Service Goal Statement: 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.

A progress update through FY 2015 Q3 is available on Performance.gov. The update defines the goal team and a governance plan and identifies subgoals and major actions to achieve impact. Milestones have been established for each of the four strategy areas and key indicators are in development.

Science, Technology, Engineering, and Math (STEM) Education Goal Statement: Improve STEM Education by implementing the Federal STEM Education 5-Year Strategic Plan, announced in May 2013, specifically:

- Improve STEM instruction.
- Increase and sustain youth and public engagement in STEM.
- Enhance STEM experience of undergraduate students.
- Better serve groups historically under-represented in STEM fields.
- Design graduate education for tomorrow's STEM workforce.
- Build new models for leveraging assets and expertise.
- Build and use evidence-based approaches.

A progress update through FY 2015 Q3 is available on Performance.gov. The update highlights the formulation of a governance plan, and identifies subgoals and major strategies to achieve impact as well as key indicators for the action plan.

Service Members and Veterans Mental Health Goal Statement: Improve mental health outcomes for Service Members, Veterans, and their Families.

A progress update through FY 2015 Q3 is available on Performance.gov. The update highlights governance plan alignment with the President's Executive Actions, and identifies subgoals and major actions to achieve impact as well as key indicators and milestones.

Additionally, the Department is a member of the Interagency Taskforce on Military and Veterans Mental Health.

Real time information on CAP Goals is available at performance.gov.

Looking Ahead and Addressing Challenges

The U.S. Department of Education's commitment to equity and access are at the heart of its strategic planning and reporting across the six goals in the Department's *Strategic Plan*. Goals 1, 2, and 3 support access and Goals 1, 2, 3, and 4 support equity. Goals 5 and 6 support all of the other goals through the collection and use of data and through enhancing the operations and organizational capacity of the Department. Looking to the future, the Department will continue to celebrate states and local communities working to increase access and opportunity from early learning to college.

Graduation Rates

America's high school graduation rate has reached a record high, dropout rates are down, and 1.1 million more Black and Hispanic students are attending college than in 2008, according to new National Center for Education Statistics data.

As a nation, America must accelerate that pace of change because today:

- a quarter of high schools with the highest percentage of African-American and Latino students do not offer Algebra II, and a third do not offer chemistry;
- about 40 percent of school districts do not offer preschool programs; and
- we have far too many students of color, primarily boys, being suspended and expelled from school.

The Department's work will not be done until it ensures that opportunity is not just a possibility, but a promise. Going forward, the Department will build on what it has already established:

- state-driven accountability that demands progress for all children;
- access to high-quality early education for 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 access, affordability, and completion of postsecondary education. To support the tracking and reporting of progress against the goals and objectives, the Department provides regular progress updates on its APGs on performance.gov. Implementation of the Department's *Strategic Plan* 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.

Accomplishing the Department's strategic goals will require strong coordination and collaboration from Department staff working with Congress, partners at the state and local levels, and other stakeholders. Responding to legislative challenges and acting under fiscal constraints 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 enhance 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. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the format and content specified by OMB 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 14 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2015 are on pages 56–98 and the Independent Auditors' Report begins on page 107.

The Department's internal control framework and its assessment of controls over financial reporting in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, provide assurance to Department leadership and external stakeholders that financial data produced by its financial systems and business processes are complete, accurate, and reliable. This ensures that not only do the financial statements conform to applicable federal reporting requirements, but also that the Department has trustworthy financial information for good decision-making. Additionally, the Department's complete and accurate financial data enables it to provide accurate and reliable financial reports and transparency about how the Department is spending federal funds. Further information on management's assessment of internal controls can be found in the Analysis of Systems, Controls, and Legal Compliance section that begins on page 39.

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, 2015, compared with the end of fiscal years 2011–14, 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.

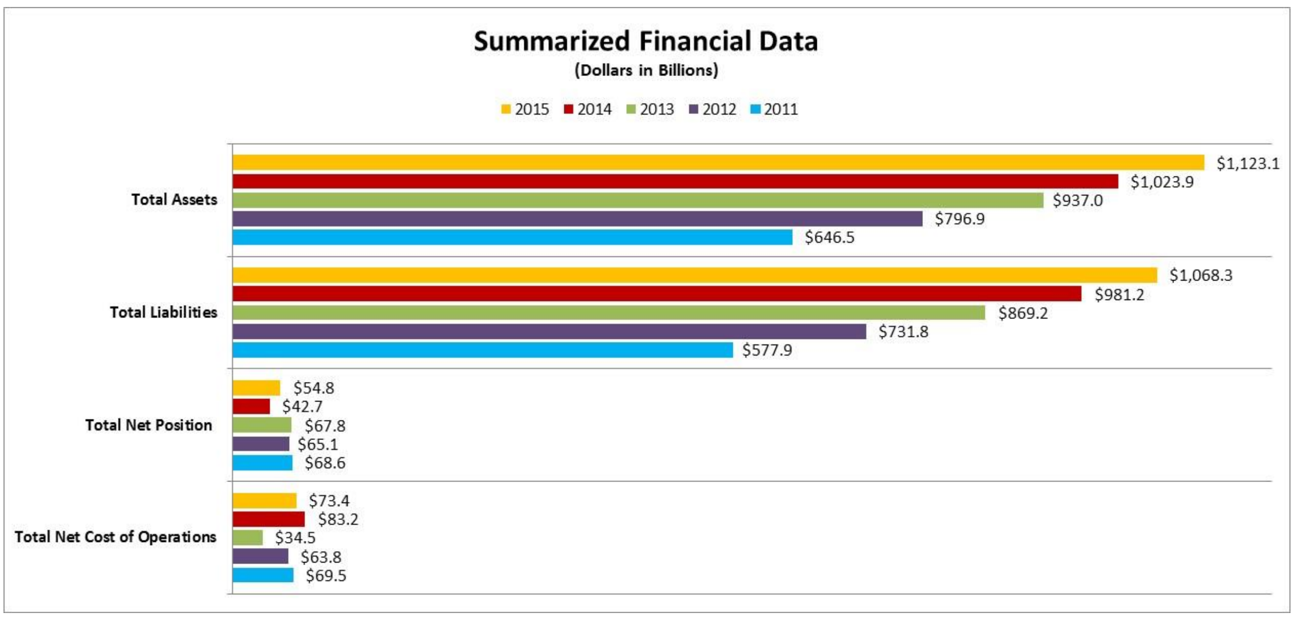
Table of Key Measures

As of September 2015, 2014, 2013, 2012, and 2011

(Dollars in Millions)

	% Change FY 15 / FY 14	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
Consolidated Balance Sheet						
Fund Balance with Treasury	+5.0%	$ 103,619	$ 98,696	$ 108,732	$ 121,993	$ 114,085
Credit Program Receivables, Net	+10.2%	1,017,733	923,545	826,684	673,488	530,491
Other	+4.9%	1,767	1,685	1,642	1,446	1,966
Total Assets	+9.7%	**1,123,119**	**1,023,926**	**937,058**	**796,927**	**646,542**
Debt	+8.8%	1,051,776	966,671	852,432	715,303	547,108
Liabilities for Loan Guarantees*	-	-	-	-	1,037	10,025
Other	+13.7%	16,540	14,549	16,783	15,432	20,824
Total Liabilities	+8.9%	**1,068,316**	**981,220**	**869,215**	**731,772**	**577,957**
Unexpended Appropriations	-5.6%	62,740	66,447	71,371	72,686	71,729
Cumulative Results of Operations	+66.6%	(7,937)	(23,741)	(3,528)	(7,531)	(3,144)
Total Net Position	+28.3%	**$ 54,803**	**$ 42,706**	**$ 67,843**	**$ 65,155**	**$ 68,585**
Statement of Net Cost						
Gross Costs	-6.4%	$ 105,115	$ 112,295	$ 61,353	$ 89,263	$ 89,910
Earned Revenue	+8.8%	(31,690)	(29,125)	(26,881)	(25,490)	(20,397)
Total Net Cost of Operations	-11.7%	**$ 73,425**	**$ 83,170**	**$ 34,472**	**$ 63,773**	**$ 69,513**

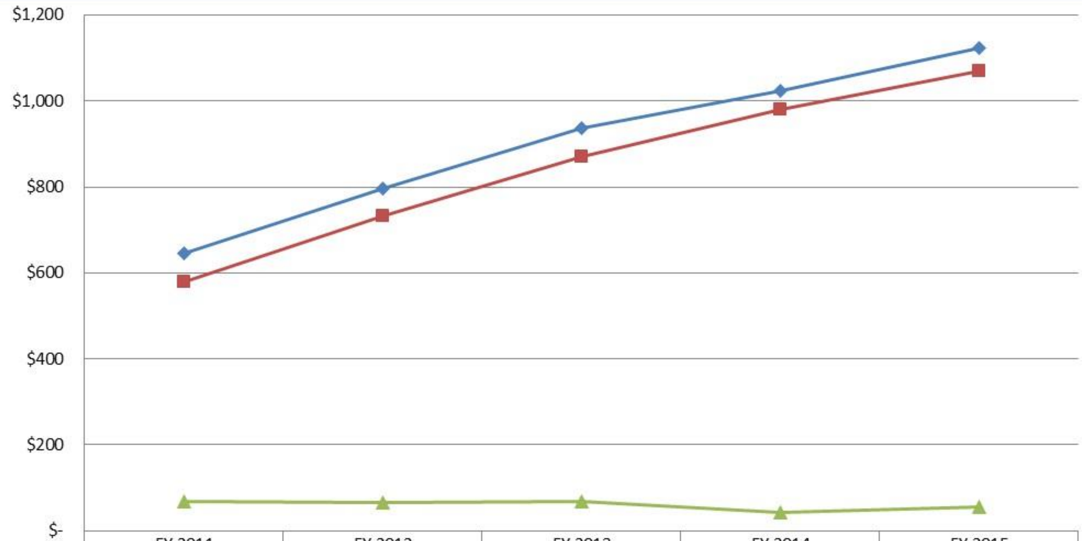
* The presentation of the FY 2011 and FY 2012 liability for loan guarantees is in the liability section of the Department's Balance Sheet; however, the presentation of the same FY 2013, FY 2014, and FY 2015 liability is in the credit program receivables, net balance sheet line item, due to its negative value.



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.

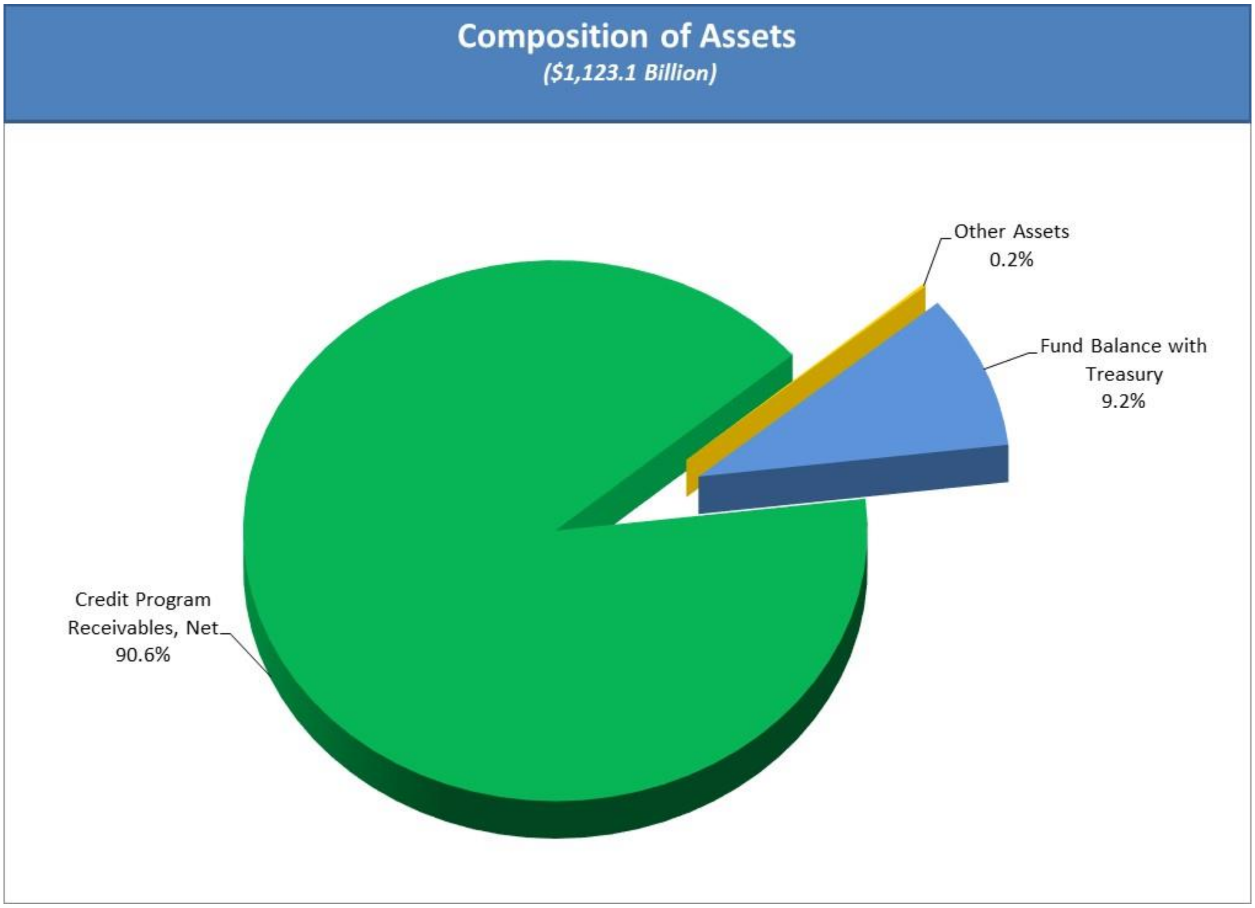
Comparison of Department's Assets, Liabilities & Net Position for Fiscal Years 2011–2015
(Dollars in Billions)



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Total Assets	$646.5	$796.9	$937.0	$1,023.9	$1,123.1
Total Liabilities	$577.9	$731.8	$869.2	$981.2	$1,068.3
Total Net Position	$68.6	$65.1	$67.8	$42.7	$54.8

Analysis of Assets

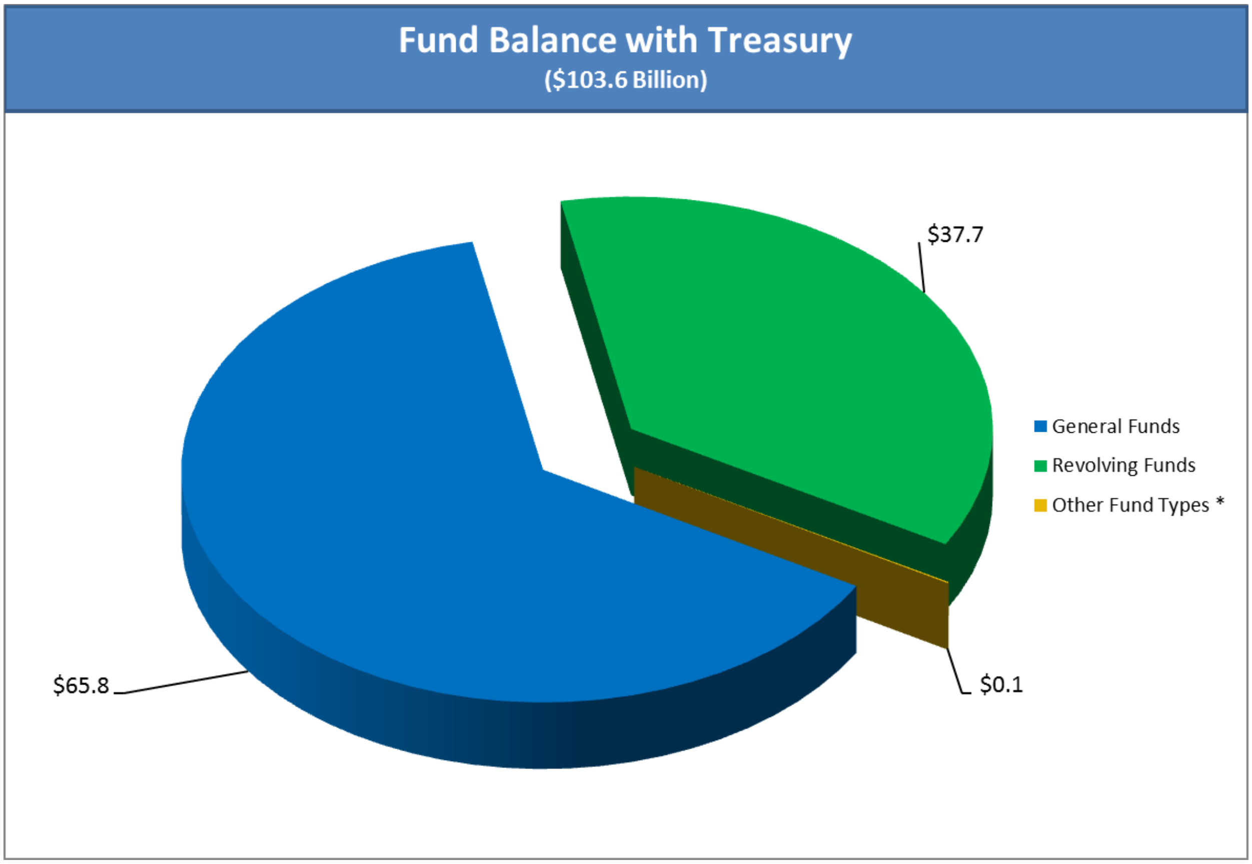
The Department's assets totaled $1,123.1 billion as of September 30, 2015, an increase of $99.2 billion, or approximately 9.7 percent, over the FY 2014 balance of $1,023.9 billion. The vast majority of the increase in assets relates to credit program receivables, net, which increased to $1,017.7 billion, a 10.2 percent increase over $923.5 billion in FY 2014. 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 $102.0 billion ($46.4 billion was disbursed to consolidate FFEL loans). The Department's total assets are composed of Fund Balance with Treasury, credit program receivables, and other assets.



Assets as of September 30, 2015 and 2014 *(Dollars in Millions)*	2015	2014
Fund Balance with Treasury	$ 103,619	$ 98,696
Credit Program Receivables, Net	1,017,733	923,545
Other Assets*	1,767	1,685
Total Assets	$ 1,123,119	$ 1,023,926

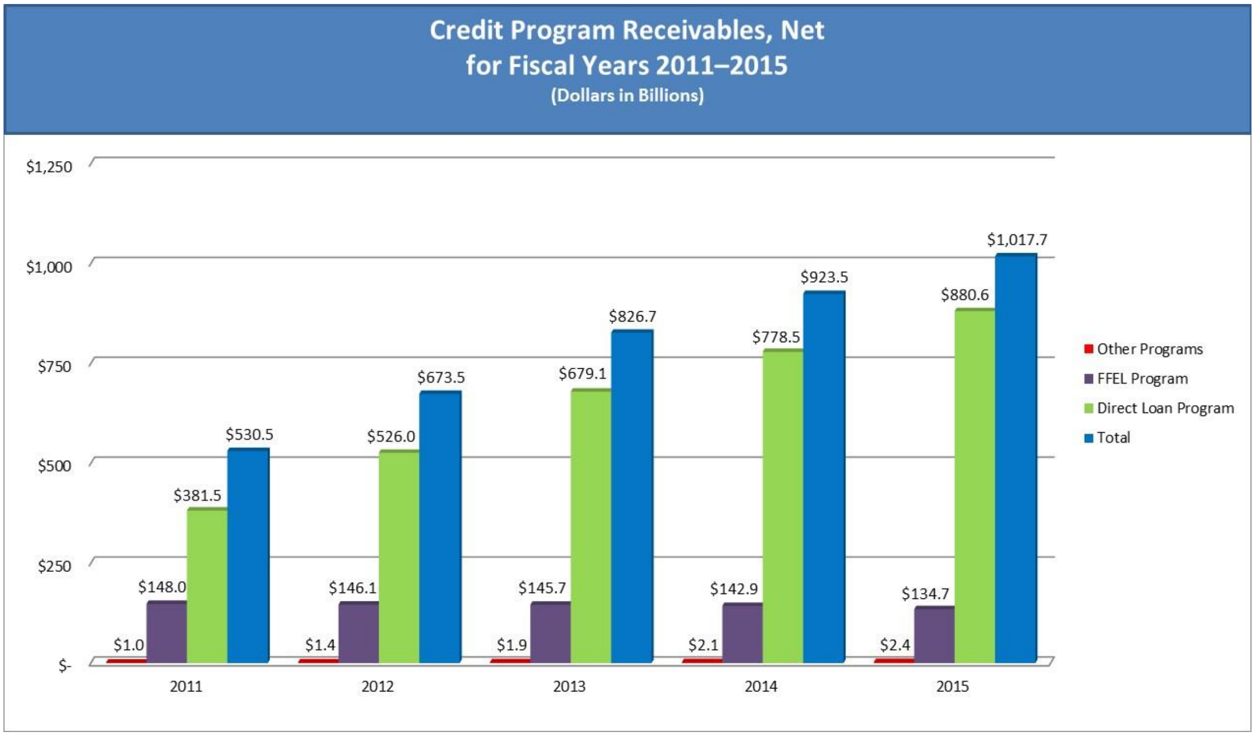
* The other assets amount includes Cash and Other Monetary Assets; accounts receivable; property and equipment, net; and other.

The chart below displays the composition of the Fund Balance with Treasury as of September 30, 2015. 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, trust funds, and all other funds.



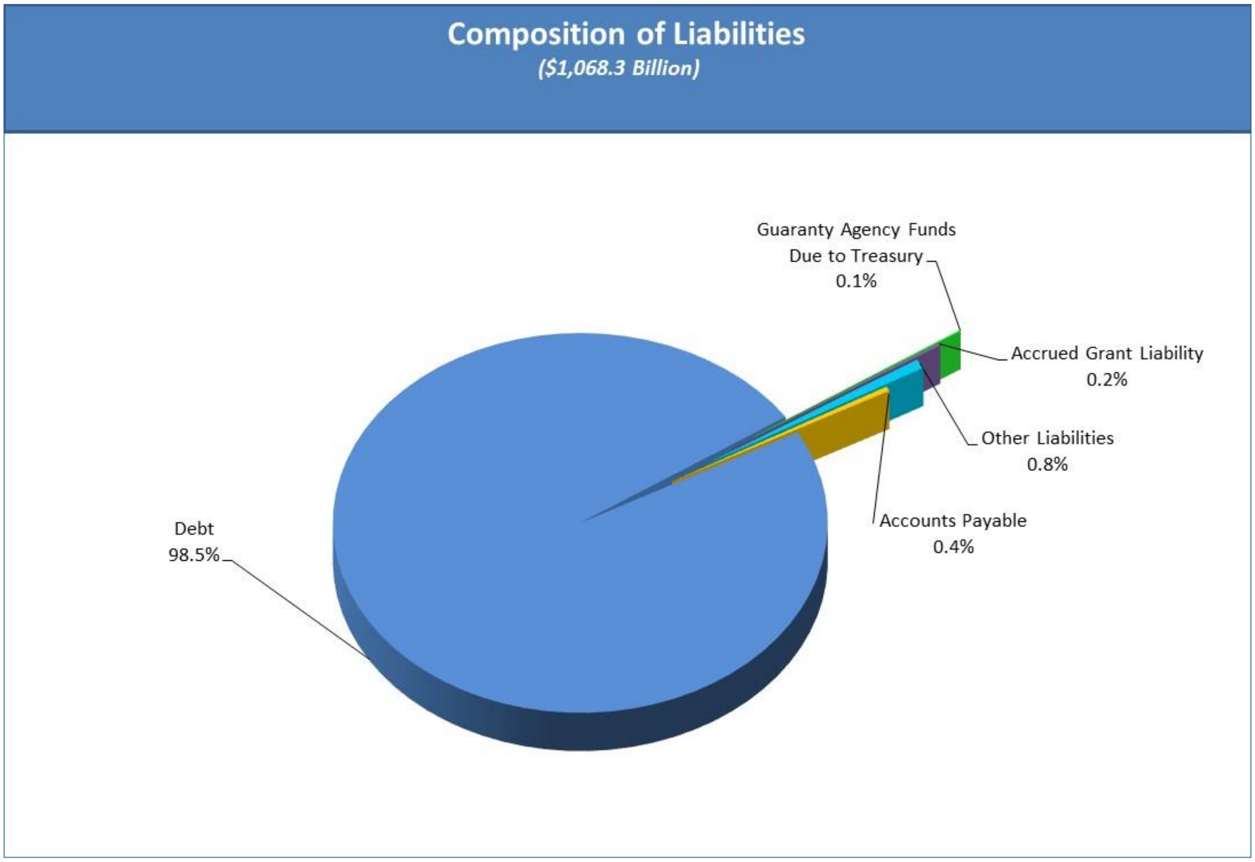
*Other fund types include special, trust, clearing, non-entity deposit, and receipt funds.

The chart below presents the Department's credit program receivables, net, for fiscal years 2011–15. 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, net, to grow significantly, from $530.5 billion in FY 2011 to $1,017.7 billion in FY 2015, a $487.2 billion net increase.



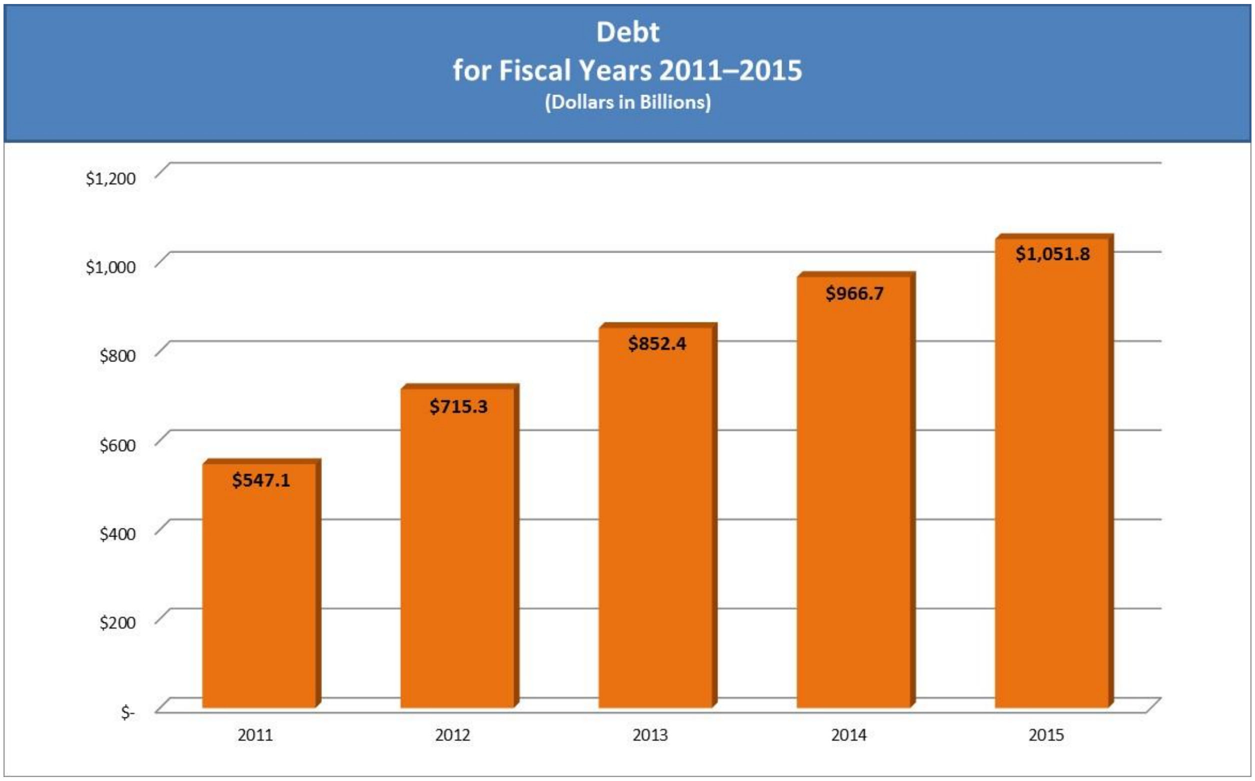
Analysis of Liabilities

Liabilities of the Department totaled $1,068.3 billion as of September 30, 2015, an increase of $87.1 billion, or approximately 8.9 percent over the FY 2014 balance of $981.2 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 an $85.1 billion increase in debt.



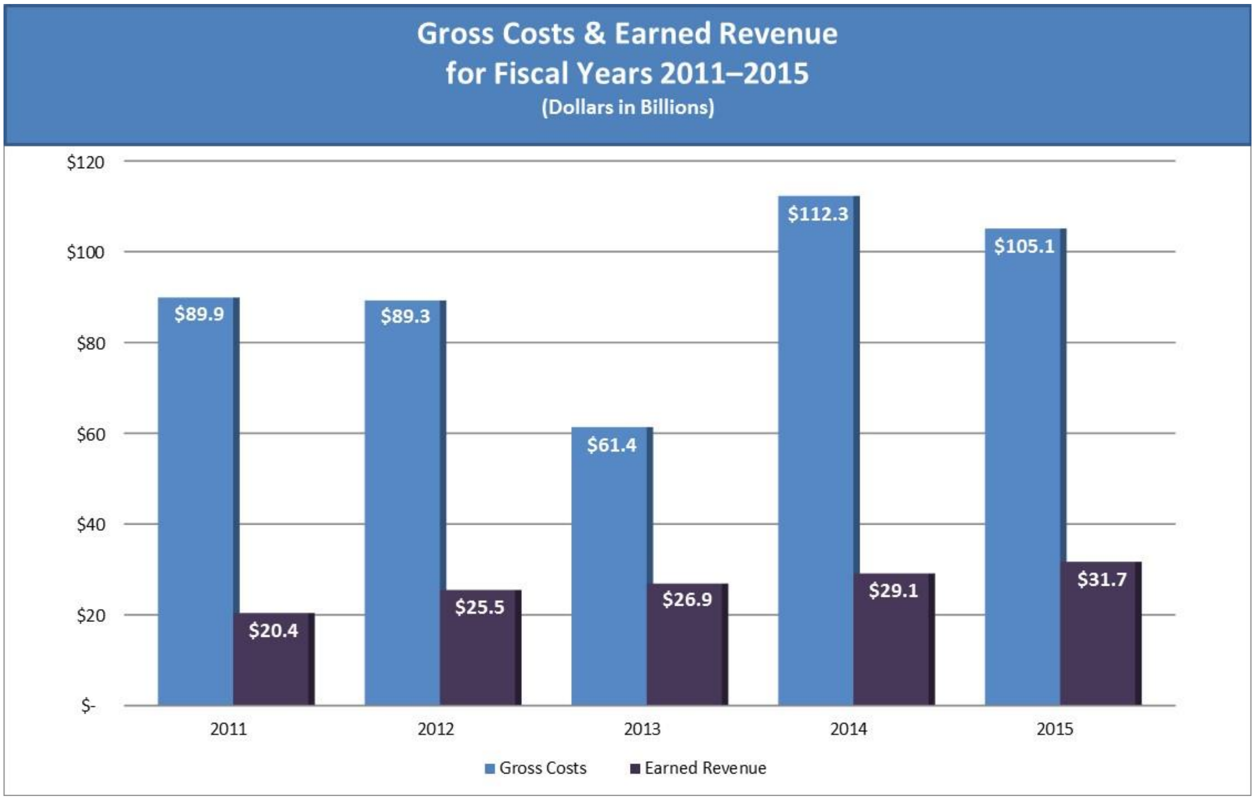
Liabilities as of September 30, 2015 and 2014 *(Dollars in Millions)*	**2015**	**2014**
Accounts Payable	$ 3,696	$ 4,001
Debt	1,051,776	966,671
Guaranty Agency Funds Due to Treasury	1,561	1,471
Accrued Grant Liability	2,377	2,487
Other Liabilities	8,906	6,590
Total Liabilities	$ 1,068,316	$ 981,220

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 2015, debt increased 8.8 percent from $966.7 billion in the prior year to $1,051.8 billion. The new financing was used to disburse new loans and make negative subsidy transfers to 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 given fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the costs of credit and grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.



Analysis of Direct Loan Program Subsidy Expense

One of the components significantly impacting the Department's gross costs pertain to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. Subsidy expense is an estimate of the cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using economic models that project cash flows on a net present value basis.

The Department estimates subsidy expense annually for new loans disbursed in the current year (subsidy transfers); updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (subsidy modifications). The following chart shows these three components of the Direct Loan program subsidy expense for the past 5 years.

	2011	2012	2013	2014	2015
Subsidy Transfers	$(17.0)	$(22.9)	$(27.0)	$(22.1)	$(6.2)
Subsidy Re-estimates	(11.6)	12.2	(12.6)	30.2	(4.6)
Subsidy Modification	-	-	-	-	9.9
Total Subsidy Expense	$(28.6)	$(10.7)	$(39.6)	$8.1	$(0.9)

Note: Negative amounts represent negative expense; positive amounts represent positive expense.

Factors such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees, and other costs impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy transfers have been negative in recent years, primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default.

The costs of the Direct Loan program are highly sensitive to changes in actual and forecasted interest rates. For example, in FY 2015, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy expense by $4.3 billion.

Policy changes to student loan terms and changes in default rates also significantly affect the Direct Loan program subsidy expense. For example, the Department modified Direct Loans in FY 2015. The Pay as You Earn (PAYE) loan repayment option available to eligible borrowers caps monthly payments for many recent graduates at an amount that is affordable based on their income. PAYE, first announced in October 2011, caps payments for Direct Loans at 10 percent of discretionary income for eligible borrowers. Borrowers formerly ineligible for the more generous PAYE repayment plan are now eligible for a modified version of PAYE that changed income-based repayment amounts on qualified loans from 15 percent of discretionary income to 10 percent. This policy change increased subsidy expense by $9.9 billion to reflect the lower expected loan repayments.

Analysis of Net Cost by Program

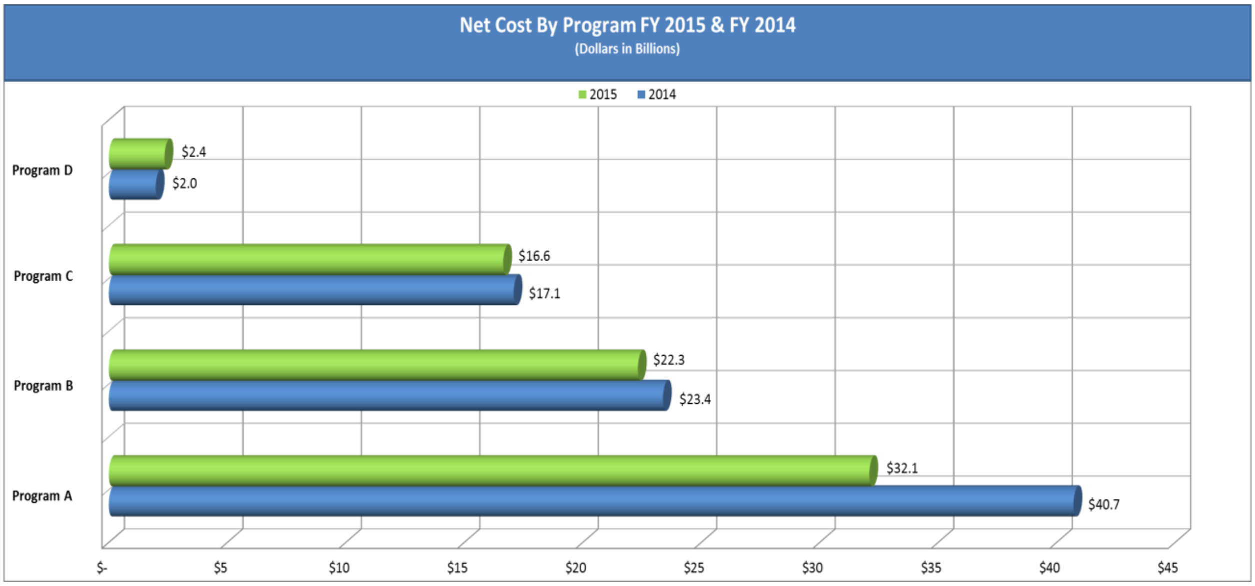
As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the

Department's *FY 2014–2018 Strategic Plan*. As further described in the performance section of the Management's Discussion and Analysis, *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.

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 applicable strategic goals. The Department's FY 2015 expenditures for grant programs totaled over $78 billion. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* (IDEA) grants. 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 local educational agencies (Title I, ESEA, as amended) and IDEA grants.

Net Cost Program	Program Office	Strategic Goal
Program A: Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Career, Technical, and Adult Education	**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.
Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Office of Elementary and Secondary Education	**Goal 2: Elementary and Secondary Education.** Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Program C: Ensure Effective Educational Opportunities for All Students	Office of English Language Acquisition Office for Civil Rights Office of Special Education and Rehabilitative Services	**Goal 4: Equity.** Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.
Program D: Enhance the Education System's Ability to Continuously Improve	Institute of Education Sciences Office of Innovation and Improvement	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, evidence, transparency, innovation, and technology.

The following table presents a breakdown of net cost by program for FY 2015 and FY 2014.



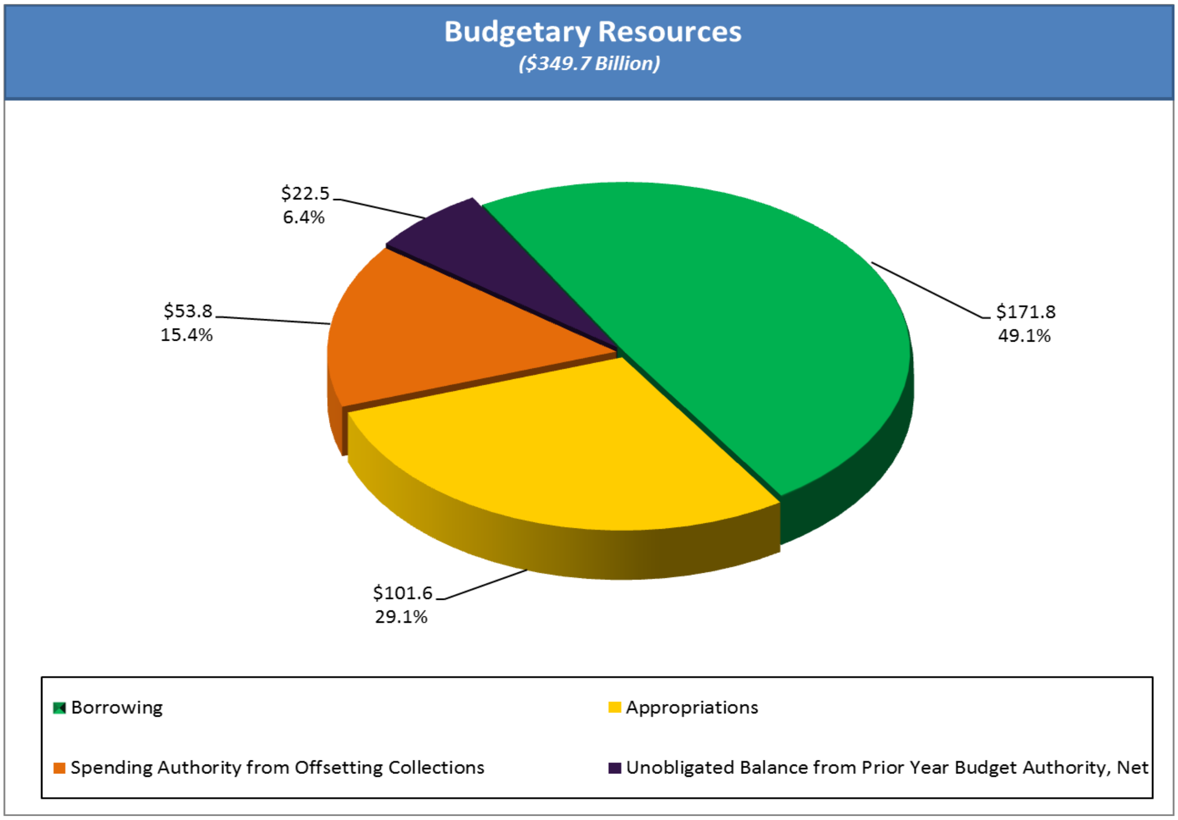
Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the beginning net position, the summary effect of transactions that affect net position during the 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 $54.8 billion for the year ended September 30, 2015. This reflects a 28.3 percent increase over the net position of $42.7 billion from the prior fiscal year.

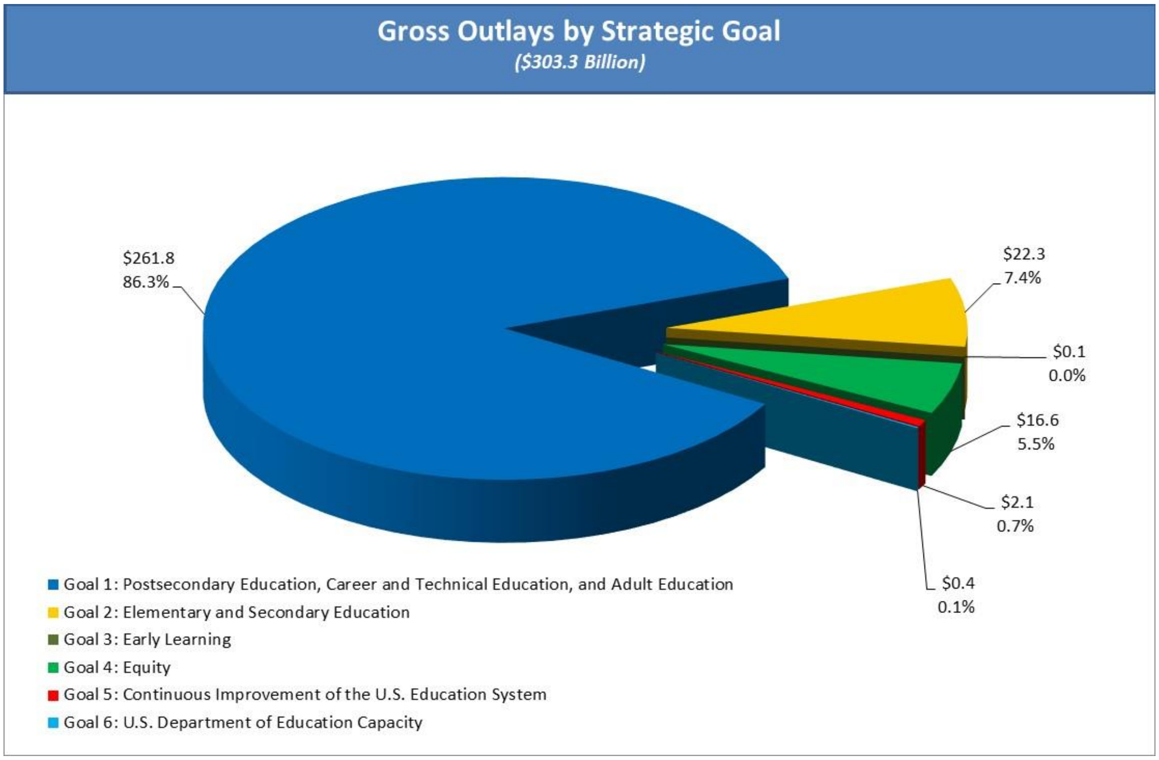
Statement of Budgetary Resources

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 $349.7 billion for the year ended September 30, 2015, decreasing from $356.0 billion, or approximately 1.8 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $117.2 billion and nonbudgetary credit reform resources of $232.5 billion. The nonbudgetary credit reform resources are predominantly borrowing authority for the loan programs.



Gross outlays of the Department totaled $303.3 billion for the year ended September 30, 2015, and consisted of appropriated budgetary resources of $103.8 billion and nonbudgetary credit program funding of $199.5 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 and uses of funds is shown in the schedule of spending on page 140. 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 Department for FY 2015 and FY 2014, 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 Systems, Controls, and Legal Compliance

Introduction

Strong internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires Federal agencies to establish internal controls that provide reasonable assurance that agency objectives will be achieved. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements FMFIA and provides guidance to agency managers on improving the accountability and effectiveness of programs and operations by establishing, assessing, correcting, and reporting on internal control. The guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal controls:

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

This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2015 to meet the three objectives.

Control Framework and Analysis

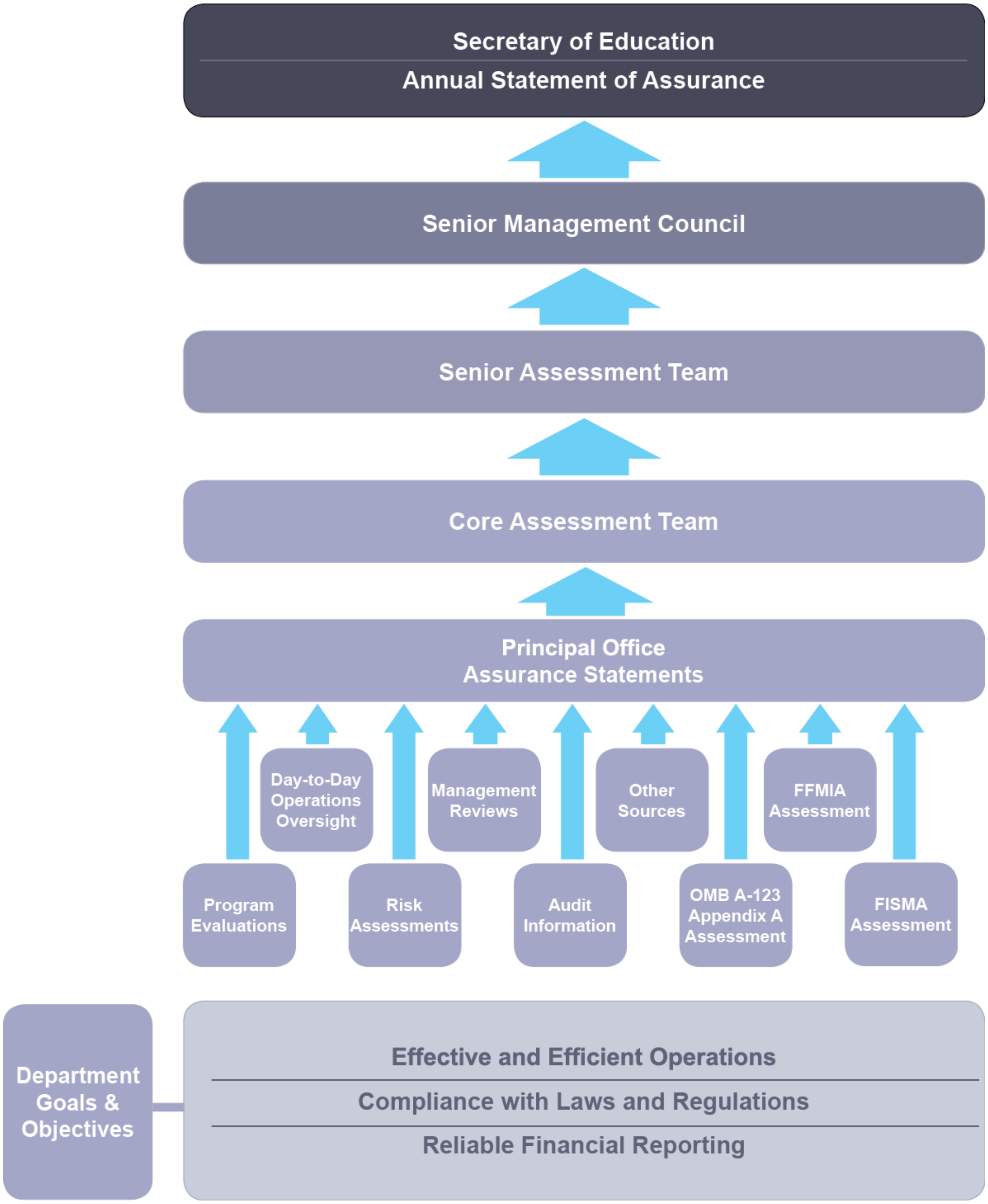
As indicated in the performance management section above, the Department's *Strategic Plan*, including the six FY 2014–15 APGs and the administration's CAP Goals, sets the foundation for determining the Department's mission goals and objectives. Underpinning the Department's internal control framework are its organizational structure, people, processes, policies and procedures, systems, and data.

Control Framework

The Department's internal control framework helps to ensure that the Department achieves its strategic goals and objectives related to delivering education services effectively and efficiently while complying with all applicable laws and regulations. It also provides reasonable assurance to Department leadership and external stakeholders that financial data produced by the Department's financial systems are complete, accurate, and reliable enough to support the preparation and fair presentation of financial statements that conform to federal standards, facilitate sound financial decision-making, and provide transparency about how the Department spent federal funds and maintains stewardship over its financial resources.

The Department maintains a comprehensive internal control framework and assurance process as depicted in the following diagram.

Internal Control Framework and Assurance Process



The Office of the Chief Financial Officer (OCFO) manages the assurance process on behalf of Department leadership. The Department established governance over the process, consisting of a Senior Management Council (SMC), comprised of senior leaders from across the Department to provide strategic direction and guidance and a Senior Assessment Team (SAT) and Core Assessment Team (CAT) to provide greater oversight and monitoring of activities related to internal control assessments. The SAT and CAT are composed of representatives from OCFO, the Office of the Chief Information Officer (OCIO), student loan and grant-making program offices, Risk Management Service (RMS), and other operational support offices (including the Office of Management).

The annual assurance process is the primary mechanism by which the Department implements FMFIA and OMB requirements. It requires the head of each principal office to evaluate their respective internal controls and to assert, in a letter to the OCFO, that they have reasonable assurance that the controls are in place and working as intended or to provide a detailed description of significant deficiencies, material weaknesses, and other matters of nonconformance. In making the assessment, principal office staffs consider relevant information, such as office managers' personal knowledge of operations, external audit results, internal assessments, and other related material.

The OCFO staff works with the principal offices to help them identify potential control deficiencies and presents them to the SAT to determine whether they represent significant deficiencies or material weaknesses. Any principal office that identifies a significant deficiency or material weakness must prepare a Corrective Action Plan (CAP) to address the issue. These CAPs, in addition to daily operational oversight and management-initiated evaluations, facilitate the correction and monitoring of controls. If material weaknesses are identified, they are reported on the Department's Statement of Assurance.

Analysis of Controls

Overall, the Department relies on the principal office annual assurances, supported by risk-based internal control evaluations and testing, to provide reasonable assurance that its internal controls are well designed and in place and working as intended. During FY 2015, the Department identified no material control weaknesses related to effective and efficient program operations and no areas of noncompliance with laws and regulations other than those noted in the Other Regulatory Requirements section below. Although it reported no material weaknesses, the Department realizes that it has areas of control that need further strengthening, such as those identified by the Department's Office of Inspector General in its *Management and Performance Challenges for Fiscal Year 2016* report.

In accordance with OMB Circular A-123, the Department also conducted an additional assessment of the effectiveness of the Department's internal controls over financial reporting and compliance with key financial management laws and regulations as described below.

Internal Control over Financial Reporting

The Department maintains strong internal controls to identify, document, and assess internal control over financial reporting, which includes:

- comprehensive process documentation for the Department's significant business processes and subprocesses,
- maintenance of a control catalogue composed of 1,690 key financial and operational controls that align to the business processes,[2]
- technical assistance provided to principal offices to help them understand and assess key financial controls,
- a risk-based testing strategy, and

[2] Including Federal Student Aid (FSA)

- a process to develop corrective action plans when control deficiencies are found and to track progress against those plans.

During FY 2015, the Department tested 1,181 key financial controls. Although some weaknesses were detected in the design and effectiveness of controls, the Department determined that there were no material weaknesses. Corrective actions have been initiated for the deficiencies that were identified.

Financial Management Systems

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires Department management to make sure that its financial management consistently provides reliable data that complies with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Appendix D to OMB Circular A-123, "Compliance with the Federal Financial Management Improvement Act of 1996" and OMB Circular A-130, "Management of Federal Information Resources" provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

The Department's core financial applications are under the umbrella of the Education Central Automated Processing System (EDCAPS), serving approximately 4,200 Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States, and 55,000 external users. EDCAPS is composed of five main linked components:

- Financial Management Support System (FMSS),
- Contracts and Purchasing Support System (CPSS),
- Grants Management System (G5),
- E2 Travel System, and
- Hyperion Budget Planning.

The Department designated the FMSS as a mission-critical system that provides core financial management services, and its system strategy for FY 2016 will focus on:

- using cross-validation rules to prevent invalid accounting transactions from being processed;
- reducing manual reconciliations currently performed by OCFO;
- streamlining with the internal processes of Federal Student Aid (FSA);
- increasing the use of electronic invoicing (Invoice Processing Platform); and
- improving the Department's capacity for data-sharing and centralized edits to synchronize FMSS and its feeder system.

The Department's financial management systems are designed to support effective internal control and to produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and results of external audits, the Department has concluded that there are no material weaknesses in controls over systems. The Department has also determined that its financial management systems substantially comply with FFMIA requirements. However, as noted below, the Department continues to address issues and improve its controls over systems.

The Department has a System Security Plan (SSP) for EDCAPS that identifies management, operation, and technical security controls, based upon reviews of the control environment, documentation, and interviews with information system personnel. Self-assessments and external audits continue to identify areas in need of improvement to include access control, configuration management, security management, and personnel security. The major issues are identified by the OIG in its Management Challenges report.

The *Federal Information Security Management Act* (FISMA) requires federal agencies to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency and ensure the confidentiality, integrity, and availability of system-related information.

Both the Department's Chief Information Officer FY 2015 FMFIA Assurance Letter and FSA's FY 2015 FMFIA Assurance Letter reported control deficiencies related to access controls and configuration management. Also, the Department's FY 2014 FISMA review identified control deficiencies in six of eleven reporting metrics related to the following areas: configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, 5 of the 11 reporting metrics contained repeat or modified repeat findings from reports issued from 2011 through 2013.

The auditors recommend the Department CISO work with the FSA CISO to:

- 1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization-wide information security program, at both the agency and system level.
- 1b. Implement a process to ensure accountability for individuals responsible for remediating the identified control deficiencies in the Department and FSA's systems, including cooperation between the Technology Office and Business Operations.
- 1c. Implement a process for holding contractors accountable for remediation of control deficiencies in the Department and FSA's systems.

During FY 2015, the Department executed several major initiatives and programs in response to noted weaknesses in the FY 2014 FISMA audit conducted by the OIG. These initiatives and programs included:

- *Identity Management*: FSA implemented a new student identification system that focused on making access management for FSA systems more efficient and secure for students, borrowers, and FSA business partners by eliminating the use of social security numbers for user identification.
- *Incident Response:* The Department implemented a new Security Operations Management system to support joint management of incident response, as well as overall case management and Security Operations Center (SOC) operations.
- *Dual Authentication*: The Department implemented a solution to provide two-factor authentication for accessing email remotely from personally owned desktop or laptop computers and personal mobile devices, replacing the username and password authentication method.

- *Continuous Monitoring*: The Department completed the implementation of the core Continuous Monitoring technologies that focus on hardware and software management, asset management, vulnerability management, and configuration management.

Controls over Improper Payments

During FY 2015, the Department's gross outlays totaled $303 billion, consisting of appropriated budgetary resources of $103.8 billion and nonbudgetary credit program funding of $199.5 billion. Accordingly, internal controls designed to prevent, detect, and collect improper payments are an essential part of the Department's internal control framework. Key controls related to improper payments include:

- preaward risk assessments,
- use of independent data sources (such as Internal Revenue Service data retrieval) to ensure accurate award amounts,
- automated system controls to detect and prevent payment errors, and
- award and payment monitoring.

As described below, in FY 2015, the Department determined that its Pell Grants and Direct Loan programs were susceptible to significant improper payments risk. A detailed description of the Department's controls over improper payments related to these two programs is presented in the Other Information section of this report.

Other Regulatory Requirements

Besides the laws and regulations cited above, the Department must also comply with a number of other laws and regulations. Those with notable financial requirements include the *Federal Credit Reform Act of 1990,* the *Antideficiency Act,* the *Improper Payments Information Act of 2002,* the *Debt Collection Improvement Act of 1996,* the *Pay and Allowance System for Civilian Employees,* the *Federal Civil Penalties Inflation Adjustment Act of 1990,* the *Prompt Payment Act,* the *Government Charge Card Abuse Prevention Act of 2012,* and the *Single Audit Act of 1984*.

Federal Credit Reform Act of 1990

The *Federal Credit Reform Act of 1990,* 2 U.S.C. § 661, was enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guarantees. The purpose of Title V of the act is 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.

Antideficiency Act

The *Antideficiency Act* (ADA), 31 U.S.C. § 1341(a)(1)(A), 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 Department substantially complied with the ADA, properly disbursing about $303 billion in gross outlays. However, as part of its assessment of compliance with relevant laws and regulations, the

Department discovered an ADA violation that resulted in an improper expenditure of approximately $60,000, which covered payment for salaries and benefits of two of Department's employees who were carrying out responsibilities and duties for positions requiring Senate advice and consent in an acting capacity after such employees' second nominations to the positions had been returned to the President. This was in violation of an appropriations provision, Pub. L. 111-8, 123 Stat. 693. Upon learning of the violation, the Department took immediate steps to correct it and reported the violation as required. Management has determined that this minor incident does not represent a material dollar amount nor does it indicate a significant control weakness over budget controls.

Improper Payments Information Act of 2002

The *Improper Payments Information Act of 2002* (IPIA), Pub. L. 107-300, 116 Stat. 2350, as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), Pub. L. 111-204, 124 Stat. 2224, and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), Pub. L. 112-248, 126 Stat. 2390, requires federal agencies to annually report improper payments in programs susceptible to significant improper payments.

In FY 2015, the Department determined that its Pell Grants and Direct Loan programs were susceptible to significant improper payments risk.

IPERA requires the OIG to review the Department's improper payments reporting in its AFR and accompanying materials, and to determine whether the Department has met six compliance requirements. The OIG audit for FY 2014 found that the Department was not compliant with IPERA because the Department reported an improper payments rate for the Direct Loan program that did not meet the annual reduction target that was published in the FY 2013 AFR. The complete OIG report is available for review at the OIG website.

A detailed description of the findings and corrective actions related to these two programs is presented in the "Other Information" section of this report.

Debt Collection Improvement Act of 1996

The *Debt Collection Improvement Act of 1996* (DCIA), Pub. L. 104-134, 110 Stat. 1321-358, was enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996,* Pub. L. 104-134, 110 Stat. 1321. The primary purpose of the DCIA is to increase the collection of nontax debts owed to the federal government. Additionally, the *Digital Accountability and Transparency Act* (DATA Act), Pub. L. 113-101, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require referral of delinquent debt to the Department of Treasury's Offset Program (TOP) within 120 days.

As of September 30, 2015, the Department and FSA were not in compliance with the new 120-day referral requirement in 31 U.S.C. Section 3716(c)(6) because FSA had not yet revised their loan servicing systems, procedures, and internal processes in response to this ruling. This area of noncompliance is noted in the independent auditor's report, exhibit B. The Department will develop a Corrective Action Plan to address this area of noncompliance. During FY 2016, FSA anticipates the development of a revised policy for referring eligible delinquent debt to TOP and to establish detailed actions to address this area of noncompliance. This determination of noncompliance with the DCIA does not represent a material weakness in the Department's internal controls.

Pay and Allowance System for Civilian Employees

The Pay and Allowance System for Civilian Employees, 5 U.S.C. § 51, 5 U.S.C. § 53, 5 U.S.C. § 54, 5 U.S.C. § 55, 5 U.S.C. § 57, and 5 U.S.C. § 59, requires employees to be paid at the appropriate rates established by law, including general pay increases, and that employees be paid at least minimum wage. The Department ensures that pay and allowances for agency employees are appropriately administered and executed in accordance with laws, regulations, and agency policies, and that delegations of authorities are in place and further delegated to program areas responsible for exercising human capital activity as appropriate. More specifically, the Department has delegated authority to ensure that:

- positions in the agency are appropriately classified and graded under executive and general schedule, and (where applicable of Public Law) administratively determined positions;
- salaries and expenses for each authorized position are budgeted to include annual adjustments (including within grade or rates), locality pay, health benefits, retirement, training, travel, transportation, subsistence expense (as applicable), differentials and premium pay (as applicable), bonuses, and hiring flexibilities, as appropriate of current laws;
- funding is available for performance and recognition, including opportunities for quality step increases;
- appropriate withholdings of pay (as applicable), payment of accumulated and accrued leave, premium pay, advancement and allotment of pay, and settlement of pay (accounts), severance and back pay is executed properly on behalf of each compensated employee;
- various policies are in place and that periodic assessments are conducted to evaluate the use of applicable policies; and
- the Department meets other compliance and reporting requirements, which may include periodic investigations as applicable of governing pay and allowance Titles.

Federal Civil Penalties Inflation Adjustment Act of 1990

The *Federal Civil Penalties Inflation Adjustment Act of 1990,* Pub. L. 104-410, 104 Stat. 890, requires Federal agencies to issue regulations adjusting their covered civil monetary penalties for changes in the cost of living by October 23, 1996, and to make necessary adjustments at least once every four years thereafter. Accordingly, the Department issued regulations adjusting its civil monetary penalties in October 2012. A description of the civil monetary penalties levied by the Department is presented in the "Other Information" section of this report.

Prompt Payment Act

The *Prompt Payment Act,* 31 U.S.C. § 39, requires federal agencies to make timely payments to vendors. During FY 2015, the Department successfully paid vendors within the timeframe stipulated by the *Prompt Payment Act* about 99.99 percent of the time. Additionally, the Department is committed to making timely payments to every vendor, especially the small business community, by making accelerated payments within 15 days of invoice.

Government Charge Card Abuse Prevention Act of 2012

The *Government Charge Card Abuse Prevention Act of 2012,* Pub. L. 112-194, 126 Stat. 1445, was enacted to prevent waste, fraud, and abuse of governmentwide charge card programs. It requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. The Department is committed to operating an efficient, effective purchase card program in compliance with the act. In FY 2015, the Department's OIG carried out an extensive review of the purchase card program and affirmed that the Department was aligned with all applicable policies and procedures.

Single Audit Act of 1984

The *Single Audit Act of 1984,* Pub. L. 98-502, 98 Stat. 2327, amended by the *Single Audit Act Amendments of 1996,* Pub. L. 104-156, 110 Stat. 1396, 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. The Department has strengthened controls over audit follow-up to ensure more timely resolution, correction, and closure of audit findings. This reflects a key component of the Department's risk management strategy under the Department's *Strategic Plan,* Objective 6.2. The Department continues to show significant improvements in timely audit resolution, and remains focused on working cooperatively with grant recipients to address the most complex and repeat findings.

Management Assurances

The Secretary of Education's 2015 Statement of Assurance, which is provided below, is the final report produced by the Department's annual assurance process.

STATEMENT OF ASSURANCE
FISCAL YEAR 2015
November 13, 2015

The Department of Education (the Department) management is responsible for meeting the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) by establishing, maintaining, evaluating, and reporting on the Department's internal control and financial systems.

In accordance with Section 2 of FMFIA and Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," management evaluated the effectiveness of the Department's internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations.

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) require management to ensure the Department's financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, management evaluated whether the Department's financial management systems substantially complied with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over financial reporting in accordance with Appendix A of OMB A-123.

Because of inherent limitations, internal control and financial management systems, no matter how well designed, cannot provide absolute assurance of achieving the Department's objectives. There are also certain challenges, such as those control and compliance issues noted by the Department's independent auditor, Office of Inspector General, and otherwise noted in this report, which require management's attention to ensure the Department's full spectrum of risk is taken into consideration, managed, and treated appropriately. We are committed to resolving the identified challenges.

Based on the results of the Department's assessments described above, our system of internal controls provides Department management with reasonable assurance that the objectives of sections 2 and 4 of the FMFIA were achieved as of September 30, 2015, including having controls over financial reporting that were in place and operating effectively.

Arne Duncan

Forward Looking Information

The Department continually identifies and assesses trends and other factors relevant to its internal controls, with an eye toward continuous improvement. In pursuit of this objective, the Department is focusing on the following key areas in the short term:

- Adoption of U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (known as "The Green Book") and revisions to OMB Circulars A-11 and A-123, which promote application of Enterprise Risk Management (ERM) practices.
- Increased emphasis on building more effective and efficient business processes and controls, especially around those intended to prevent, detect, and recover improper payments.
- Implementing effective but adaptable risk management frameworks for both formula and discretionary grants throughout the grants lifecycle.
- Proactively facilitating Uniform Guidance implementation by the Department staff and grantees to maximize opportunities for increased effectiveness and managing risks inherent to change.