

## Message From the Chief Financial Officer

I am pleased to present the Department of Education's FY 2015 *Agency Financial Report* (AFR).

We are proud of our excellent track record in financial management and reporting. We have attained our 14th consecutive unmodified or "clean" opinion.

The Department has many jobs, but reliable financial management is one of the most important. We provide support and services to states, schools, and millions of students and borrowers. The consistency in our accounting and reporting is a tribute to the excellent work of our employees and the systems they have set up to gather and report information. Our relatively small staff is highly productive in awarding and managing grants, contracts, and loans. Only 1 percent of our \$200 billion in annual disbursements is for administration.



Our more than \$1 trillion dollar student loan portfolio is a huge responsibility. The process of making loans to needy students and servicing them is our number one financial challenge, especially when many borrowers with low incomes need assistance in repaying the loans. The Department has worked hard to provide greater flexibility in repayment plans. For example, more than 4 million of our 42 million borrowers took advantage of alternative methods to pay back their loans based on a percentage of their income. The flexible repayment plans made it easier for borrowers to pay back their loans and maintain better credit histories.

In 2015, we began to see a drop in defaults that had bumped up during the recession. We saw a drop in the three-year cohort default rate, from 13.7 percent to 11.8 percent. This was a good sign, even if some of the improvement related to a better overall employment picture. We took some other steps to get better. The Department worked with contractors to improve loan servicing. We expanded efforts to mine data and make it more available through cooperative efforts with Treasury. We announced regulations to address weaknesses among institutions offering training intended to lead to gainful employment. We worked on improving compliance with student aid statutes and regulations by the many institutions that partner with the Department in administering both our student loans and the \$32 billion in aid to help students and families pay for college through Pell Grants, in addition to Work Study and other campus-based programs.

To help students find clear, reliable data on critical questions of college affordability and value, such as whether they are likely to graduate, find middle-class jobs, and pay off their loans, the Department introduced a revised College Scorecard. The revised Scorecard and new customized tools will give students, parents, and advisors better access to data that will be useful in planning for college and getting the most out of their investment and the taxpayers' investment in them.

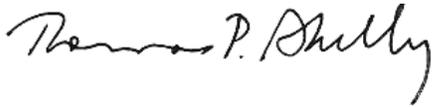
Our second largest financial commitment is over \$30 billion in grants to states, most of which go toward elementary and secondary education and get awarded based on a legislated formula basis. These include funds for disadvantaged students and teachers under the *Elementary and Secondary Education Act* (ESEA) and the *Individuals with Disabilities Education Act* (IDEA). The Department also carries out competitive grant

programs to promote innovation, performs research, collects education statistics, and enforces civil rights statutes.

In addition to providing an unmodified opinion for FY 2015, our auditors reported that there were no material internal control weaknesses and no material instances of noncompliance with applicable laws and regulations, except one item involving the *Debt Collection Improvement Act*. As such, I am assured that the financial data included in this AFR are complete and reliable in accordance with federal requirements.

In full disclosure and as noted in the Management Discussion and Analysis, the Department did not comply with two laws and had a minor Antideficiency Act violation. While these issues were technical in nature, we strive for perfection in all areas of financial management. We have begun remedial actions to address these weaknesses.

Due to the dynamic nature of our loan and grant lines of business, we often have opportunities for continuous improvement. While we believe our overall control framework is thorough and we have found no material control weaknesses, our independent auditors and the Office of Inspector General have identified control weaknesses and highlighted several management challenges. We are addressing these issues as well as challenges in areas, such as improper payments, grant monitoring, IT systems, and the management of student loan repayments. We will use auditor recommendations as a guide to further strengthen our internal controls.



Thomas P. Skelly  
Delegated to perform the functions and duties of the Chief Financial Officer  
November 13, 2015