U.S. Department of Education FY 2015 Agency Financial Report

U.S. Department of Education
Arne Duncan
Secretary

Office of the Chief Financial Officer
Thomas Skelly
Delegated to perform the functions and duties of the Chief Financial Officer

November 13, 2015

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For Fiscal Year 2015, in addition to the *Agency Financial Report* (AFR), the Department will post to its website the *Annual Performance Report* (APR), and the *Summary of Performance and Financial Information* (SPFI). The APR and the Congressional Budget Justification will be posted on the Department's website at http://www.ed.gov/about/reports/annual/index.html with the FY 2017 budget.

Please submit your comments and questions regarding this plan and report, and any suggestions to improve its usefulness to AFRComments@ed.gov or write to:

Office of the Chief Financial Officer
U.S. Department of Education
Washington, D.C. 20202-0600

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About This Report

The purpose of the United States Department of Education's (the Department) Fiscal Year (FY) 2015 *Agency Financial Report* (AFR) is to inform Congress, the President, and the American people on how the Department has used federal resources entrusted to it to promote achievement and preparedness of youth entering a global environment by fostering excellence and ensuring equal access. We demonstrated our commitment to education by, among other things: improving access to early learning programs, reforming elementary and secondary education, making higher education more accessible and affordable, and working to attract talented people to the teaching profession. We also demonstrated that we are good stewards of financial resources by putting in place well-controlled and well-managed business and financial management systems and processes.

The AFR also provides high-level financial and performance highlights, assessments of controls, a summary of challenges, and a demonstration of our stewardship. This report is required by legislation and complies with the requirements of the Office of Management and Budget's Circulars A-11, *Preparation, Submission, and Execution of the Budget*, A-123, *Management's Responsibility for Internal Control,* and A-136, *Financial Reporting Requirements*. The report satisfies the reporting requirements contained in the following legislation:

- *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012*
- *Improper Payments Elimination and Recovery Act of 2010*
- *Government Performance and Results Act (GPRA) Modernization Act of 2010*
- *Federal Information Security Management Act of 2002*
- *Reports Consolidation Act of 2000*
- *Federal Financial Management Improvement Act of 1996*
- *Government Management Reform Act of 1994*
- *Chief Financial Officers Act of 1990*
- *Federal Managers' Financial Integrity Act of 1982*
- *General Education Provisions Act*
- *Department of Education Organization Act of 1979*

Federal Student Aid (FSA), a principal office of the Department and a designated Performance-Based Organization, also produces a separate *Annual Report* that details their financial and program performance. Summary level information about FSA activities can be found in the applicable sections of this report. For more detail on FSA's performance and financial information, refer to StudentAid.gov.

Certificate of Excellence

The Department of Education received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting for its FY 2014 AFR.

How This Report Is Organized

The AFR is designed to focus on use of federal resources provided to or distributed by the Department to support its mission, with a particular emphasis on the challenges ahead.

1. Management's Discussion and Analysis

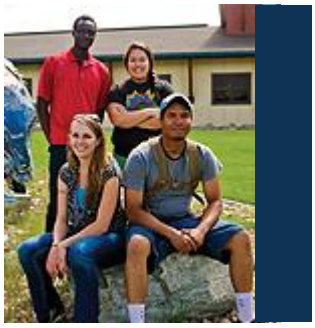
This section provides information about the Department's mission and organizational structure as well as its high-level performance results, financial highlights, and management assurances regarding internal controls.

2. Financial Section

This section provides a message from the Chief Financial Officer, the financial statements and notes, required supplementary information and supplementary stewardship information, and the report from our independent auditors.

3. Other Information

This section provides improper payments reporting details, the schedule of spending, a summary of financial statement audit and management assurances, and the Office of Inspector General's Management and Performance Challenges for FY 2016 Executive Summary.



4. Appendices

This section provides a listing of selected Department web links, education resources and a glossary of acronyms, and abbreviations.

Message From the Secretary

November 13, 2015

In December, I will be stepping down as Secretary of Education. Serving in an administration that is committed to excellence and equity for all has been the greatest honor of my life. The team at the Department is extraordinary, and I owe them enormous thanks for their dedication and sacrifice.

I am pleased to present the Department's FY 2015 *Agency Financial Report* (AFR). In this report, we share the Department's financial and performance highlights over the fiscal year ending September 30, 2015.

Our mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

The Department's commitment to education has two primary themes that underlie all of our work: access and equity. Equality of opportunity is a core American value, and every student, regardless of race, disability, zip code, home language, gender, family income, or other factors, deserves access to the kind of quality learning that can unleash his/her full potential. Education cannot fix every barrier in a child's life, but education has always served as the engine of opportunity in this country. To that end, we are working to ensure quality teaching in every classroom; raising standards for all students; building systems to improve instruction; and significantly improving chronically low-performing schools.

Performance Highlights

In the Department's *FY 2014–18 Strategic Plan*, our mission is defined in six strategic goals and 22 supporting strategic objectives, as well as six programmatic two-year Agency Priority Goals, which are posted on performance.gov. The Management's Discussion and Analysis section includes a summary of the Department's performance information and describes how the Department's employees are collaborating to support the Department's mission and helping to increase access to and equity of education in the nation. The performance data are often self-reported by states and others; entities reporting the data provide assurances of the data's accuracy to the Department. In addition, the Department uses edit checks and program reviews to assess data reliability.

For those seeking additional details regarding our performance, I invite you to read our *Annual Performance Report* (APR), which will be released at the same time as the President's FY 2017 budget and Congressional Budget Justifications. The APR includes budget allocations for each strategic goal, in addition to explanation and analysis of progress, challenges and next steps, and associated metrics for each strategic objective. An appendix listing metrics by goal with information on data quality, limitations, and improvements is also included in the report. To the best of my knowledge, the summary performance data included in this AFR are complete and reliable in accordance with federal requirements.

Financial Management

The Department is the smallest of the cabinet-level agencies in terms of staff, with some 4,100 employees, yet it has the third-largest grant portfolio among the 26 federal grant-making

organizations. Our balance sheet now exceeds $1.1 trillion in assets, primarily from student loans. The Department had over $1 trillion in loans outstanding at the end of the year, including new loans made in FY 2015, as well as the balances of old loans less collections of interest and principal.

Good stewardship is a management imperative and priority for our Department, and I have been assured that the financial data included in this AFR are complete and reliable in accordance with federal requirements. We received our 14th consecutive unmodified or "clean" audit opinion and no reported material internal control weaknesses. The financial report includes information and assurances about the Department's financial management systems and controls, as well as control and compliance challenges noted by the Department and its auditors.

Management Challenges

We remain committed to improved governance and better business processes. Management has worked closely with the Office of Inspector General (OIG) to gain its perspective about our most significant management and performance challenges, which are presented in the Other Information section of this report. The OIG's review addresses five FY 2016 management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation.

The Department takes these challenges, as well as other issues identified through our self-assessments, recipient site visits, and external audits, seriously. The Department implemented initiatives to respond to the identified challenges and to improve its systems and processes, including challenges pertaining to grants monitoring, IT systems, and management of student loan repayments.

Outreach and Partnerships

States and state-level agencies provide most of the education funding in our nation, and as a result, the Department's role as a disseminator of information is critical. We are reaching out to our customers across many platforms, including the ed.gov website; blogs, such as the Department's main blog, Homeroom; the Department's YouTube channel; newsletters; Twitter (follow us @usedgov); and the Department's Facebook page.

The Department is working to meet stakeholders face-to-face, through relationships with higher education communities, national organizations that represent the interests of primary and secondary education, and civil rights and advocacy organizations. Through e-mail and stakeholder forums, we and our national partners share updates with state and local affiliates.

Looking Ahead

Guided by our *FY 2014–18 Strategic Plan,* available on ed.gov and performance.gov, we have charted a road map for future success, and we will continue to evaluate our progress toward those goals and objectives. I am proud of the progress we are making at the Department to work to provide every student in America with a world-class education.

Sincerely,

Arne Duncan

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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.

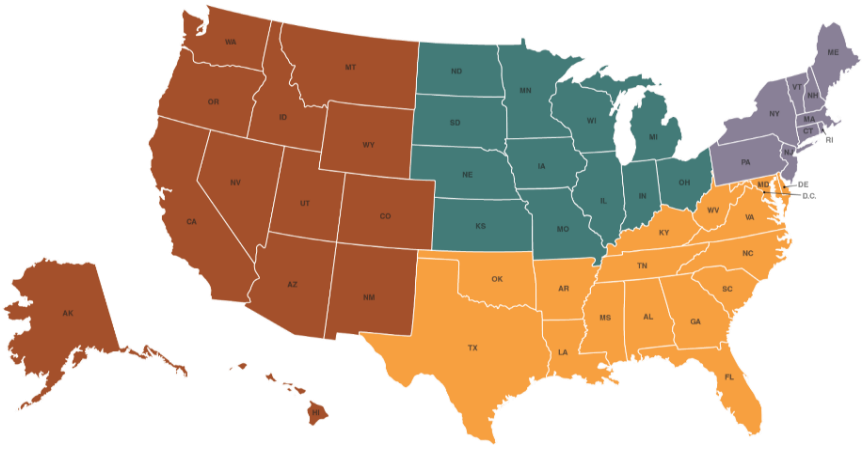
Our Public Benefit. The Department is committed to helping to ensure that students throughout the nation develop skills to succeed in school, college, and the workforce. While recognizing the primary role of states and school districts in providing a high-quality education, the Department supports efforts 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.

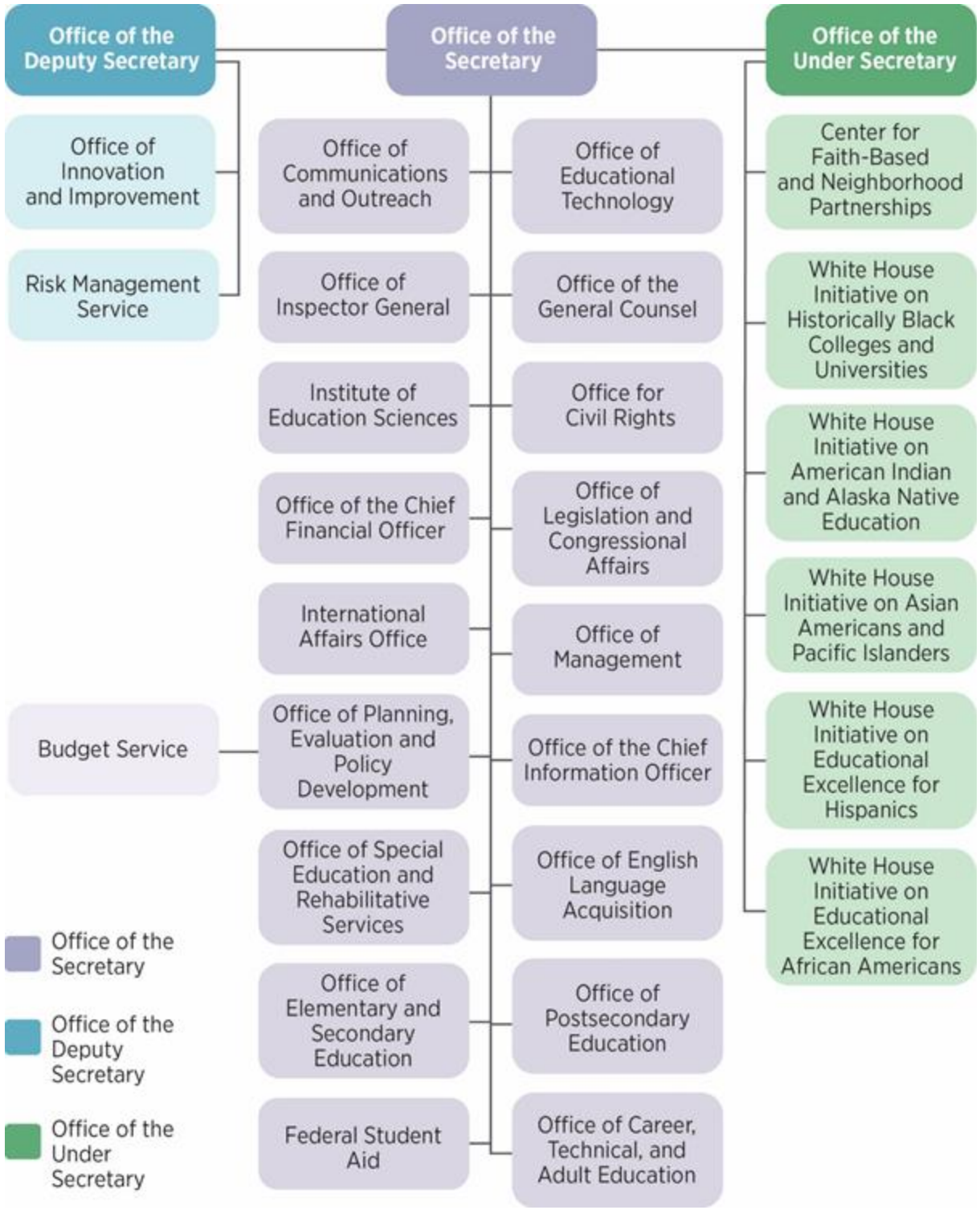
Midwest	Grades K-12	Postsec	All Other
Illinois	1,458	1,367	132
Indiana	653	837	71
Iowa	269	451	33
Kansas	322	274	25
Michigan	1,171	1,024	107
Minnesota	456	592	59
Missouri	612	632	73
Nebraska	204	159	23
North Dakota	117	51	12
Ohio	1,256	1,015	128
South Dakota	158	110	12
Wisconsin	549	464	71
TOTAL	**$7,225m**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

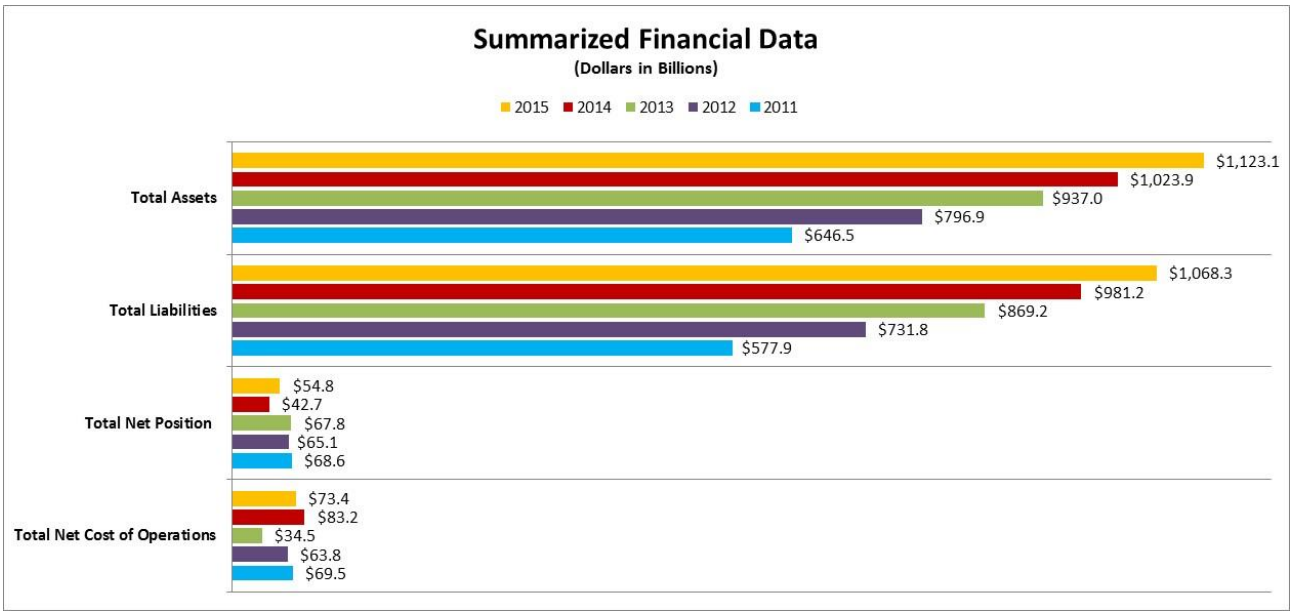
Table of Key Measures

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**

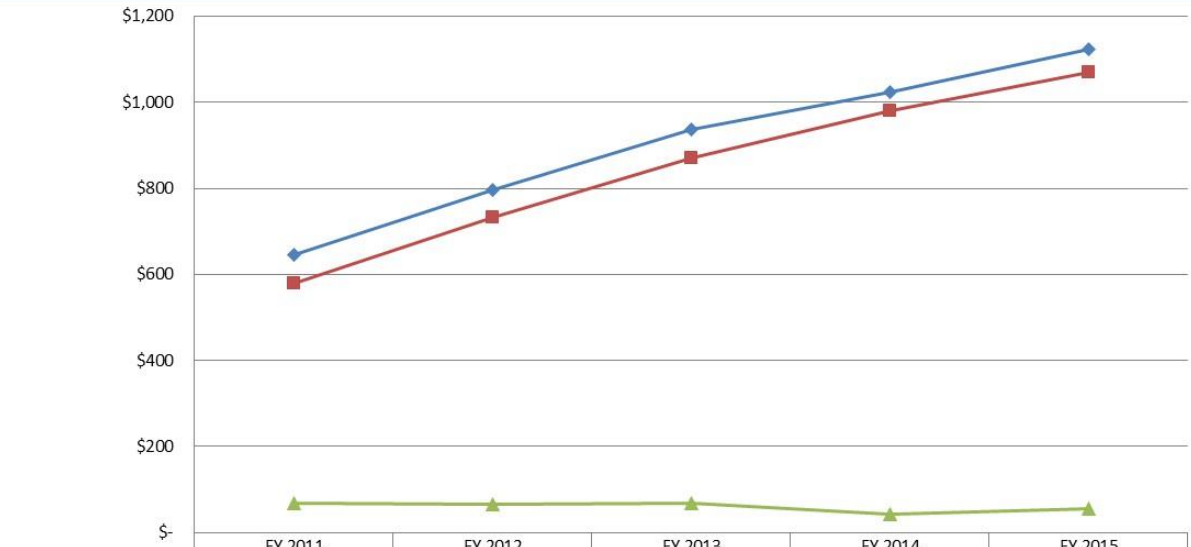
* The presentation of the FY 2011 and FY 2012 liability for loan guarantees is in the liability section of the Department's Balance Sheet; however, the presentation of the same FY 2013, FY 2014, and FY 2015 liability is in the credit program receivables, net balance sheet line item, due to its negative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

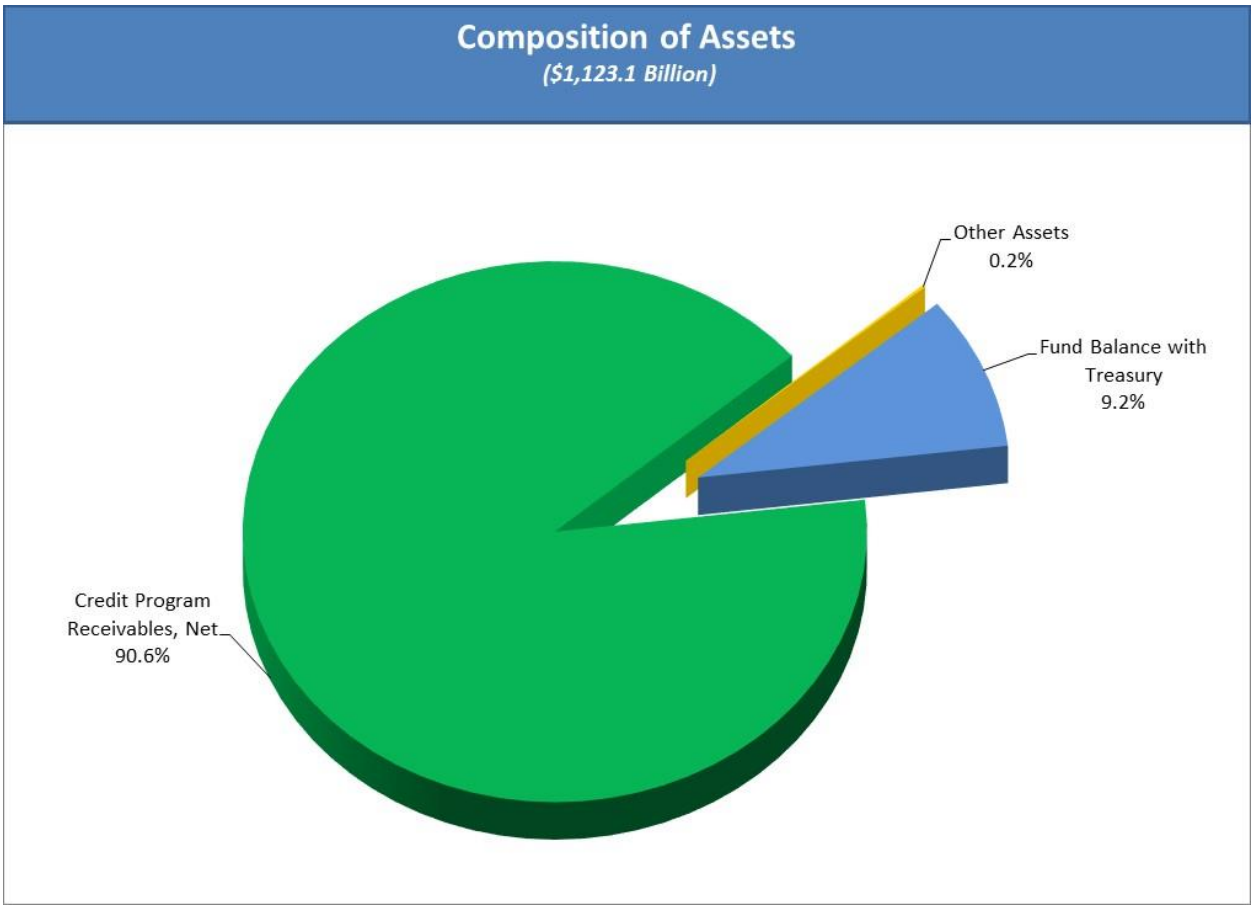
Comparison of Department's Assets, Liabilities & Net Position for Fiscal Years 2011–2015
(Dollars in Billions)



	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

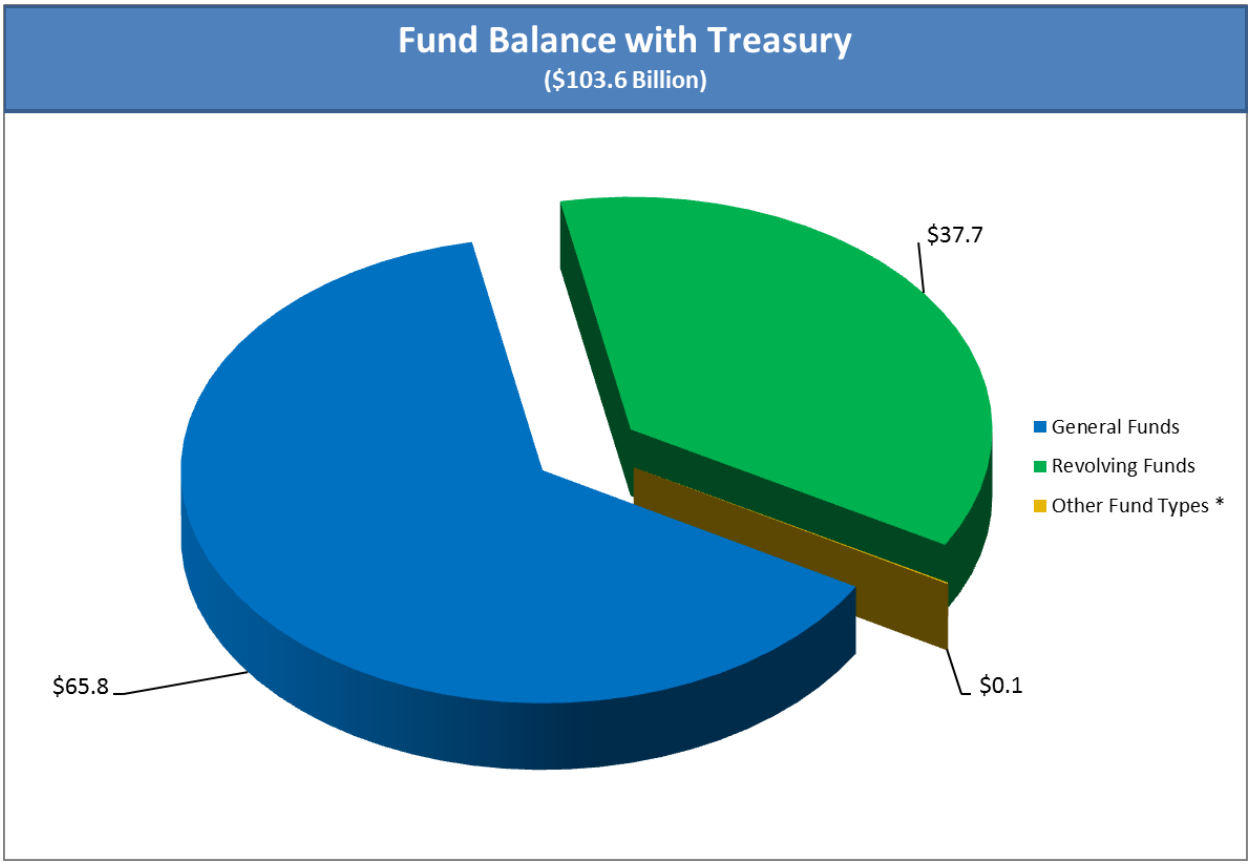
The Department's assets totaled $1,123.1 billion as of September 30, 2015, an increase of $99.2 billion, or approximately 9.7 percent, over the FY 2014 balance of $1,023.9 billion. The vast majority of the increase in assets relates to credit program receivables, net, which increased to $1,017.7 billion, 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

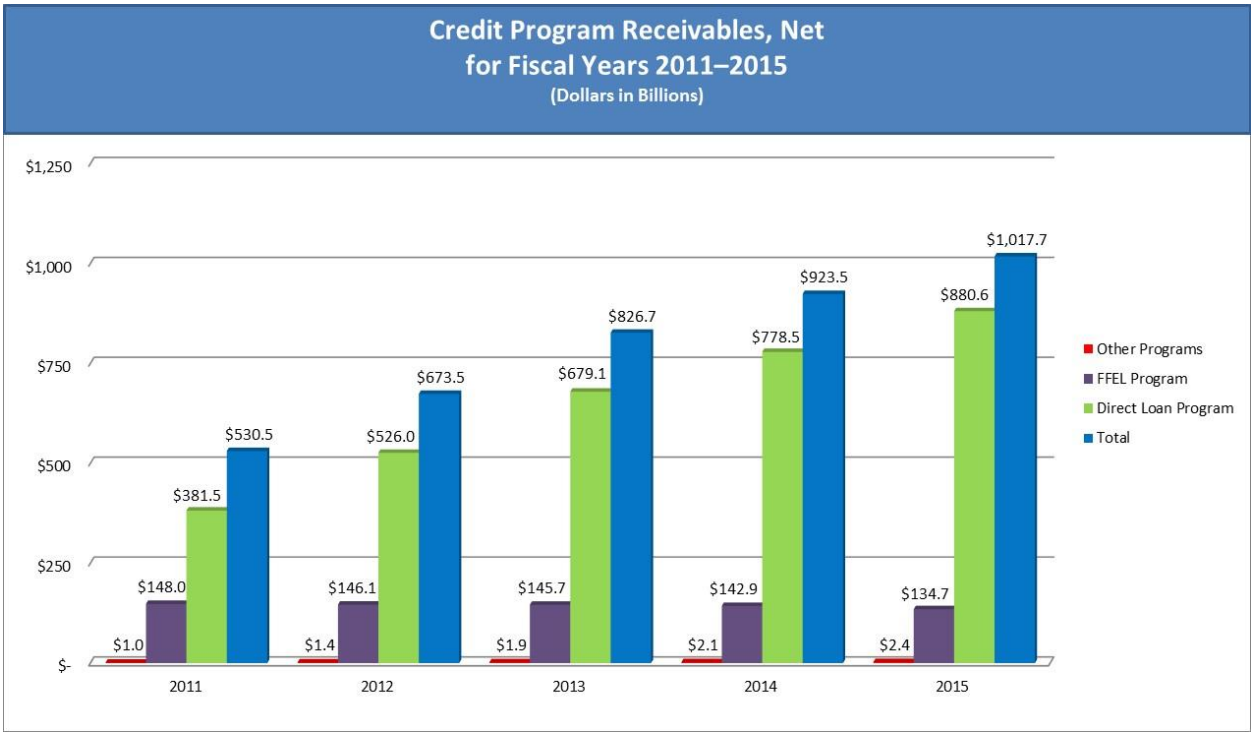
* The other assets amount includes Cash and Other Monetary Assets; accounts receivable; property and equipment, net; and other.

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.



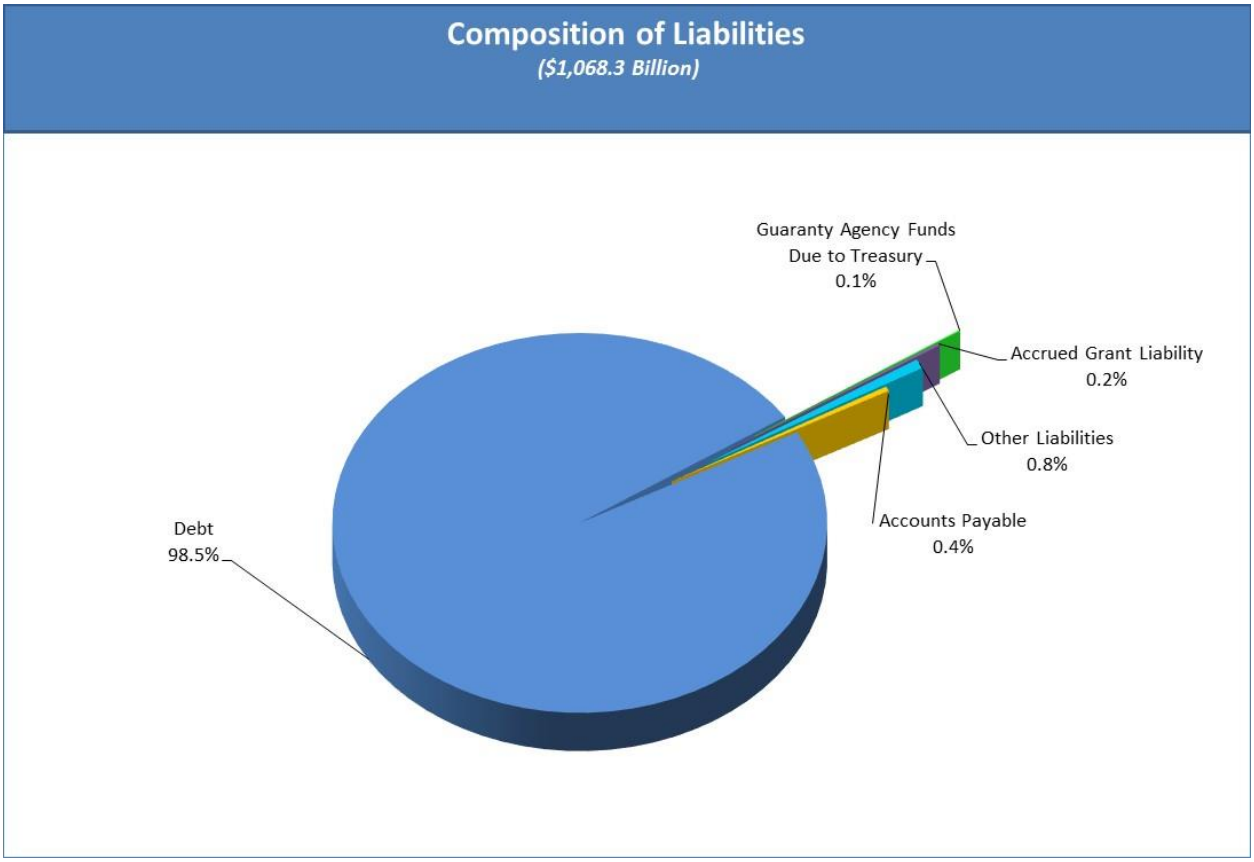
*Other fund types include special, trust, clearing, non-entity deposit, and receipt funds.

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.



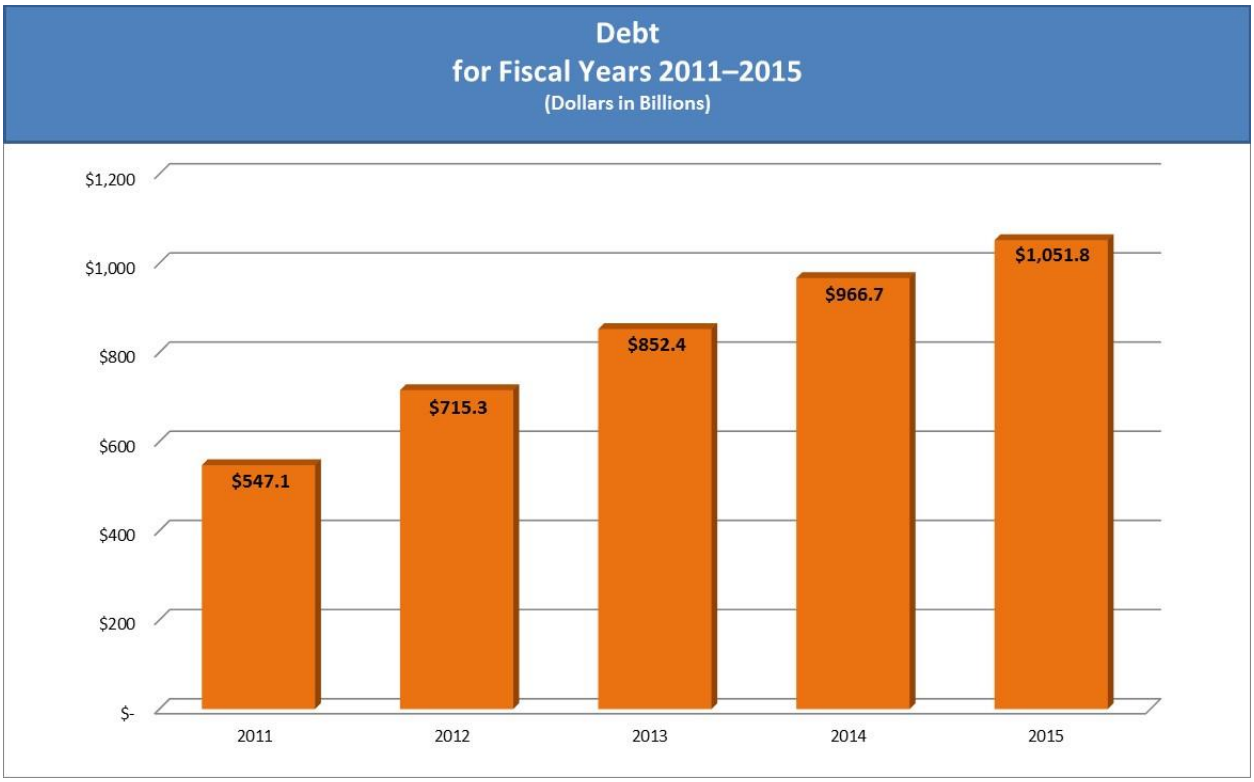
Analysis of Liabilities

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.



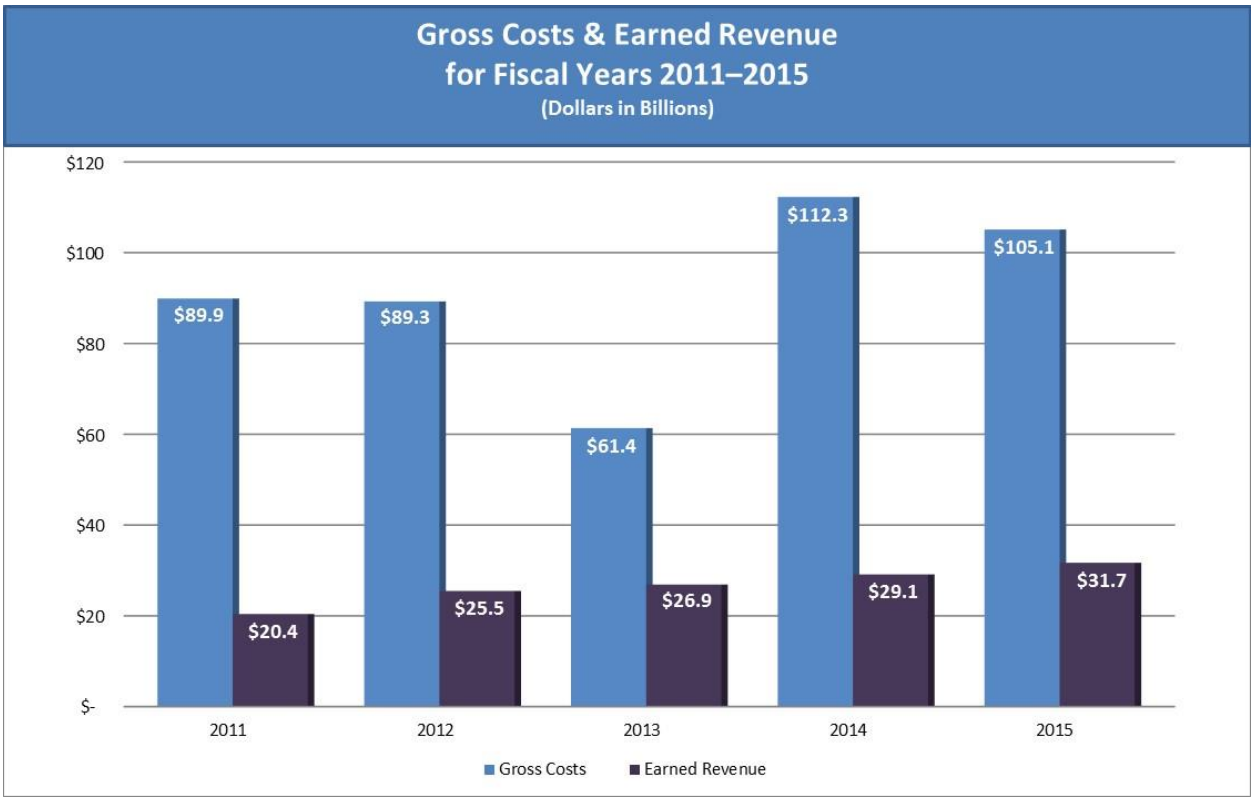
Liabilities as of September 30, 2015 and 2014 *(Dollars in Millions)*	**2015**	**2014**
Accounts Payable	$ 3,696	$ 4,001
Debt	1,051,776	966,671
Guaranty Agency Funds Due to Treasury	1,561	1,471
Accrued Grant Liability	2,377	2,487
Other Liabilities	8,906	6,590
Total Liabilities	$ 1,068,316	$ 981,220

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

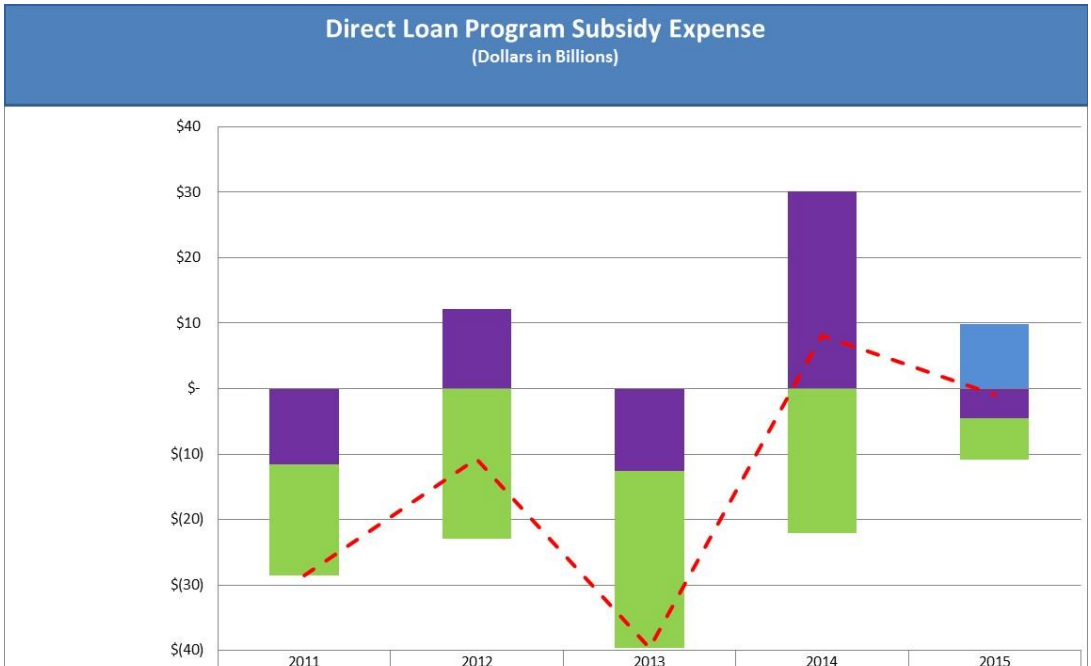
The Consolidated Statement of Net Cost reports the Department's components of the net costs of operations for a given fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the costs of credit and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

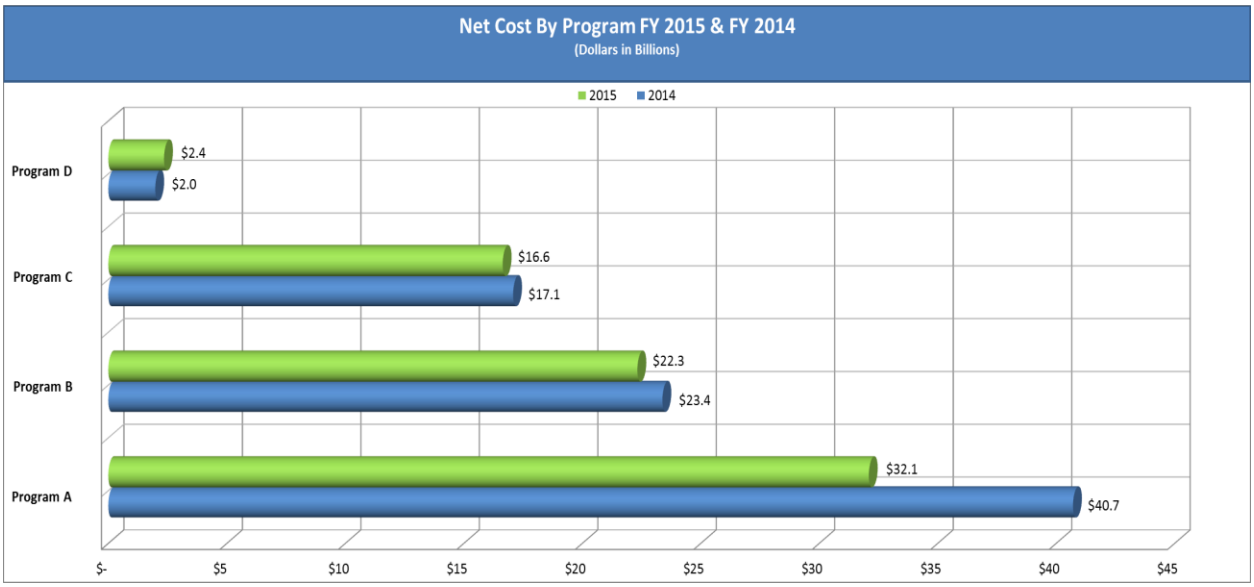
As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the

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.



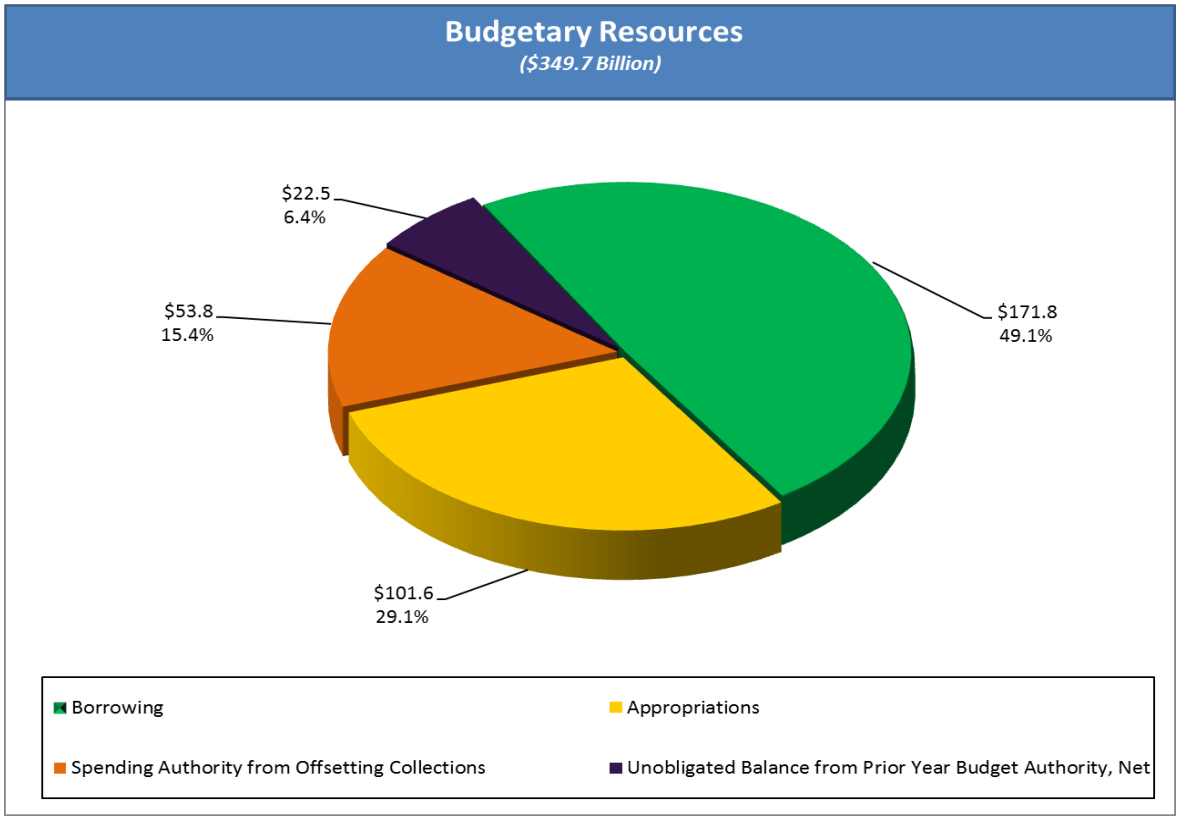
Statement of Changes in Net Position

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.

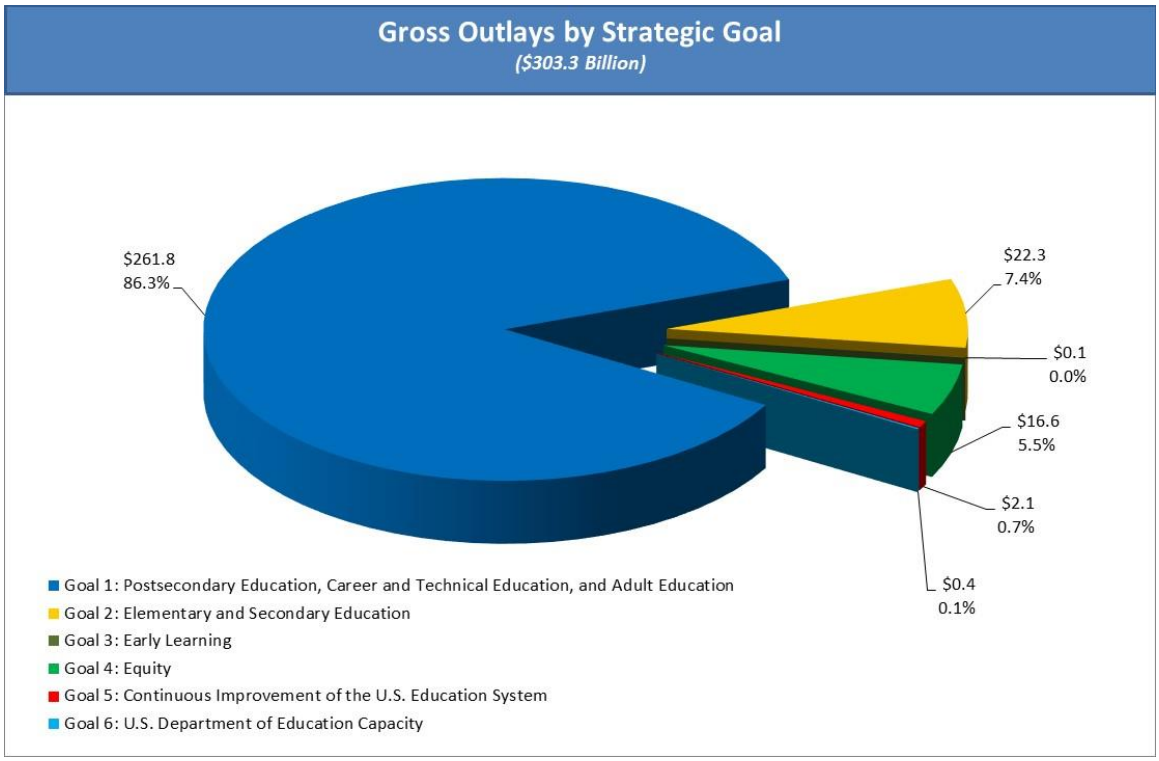
Statement of Budgetary Resources

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

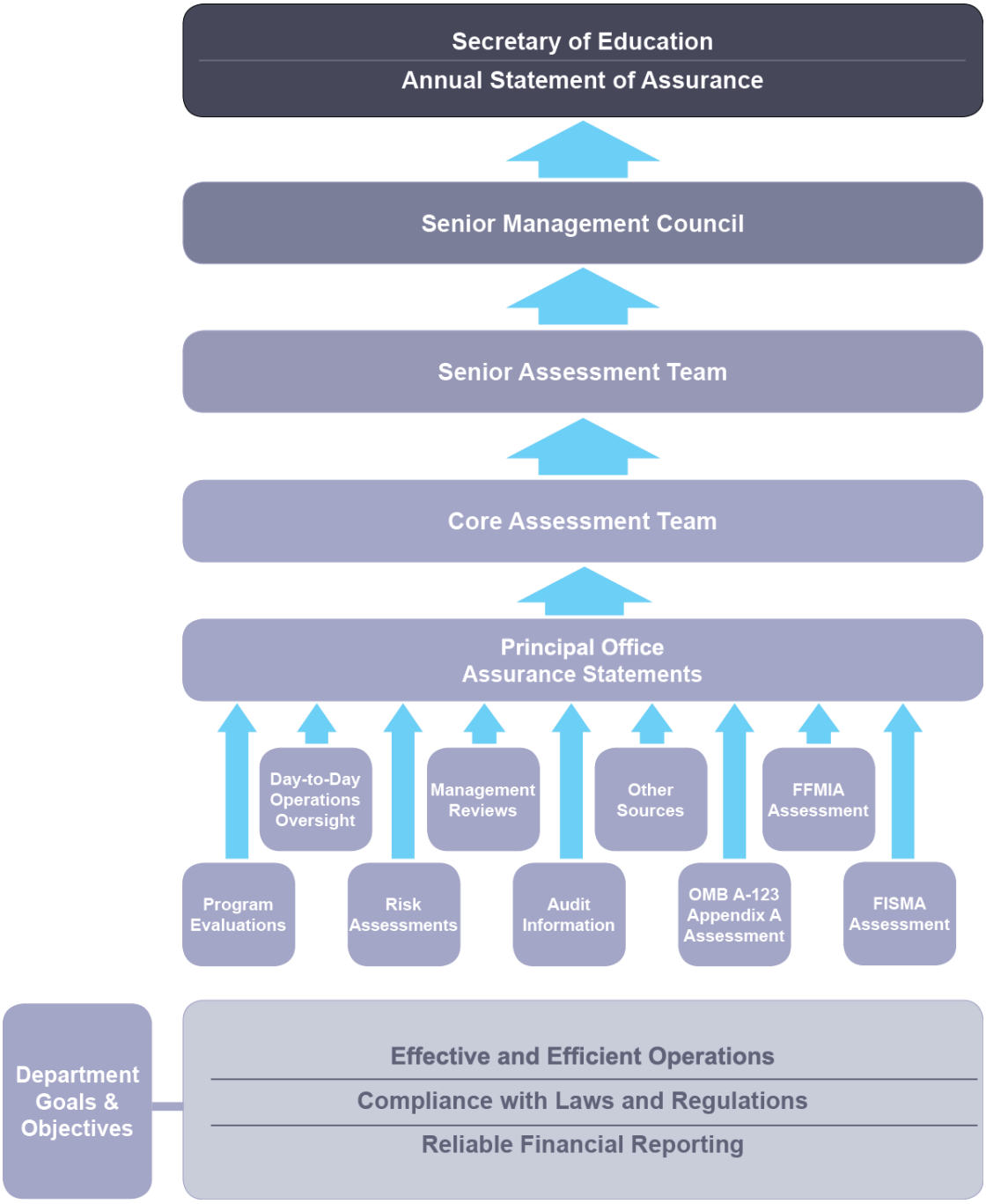
As indicated in the performance management section above, the Department's *Strategic Plan*, including the six FY 2014–15 APGs and the administration's CAP Goals, sets the foundation for determining the Department's mission goals and objectives. Underpinning the Department's internal control framework 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.

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Financial Section

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.

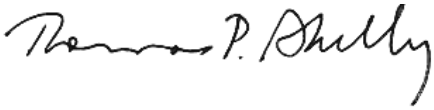
Our second largest financial commitment is over $30 billion in grants to states, most of which go toward elementary and secondary education and get awarded based on a legislated formula basis. These include funds for disadvantaged students and teachers under the *Elementary and Secondary Education Act* (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

About the Financial Section

In FY 2015, the Department prepared its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is an important part of the Department's financial management goal of providing accurate, reliable information that may be used to assess performance and allocate resources.

The Department's financial statements and additional information for FY 2015 and FY 2014 include the following. The Department welcomes comments from readers to further improve the report.

The **Consolidated Balance Sheet** summarizes the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the Department less exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents the Department's beginning and ending net position by two components – Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of the net position are also reported on the Consolidated Balance Sheet.

The **Combined Statement of Budgetary Resources** presents the budgetary resources available to the Department, the status of these resources, and the outlays of budgetary resources.

The **Notes to the Financial Statements** provides information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed. A list of each of the notes is presented below.

The **Combining Statement of Budgetary Resources** as Required Supplementary Information presents budgetary resources by major program.

The **Required Supplementary Stewardship Information** (RSSI) provides disclosure of investments in human capital and the related program outcomes resulting from stewardship expense outlays.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies
Note 2. Non-Entity Assets
Note 3. Fund Balance with Treasury
Note 4. Accounts Receivable
Note 5. Cash and Other Monetary Assets
Note 6. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

Note 7. Property and Equipment, Net and Leases
Note 8. Other Assets
Note 9. Accounts Payable
Note 10. Debt
Note 11. Other Liabilities
Note 12. Accrued Grant Liability
Note 13. Net Position
Note 14. Intragovernmental Cost and Exchange Revenue by Program
Note 15. Interest Expense and Interest Revenue
Note 16. Statement of Budgetary Resources
Note 17. Reconciliation of Net Cost of Operations to Budget
Note 18. Incidental Custodial Collections
Note 19. Contingencies

Required Supplementary Information

This section contains the Combining Statement of Budgetary Resources for the Years Ended September 30, 2015 and 2014.

Required Supplementary Stewardship Information

Stewardship Expenses summarize spending and stakeholder relationships with state and local educational agencies. Stewardship resources are substantial investments by the federal government for the long-term benefit of the nation. Because costs of stewardship resources are treated as expenses in the financial statements in the year the costs are incurred, they are reported as RSSI to highlight the benefit nature of the costs and to demonstrate accountability.

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of “cradle to career” education. Increased employability makes Americans more competitive in the global labor market, yielding lower unemployment, higher economic well-being, and greater security for the nation.

Report of the Independent Auditors

The results of the audit of the Department’s financial statements for FY 2015 and FY 2014 to comply with the *Chief Financial Officers Act of 1990,* as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department’s Office of Inspector General contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to audit the financial statements of the Department as of September 30, 2015 and 2014, and for the years then ended.

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015	FY 2014
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 103,619	$ 98,696
Accounts Receivable (Note 4)	2	3
Other Intragovernmental Assets (Note 8)	76	55
Total Intragovernmental	103,697	98,754
Cash and Other Monetary Assets (Note 5)	1,561	1,471
Accounts Receivable, Net (Note 4)	101	136
Credit Program Receivables, Net (Note 6)	1,017,733	923,545
Property and Equipment, Net (Note 7)	21	7
Other Assets (Note 8)	6	13
Total Assets (Note 2)	**$ 1,123,119**	**$ 1,023,926**
Liabilities:		
Intragovernmental:		
Accounts Payable (Note 9)	$ 1	$ 1
Debt (Note 10)	1,051,776	966,671
Guaranty Agency Funds Due to Treasury (Note 5)	1,561	1,471
Other Intragovernmental Liabilities (Note 11)	8,735	6,413
Total Intragovernmental	1,062,073	974,556
Accounts Payable (Note 9)	3,695	4,000
Accrued Grant Liability (Note 12)	2,377	2,487
Other Liabilities (Note 11)	171	177
Total Liabilities (Note 11)	**$ 1,068,316**	**$ 981,220**
Commitments and Contingencies (Note 19)		
Net Position:		
Unexpended Appropriations (Note 13)	$ 62,740	$ 66,447
Cumulative Results of Operations (Note 13)	(7,937)	(23,741)
Total Net Position (Note 13)	**$ 54,803**	**$ 42,706**
Total Liabilities and Net Position	**$ 1,123,119**	**$ 1,023,926**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015	FY 2014
Program Costs:		
Increase College Access, Quality, and Completion		
Gross Costs	$ 63,697	$ 69,746
Earned Revenue	(31,600)	(29,031)
Net Program Costs	$ 32,097	$ 40,715
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs		
Gross Costs	$ 22,350	$ 23,402
Earned Revenue	(20)	(15)
Net Program Costs	$ 22,330	$ 23,387
Ensure Effective Educational Opportunities for All Students		
Gross Costs	$ 16,656	$ 17,101
Earned Revenue	(11)	(15)
Net Program Costs	$ 16,645	$ 17,086
Enhance the Education System's Ability to Continuously Improve		
Gross Costs	$ 2,412	$ 2,046
Earned Revenue	(59)	(64)
Net Program Costs	$ 2,353	$ 1,982
Net Cost of Operations (Notes 14 & 17)	**$ 73,425**	**$ 83,170**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015		FY 2014	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances:				
Beginning Balances	**$ (23,741)**	**$ 66,447**	**$ (3,528)**	**$ 71,371**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 100,955	$ -	$ 95,293
Appropriations Transferred – In/Out	-	(397)	-	76
Other Adjustments (Rescissions, etc.)	-	(783)	-	(619)
Appropriations Used	103,482	(103,482)	99,674	(99,674)
Nonexchange Revenue	8	-	12	-
Donations and Forfeitures of Cash and Cash Equivalents	2	-	2	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	30	$ -	36	$ -
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(14,293)	-	(36,767)	-
Total Financing Sources	**$ 89,229**	**$ (3,707)**	**$ 62,957**	**$ (4,924)**
Net Cost of Operations:	**$ (73,425)**	**$ -**	**$ (83,170)**	**$ -**
Net Change:	**$ 15,804**	**$ (3,707)**	**$ (20,213)**	**$ (4,924)**
Net Position (Note 13)	**$ (7,937)**	**$ 62,740**	**$ (23,741)**	**$ 66,447**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2015 and 2014

(Dollars in Millions)

	FY 2015		FY 2014	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 14,837	$ 10,109	$ 16,207	$ 11,315
Recoveries of Prior Year Unpaid Obligations	1,978	20,727	1,131	97,274
Other Changes in Unobligated Balance (+ or -)	(681)	(24,526)	(372)	(99,811)
Unobligated Balance from Prior Year Budget Authority, Net	$ 16,134	$ 6,310	$ 16,966	$ 8,778
Appropriations (Discretionary and Mandatory)	100,701	904	95,004	581
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	171,807	-	182,860
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	383	53,439	473	51,347
Total Budgetary Resources (Note 16)	**$ 117,218**	**$ 232,460**	**$ 112,443**	**$ 243,566**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 102,444	$ 218,023	$ 97,606	$ 233,457
Unobligated Balance, End of Year:				
Apportioned	11,806	550	12,125	69
Unapportioned	2, 968	13,887	2,712	10,040
Total Unobligated Balance, End of Year	$ 14,774	$ 14,437	$ 14,837	$ 10,109
Total Status of Budgetary Resources (Note 16)	**$ 117,218**	**$ 232,460**	**$ 112,443**	**$ 243,566**
Change in Obligated Balance:				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1	$ 56,219	$ 80,316	$ 59,630	$ 161,747
Obligations Incurred	102,444	218,023	97,606	233,457
Outlays (Gross) (-)	(103,847)	(199,496)	(99,886)	(217,614)
Actual Transfers, Unpaid Obligations (net) (+ or -)	(193)	-	-	-
Recoveries of Prior Year Unpaid Obligations (-)	(1,978)	(20,727)	(1,131)	(97,274)
Unpaid Obligations, End of Year	**$ 52,645**	**$ 78,116**	**$ 56,219**	**$ 80,316**
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ (1)	$ (26)	$ (3)	$ (25)
Change in Uncollected Payments, Federal Sources (+ or -)	(2)	-	2	(1)
Uncollected Payments, Federal Sources, End of Year (-)	$ (3)	$ (26)	$ (1)	$ (26)
Memorandum (Non-add) Entries				
Obligated Balance, Start of Year (+ or -)	$ 56,218	$ 80,290	$ 59,627	$ 161,722
Obligated Balance, End of Year (+ or -)	**$ 52,642**	**$ 78,090**	**$ 56,218**	**$ 80,290**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 101,084	$ 226,150	$ 95,477	$ 234,788
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(713)	(122,387)	(624)	(97,463)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	(2)	-	2	(1)
Budget Authority, Net (Discretionary and Mandatory)	**$ 100,369**	**$ 103,763**	**$ 94,855**	**$ 137,324**
Outlays, Gross (Discretionary and Mandatory)	$ 103,847	$ 199,496	$ 99,886	$ 217,614
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(713)	(122,387)	(624)	(97,463)
Outlays, Net (Discretionary and Mandatory)	103,134	77,109	99,262	120,151
Distributed Offsetting Receipts (-) (Note 16)	(13,105)	-	(39,652)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 16)	**$ 90,029**	**$ 77,109**	**$ 59,610**	**$ 120,151**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements
For the Years Ended September 30, 2015 and 2014

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

The U.S. Department of Education (the Department), a cabinet-level agency of the Executive Branch of the U.S. Government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department engages in four major types of activities: establishing policies related to federal educational 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.

The Department is primarily responsible for administering federal student loan and grant programs and provides technical assistance to loan and grant recipients and other state and local partners. The significant portion of the financial activities of the Department relate to the execution of grant and loan programs which are discussed below.

Federal Student Loan Programs. The Department administers direct loan, loan guarantee and other student aid programs to help students and their families finance the cost of postsecondary education. These include the William D. Ford Federal Direct Loan (Direct Loan) program and the Federal Family Education Loan (FFEL) program.

The Direct Loan program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993,* authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies which provided loan guarantees on loans made by private lenders to eligible students. The *SAFRA Act,* which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), stated that no new FFEL loans would be made effective July 1, 2010.

The Department also administers loans for the Historically Black Colleges and Universities (HBCU) Capital Financing program, the Health Education Assistance Loan (HEAL) program, the Teacher Education Assistance for College and Higher Education Grant (TEACH) program, along with low-interest loans to institutions of higher education for the building and renovating of their facilities through the facilities loan programs.

Grant Programs. The Department administers numerous grant programs, including: Federal Pell Grant (Pell Grant) program to provide need-based grants that provide access to postsecondary education for low-income undergraduate and certain postbaccalaureate students; grants to state and local entities for elementary and secondary education; special education and rehabilitative services grants; grants to support institutions of higher education; educational research and improvement grants; grants to assist low-income and first-generation college students to prepare for and transition into college; grants to improve our global awareness and competitiveness; and fellowships for college and graduate students. Among the largest discretionary grants are the Federal TRIO (TRIO) program, Race to the Top, and Teacher Incentive Fund. Among the largest formula grant programs are the Title I grants issued under the *Elementary and Secondary Education Act of 1965* (ESEA), as amended; grants issued under the *Individuals with Disabilities Education Act* (IDEA); and grants to local education agencies.

Program Offices

The Department has three major program offices that administer most of its loan and grant programs.

- Federal Student Aid (FSA) administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.
- The Office of Elementary and Secondary Education (OESE) assists state and local educational agencies to improve the achievement of preschool, elementary, and secondary school students, helps ensure equal access to services leading to such improvement—particularly children with high needs, and provides financial assistance to local educational agencies whose local revenues are affected by federal activities.
- The Office of Special Education and Rehabilitative Services (OSERS) supports programs that help provide early intervention and special education services to children and youth with disabilities. OSERS also supports programs for the vocational rehabilitation of youth and adults with disabilities, including pre-employment transition services and other transition services designed to assist students with disabilities to enter postsecondary education and achieve employment.

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and local educational activities and institutions of higher education for reform, strategic investment, and innovation in education include: the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); Office of English Language Acquisition (OELA); and Office of Innovation and Improvement (OII). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (See Notes 12 and 14)

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the use of budgetary resources. FSA also issues audited stand-alone financial statements which are included in their annual report.

The Department's financial statements should be read as a component of the U.S. Government, a sovereign entity. One of the many implications of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Intradepartmental transactions and balances have been eliminated from the consolidated financial statements.

The Department's financial activities are interlinked and dependent upon the financial activities of the centralized management functions of the federal government. Due to financial regulation and management control by OMB and the U.S. Department of Treasury (Treasury), operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity.

Accounting for Federal Credit Programs

The purpose of the *Federal Credit Reform Act of 1990* (FCRA) is to record the lifetime subsidy cost of direct loans and loan guarantees at the time the loan is disbursed. Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less).

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a subsidy cost to the government (a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs, and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

The subsidy costs of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees is referred to as a "cohort." A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is "amortized" each year. Amortization of subsidy is interest expense on debt with Treasury minus interest income from borrowers and interest on uninvested fund balance with Treasury. It is calculated as the difference between interest revenue and interest expense. Amortized amounts are recognized as an increase or decrease in interest income. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, insuring that cost is reflected in subsidy estimates and re-estimates. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

The FCRA establishes the use of financing, program, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991.

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury's general fund receipt account. Financing accounts are presented separately in the combined statement of budgetary resources (SBR) as nonbudgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the Budget of the United States Government.
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to

the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.

- General fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of existing loans.

Budgetary Resources

Budgetary resources are amounts available to enter into new obligations and to liquidate them. The Department's budgetary resources include unobligated balances of resources from prior years; recoveries of prior-year obligations; and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, TEACH, and other loan programs. In addition, borrowing authority is requested to cover the cost of the initial loan disbursement as well as any related negative subsidy to be transferred to the general fund receipt account. Treasury prescribes the terms and conditions of borrowing authority and lends to the financing account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. Treasury calculates a different interest rate to be used for each loan cohort. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan program, FFEL, TEACH, and other loan programs. Subsidy and administrative costs of the programs are funded by appropriations. Borrowings are repaid using collections from borrowers, fees and interest on uninvested funds.

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are canceled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior-year obligations. Funds are appropriated on an annual, multi-year, or no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

Permanent Indefinite Budget Authority. The Direct Loan, FFEL, TEACH, and other loan programs have permanent indefinite budget authority through legislation to fund subsequent increases to the estimated future costs of the loan programs. Parts B and D of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

Reauthorization of Legislation. Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue in accordance with congressional budgeting rules. (See Note 16)

Use of Estimates

Department management is required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of Department administrative overhead costs; allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; the amount payable or receivable from annual credit program re-estimates and modifications of subsidy cost (general program administration cost); and grant liability and advance accruals. (See Notes 6, 12, and 14)

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but are not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. The Department combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

Fund Balance with Treasury includes five types of funds in the Department's accounts with Treasury available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received: (1) general funds, which consist of expenditure accounts used to record financial transactions funded by congressional appropriations (which include amounts appropriated to fund subsidy and administrative costs of loan programs), as well as receipt accounts; (2) revolving funds, which manage the activity of self-funding programs whether through fees, sales, or other income (which include financing accounts for loan programs); (3) special funds, which collect funds from sources that are authorized by law for a specific purpose—these receipts are available for expenditure for special programs; (4) trust funds are used for the acceptance and administration of funds contributed from public and private sources and programs and are in cooperation with other federal and state agencies or private donors; and (5) other funds include deposit funds, receipt funds, and clearing accounts. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's. (See Note 3)

Accounts Receivable

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, as well as disputed costs resulting from audits of educational assistance programs. Amounts due from federal agencies result from reimbursable agreements entered into by the Department with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department's experience in the collection of receivables and an analysis of the outstanding balances.

Accounts receivable are established as claims to cash or other assets against other entities. At the Department, accounts receivable originate through legal provisions or program requirements to return funds due to noncompliant program administration, regulatory

requirements, or individual service obligations. Further, the Department utilizes the opportunity to reduce the accounts receivable balances through the Treasury Offset Program.

The Department calculates the allowance for loss from uncollectable accounts receivable by applying a collection rate based on historical trends against gross accounts receivable. The collection rate is determined based on a rolling average of actual collection rates for the prior seven fiscal years. (See Note 4)

Cash and Other Monetary Assets

Cash and Monetary Assets is primarily comprised of the federal government's interest in the program assets held by state and nonprofit FFEL program guaranty agencies. Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds (federal funds). Federal funds include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

Guaranty agencies' federal funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are credited to the Department's Fund Balance with Treasury account. (See Note 5)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

The financial statements reflect the Department's estimate of the long-term subsidy cost of direct and guaranteed loans in accordance with the FCRA. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called an "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to, and from, the Department that are expected from receivables over their projected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from the Department less the present value of related inflows. The estimated present value of net long-term cash outflows of the Department for subsidized costs is net of recoveries, interest supplements, and offsetting fees. The Department also values all pre-1992 loans, loan guarantees, and direct loans at their net present values. If the liability for loan guarantees is positive, the amount is reported as a component of credit program receivables, net.

The liability for loan guarantees presents the net present value of all future cash flows from currently insured FFEL loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for and reported in the financial statements under credit reform rules, similar to direct loans, although they are legally not direct student loans. Negative balances are reported as a component of credit program receivables, net. Credit program receivables, net includes defaulted FFEL loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection.

Credit program receivables for activities under the temporary loan purchase authority include the present value of future cash flows related to purchased loans. Subsidy was transferred, which may have been prior to loan purchase, and is recognized as subsidy expense on the balance sheet and statement of net cost. The cash flows of these authorities also include

inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers. (See Note 6)

Property and Equipment, Net and Leases

The Department capitalizes single items of property and equipment with a cost of $50,000 or more that have an estimated useful life of two years or more. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of $500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project, or the purchase of like items occurring within the same fiscal year that have an estimated useful life of at least two years. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. Internal use software meeting the above cost and useful life criteria is also capitalized. Internal use software is either purchased off the shelf, internally developed, or contractor developed solely to meet the Department's needs.

The Department adopted the following useful lives for its major classes of depreciable property and equipment:

Depreciable Property and Equipment
(In Years)

Major Class	Useful Life
Information Technology, Internal Use Software, and Telecommunications Equipment	3
Furniture and Fixtures	5

The Department leases buildings, along with information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with the equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Note 7)

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted. The government, acting in its sovereign capacity, can abrogate liabilities that arise from activities other than contracts. FFEL program and Direct Loan program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 11)

Accounts Payable

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. (See Note 9)

Debt

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, TEACH, and other loan programs. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest on the debt is calculated and paid at fiscal year-end using rates set by Treasury. These are rates generally fixed based on the rate for 10-year Treasury securities. In addition, the Federal Financing Bank (FFB) holds bonds issued by a designated bonding authority, on behalf of the Department, for the HBCU Capital Financing program. The Department reports the

corresponding liability for full payment of principal and accrued interest on bonds as a payable to the FFB. (See Note 10)

Accrued Grant Liability

Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet been reimbursed by the Department. The Department will accrue a liability for these allowable expenditures incurred that have not yet been reimbursed. The amount is estimated using statistical sampling of unliquidated balances. (See Note 12)

Other Liabilities

Other liabilities include liabilities to Treasury in miscellaneous receipt accounts and capital transfers. Liabilities to Treasury in miscellaneous receipt accounts reflect negative subsidy for new loans disbursed and downward subsidy estimates that are accrued at year end. Capital transfer liabilities represent net fund balances from pre-1992 loans payable to Treasury upon collection. (See Note 11)

Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between the Department and other entities within the federal government) or with the public (exchange transactions between the Department and nonfederal entities).

Net program costs are gross costs less revenue earned from activities. The Department determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program. (See Note 14)

Interest Expense and Interest Revenue

The Department accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by the Department. The Department recognizes interest income when interest is accrued on loans to the public for the Direct Loan, FFEL, and TEACH programs. FFEL financing and liquidating accounts accrue interest as part of allowance for subsidy. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal.

Interest expense and interest revenue are equal for all credit programs due to subsidy amortization. If interest revenue is greater than expense or interest expense is greater than revenue, the difference is recorded to revenue with the offset to allowance for subsidy. Subsidy amortization is required by the FCRA and accounts for the difference between interest accruals and interest cash flows. (See Note 15)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 13)

Personnel Compensation and Other Employee Benefits

Annual, Sick, and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Sick leave and other

types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

Retirement Plans and Other Retirement Benefits. Employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay.

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Department and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Department is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3 percent of the employee's basic pay, and match one-half of contributions between 3 percent and 5 percent of the employee's basic pay. For FERS employees, the Department also contributes the employer's share of Medicare.

Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

Federal Employees' Compensation Act. The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally, the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events, such as death, disability, medical, and miscellaneous costs as determined by DOL annually. (See Note 11)

Note 2. Non-Entity Assets

As of September 30, 2015 and 2014, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2015	2014
Non-Entity Assets		
Intragovernmental:		
Fund Balance with Treasury	$ 69	$ 44
Total Intragovernmental	**69**	**44**
With the Public:		
Cash and Other Monetary Assets	1,561	1,471
Credit Program Receivables, Net	410	387
Accounts Receivable, Net	67	63
Total With the Public	**2,038**	**1,921**
Total Non-Entity Assets	**2,107**	**1,965**
Entity Assets	1,121,012	1,021,961
Total Assets	**$ 1,123,119**	**$ 1,023,926**

The Department's FY 2015 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of receipt account, deposit fund and clearing account balances. Non-entity assets with the public primarily consist of guaranty agency reserves (76.6 percent), reported as Cash and Other Monetary Assets, and related Federal Perkins Loan program loan receivables (20.1 percent), reported as credit program receivables, net. Federal Perkins Loan program is a non-entity asset because the assets are held by the Department but are not available to the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, guaranty agency federal fund due to Treasury, and other liabilities. (See Notes 5, 9, and 11)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2015 and 2014 consisted of the following:

Fund Balance with Treasury

(Dollars in Millions)

	2015					
	General Funds	Revolving Funds	Special Funds	Trust Funds	All Other Funds	Total
Status of Funds						
Unobligated Balance:						
Available	$ 11,805	$ 550	$ -	$ 1	$ -	$ 12,356
Unavailable	1,394	13,886	14	-	-	15,294
Obligated Balance, Not Yet Disbursed	52,638	23,260	1	1	-	75,900
Other	-	-	-	-	69	69
Fund Balance with Treasury	**$ 65,837**	**$ 37,696**	**$ 15**	**$ 2**	**$ 69**	**$103,619**

	2014					
	General Funds	Revolving Funds	Special Funds	Trust Funds	All Other Funds	Total
Status of Funds						
Unobligated Balance:						
Available	$ 12,125	$ 69	$ -	$ -	$ -	$12,194
Unavailable	1,230	10,040	11	-	-	11,281
Obligated Balance, Not Yet Disbursed	56,208	18,964	4	1	-	75,177
Other	-	-	-	-	44	44
Fund Balance with Treasury	**$ 69,563**	**$29,073**	**$ 15**	**$ 1**	**$ 44**	**$98,696**

Composition of Funds

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. Special funds include fees collected on delinquent or defaulted Perkins loans that have reverted back to the Department from the initial lenders. Trust funds generally consist of remaining undisbursed donations for the hurricane relief activities.

Status of Funds

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance ($15,294 million) differs from unapportioned amounts on the SBR ($16,855 million) due to the Cash and Other Monetary Assets ($1,561 million). Obligated balances not yet disbursed include undelivered orders and unpaid expended authority. (See Note 5)

Note 4. Accounts Receivable

Accounts receivable, as of September 30, 2015 and 2014, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2015		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 2	$ -	$ 2
With the Public	341	(240)	101
Total	**$ 343**	**$ (240)**	**$ 103**

	2014		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 3	$ -	$ 3
With the Public	324	(188)	136
Total	**$ 327**	**$ (188)**	**$ 139**

Gross receivables by type, as of September 30, 2015 and 2014, are presented below.

Gross Receivables
(Dollars in Millions)

	2015	2014
Category		
Institutional	$ 235	$ 209
Individual	70	72
State and Local	36	43
Intragovernmental	2	3
Total	**$ 343**	**$ 327**

Accounts receivable consist of institutional debt resulting from external audit or program review; program scholarship grant repayments; employee debt; and intragovernmental debts due from other federal agencies through interagency agreements.

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL guaranty agencies' Federal Fund. The net change in the valuation of the Federal Fund on the Department's Balance Sheet increases or decreases the Department's Cash and Other Monetary Assets with a corresponding change in Guaranty Agency Funds Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2015 and 2014.

Cash and Other Monetary Assets

(Dollars in Millions)

	2015	2014
Beginning Balance, Cash and Other Monetary Assets	**$ 1,471**	**$ 1,482**
Valuation Increase in Guaranty Agency Federal Funds	92	(11)
Less: Collections from Guaranty Agency Federal Funds		
Excess Collections	2	-
Collections Remitted to Treasury	2	-
Ending Balance, Cash and Other Monetary Assets	**$ 1,561**	**$ 1,471**

The balance in the Federal Fund represents consolidated reserve balances of the 29 guaranty agencies based on the Guaranty Agency Financial Reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit based on form of organization. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

The $92 million valuation increase in the Federal Fund in FY 2015 represents the change in the estimated value of net assets held in the FFEL guaranty agency Federal Fund consolidated for disclosure. The activity on which the balance reflected on the Balance Sheet is adjusted reflects the net activity of guaranty agencies' operations as adjusted based on the Department's procedures. During FY 2015, $2 million was remitted to the Department by a guaranty agency and these funds were returned to Treasury.

Note 6. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

The Department currently operates two major student loan programs, Direct Loan and FFEL. The Direct Loan program offers four types of loans: Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The Department holds $1,017.7 billion in outstanding credit program net receivables. This outstanding balance is comprised primarily of Direct Loans, defaulted FFEL loans, and FFEL loans purchased using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). There are several other loan programs that the Department administers—including the Federal Perkins Loan program, the TEACH grant program, HEAL program, and the Facilities Loan programs.

Credit program receivables, as of September 30, 2015 and 2014, consisted of the following:

Credit Program Receivables, Net
(Dollars in Millions)

	2015	2014
Direct Loan Program Loan Receivables, Net	$ 880,557	$ 778,516
FFEL Program Loan Receivables:		
FFEL Guaranteed Loan Program, Net (Pre-1992)	2,365	1,904
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	38,180	37,969
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	32,865	36,556
Loan Participation Purchase, Net	59,516	64,513
ABCP Conduit, Net	1,778	1,922
Federal Perkins and Other Loan Program Loan Receivables, Net	410	387
TEACH Program Loan Receivables, Net	631	536
HEAL Program Loan Receivables, Net	123	115
Facilities Loan Programs Loan Receivables, Net	1,308	1,127
Total	**$ 1,017,733**	**$ 923,545**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is a comprehensive description of the student loan programs at the Department, including summary financial data and subsidy rates.

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the Direct Loan program. Direct Loans are originated and serviced through contracts with private vendors. As of September 30, 2015 and 2014, total principal balances outstanding of Direct Loans were approximately $800.8 billion and $694.0 billion, respectively.

The Department records an estimated obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 8.1% of the amount obligated for new loan awards will not be disbursed.

The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

Direct Loan Program Loan Receivables, Net
(Dollars in Millions)

	2015	2014
Principal Receivable	$ 800,811	$ 694,006
Interest Receivable	44,250	37,152
Total	845,061	731,158
Allowance for Subsidy	35,496	47,358
Direct Loan Program Loan Receivables, Net	**$ 880,557**	**$ 778,516**

Direct Loan program loan receivables are defaulted and nondefaulted loans owned and held by the Department. Of the $845.1 billion in gross receivables, as of September 30, 2015, $44.1 billion (5.2 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $33.9 billion (4.6 percent) as of September 30, 2014. As of September 30, 2015 and 2014, an additional $1.2 billion and $0.5 billion, respectively, in defaulted loans held by servicers had not yet been transferred to the Department's defaulted loan servicer; this amount includes defaulted Direct Loans and defaulted loans from other loan programs. Allowance for subsidy is subject to interest rates, default rates, fees, and other costs. A positive allowance for subsidy is substantially a factor of projected borrower interest exceeding the cost of Treasury borrowings and loan forgiveness.

Negative subsidy is an estimate of future cash inflows exceeding future cash outflows. Subsidy, either positive or negative, provides resources for the Department to carry on its loan origination and loan servicing activities under the Direct Loan Program.

The following schedule provides a reconciliation between the beginning and ending balances of the allowance for subsidy for the Direct Loan program:

Direct Loan Program Reconciliation of Allowance for Subsidy
(Dollars in Millions)

	2015	2014
Beginning Balance, Allowance for Subsidy	**$ 47,358**	**$ 65,247**
Activity		
Fee Collections	(1,618)	(1,623)
Loan Cancellations	4,777	2,068
Subsidy Allowance Amortization	(16,373)	(11,319)
Other	460	1,111
Total Activity	**(12,754)**	**(9,763)**
Components of Subsidy Transfers		
Interest Rate Differential	8,993	33,161
Defaults, Net of Recoveries	(253)	(1,409)
Fees	641	1,756
Other	(3,195)	(11,418)
Current Year Subsidy Transfers	**6,186**	**22,090**
Loan Modification	**(9,936)**	**-**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1,506)	(8,344)
Technical and Default Re-estimates	6,148	(21,872)
(Upward)/Downward Subsidy Re-estimates	**4,642**	**(30,216)**
Ending Balance, Allowance for Subsidy	**$ 35,496**	**$ 47,358**

Loan cancellations include write-offs of loans because the borrower died, became disabled, or declared bankruptcy. Subsidy transfers reflect the subsidy cost for loans disbursed during the current fiscal year. The other components of current year negative subsidy transfers consist of contract collection costs, program review collections, fees, and other accruals. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated, and any related negative subsidy.

The following schedule summarizes the Direct Loan interest expense and interest revenue for the years ended September 30, 2015 and 2014:

Direct Loan Program Interest Expense and Revenue

(Dollars in Millions)

	2015	2014
Interest Expense on Treasury Borrowing	$ 27,593	$ 25,152
Total Interest Expense	**$ 27,593**	**$ 25,152**
Interest Revenue from the Public	$ 39,760	$ 32,801
Amortization of Subsidy	(16,373)	(11,319)
Interest Revenue on Uninvested Funds	4,206	3,670
Total Interest Revenue	**$ 27,593**	**$ 25,152**

The following schedule summarizes the Direct Loan subsidy expense for the years ended September 30, 2015 and 2014:

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2015	2014
Components of Negative Subsidy Transfers		
Interest Rate Differential	$ 8,993	$ 33,161
Defaults, Net of Recoveries	(253)	(1,409)
Fees	641	1,756
Other	(3,195)	(11,418)
Negative Subsidy Transfers	**6,186**	**22,090**
Loan Modification	(9,936)	-
(Upward)/Downward Subsidy Re-estimates	4,642	(30,216)
Direct Loan Subsidy Expense	**$ 892**	**$ (8,126)**

Direct Loan program re-estimated subsidy cost was adjusted downward by $4.6 billion in FY 2015. Updated discount rates for the 2014 and 2013 cohorts decreased cost by $6.2 billion. Higher participation in income dependent repayment plans increased cost by $15 billion. A new model was developed that much more accurately reflects debts and incomes of recent income dependent repayment borrowers. While both debts and incomes increased in the new model, for consolidated borrowers the increase in income compared to debt resulted in debts becoming more affordable resulting in a $5.8 billion decrease in costs. Costs increased $1.8 billion due to increases in default rates. Changes in prepayment rates reflect larger than expected prepayment activity, leading to decreased interest earnings resulting in $3.5 billion in upward subsidy cost. Costs decreased $5.7 billion due to higher forbearance rates. Interest accrues during forbearance and that interest is eventually paid to the Department. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate.

Subsidy rates are sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy cost by $4.3 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2014.

Direct Loan re-estimated subsidy cost was adjusted upward by $30.2 billion in FY 2014. Updated discount rates for the 2013 and 2012 cohorts decreased subsidy cost by $4.4 billion. Changes in the availability of repayment plans increased subsidy cost by $18.6 billion. Subsidy costs increased $2.9 billion due to increases in default rates. Changes in prepayment rates reflect slower than expected prepayment activity, leading to increased interest earnings resulting in $3.2 billion in downward subsidy cost. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate. In June 2014, President Obama announced a new initiative to expand the Pay as You Earn (PAYE) repayment plan. The modified cost for subsidy of this plan for cohort years 1994–2013 is $8.3 billion.

The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost by $3.5 billion. Re-estimated subsidy costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2013.

FY 2015 Modification. Recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

The Department modified Direct Loans in FY 2015. The 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 Federal Direct Student 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 leading to increased costs resulting in a $9.3 billion upward modification of subsidy cost and a $629 million net upward modification adjustment transfer. In FY 2015, the Department forgave $2.1 billion in interest for borrowers participating in the PAYE/income-based repayment (IBR) plans, which provide that, if the borrower's monthly payment amount is not sufficient to pay the accrued interest on the borrower's direct subsidized loan or the subsidized portion of a direct consolidation loan, the Secretary does not charge the borrower the remaining accrued interest for a period not to exceed three consectutive years from the established repayment period start date on that loan under the PAYE/IBR plan.

The subsidy rates applicable to the 2015 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2015

	Interest Differential	Defaults	Fees	Other	Total
Stafford	3.97%	0.12%	(1.07)%	5.73%	8.75%
Unsubsidized Stafford	(14.83)%	0.15%	(1.07)%	6.83%	(8.92)%
PLUS	(22.67)%	0.25%	(4.29)%	5.84%	(20.87)%
Consolidation	(1.50)%	(0.14)%	0.00%	10.68%	9.04%
Total	**(8.45)%**	**0.07%**	**(1.16)%**	**7.69%**	**(1.87)%**

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy expense for new direct loans reported in the current year relates to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year may include re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2015 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the 2017 President's Budget.

The subsidy costs of the Department's student loan programs, especially the Direct Loan program, are highly sensitive to changes in actual and forecasted interest rates. The formulas for determining program interest rates are established by statute; the existing loan portfolio has a mixture of borrower and lender rate formulas. Interest rate projections are based on probabilistic interest rate scenario inputs developed and provided by OMB.

The following schedule summarizes the Direct Loan program loan disbursements by loan type for the years ended September 30, 2015 and 2014:

Direct Loan Program Loan Disbursements by Loan Type

(Dollars in Millions)

	2015	2014
Stafford	$ (23,953)	$ (25,877)
Unsubsidized Stafford	(52,698)	(54,740)
PLUS	(19,163)	(18,910)
Consolidation	(46,434)	(34,525)
Total Expenditures	**$ (142,248)**	**$ (134,052)**

The allocation of disbursements for the first three loan types is estimated based on historical trend information.

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of Direct Loans being consolidated is considered a collection of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort subsidy costs. The net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect subsidy costs associated with anticipated future consolidation loans.

Direct Loan consolidations increased from $35 billion during FY 2014 to $46 billion during FY 2015. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated.

Federal Family Education Loan Program. As a result of the *SAFRA Act*, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2015 and 2014, total principal balances outstanding of guaranteed loans held by lenders were approximately $220 billion and $242 billion, respectively. As of September 30, 2015 and 2014, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $215 billion and $236 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2015	2014
FFEL Program (Pre-1992)		
Principal Receivable	$ 4,388	$ 4,707
Interest Receivable	6,149	5,810
Total	10,537	10,517
Allowance for Subsidy	(8,162)	(8,586)
Liabilities for Loan Guarantees	(10)	(27)
FFEL Guaranteed Loan Program, Net (Pre-1992)	**2,365**	**1,904**
FFEL Program (Post-1991)		
FFEL Guaranteed Loan Program:		
Principal Receivable	33,415	34,251
Interest Receivable	5,756	5,273
Total	39,171	39,524
Allowance for Subsidy	(4,389)	(5,773)
Liabilities for Loan Guarantees	3,398	4,218
FFEL Guaranteed Loan Program, Net (Post-1991)	**38,180**	**37,969**
Temporary Loan Purchase Authority:		
Loan Purchase Commitment:		
Principal Receivable	26,474	29,401
Interest Receivable	1,981	1,927
Total	28,455	31,328
Allowance for Subsidy	4,410	5,228
Loan Purchase Commitment, Net	**32,865**	**36,556**
Loan Participation Purchase:		
Principal Receivable	48,540	52,782
Interest Receivable	3,403	3,358
Total	51,943	56,140
Allowance for Subsidy	7,573	8,373
Loan Participation Purchase, Net	**59,516**	**64,513**
ABCP Conduit:		
Principal Receivable	1,887	2,036
Interest Receivable	240	218
Total	2,127	2,254
Allowance for Subsidy	(349)	(332)
ABCP Conduit, Net	**1,778**	**1,922**
FFEL Program Loan Receivables, Net	**$ 134,704**	**$ 142,864**

ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

The asset-backed commercial paper vehicle, the Conduit, closed in early FY 2014, resulting in a $71 billion recovery of prior year obligations and the cancellation of unused borrowing authority.

The FFEL guaranteed student loan financing account has a negative estimated liability for loan guarantees of $3.4 billion and $4.2 billion as of September 30, 2015 and 2014, respectively. This indicates that expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability has been classified as a component of credit program receivables on the consolidated balance sheet. The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantees for the insurance portion of the FFEL program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2015	2014
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 4,218**	**$ 4,260**
Activity		
Interest Supplement Payments	896	1,094
Claim Payments	6,917	8,914
Fee Collections	(1,926)	(2,156)
Interest on Liability Balance	1,826	1,843
Other	(12,797)	(13,785)
Total Activity	**(5,084)**	**(4,090)**
Components of Loan Modifications		
Loan Modification Costs	-	4,020
Modification Adjustment Transfers	-	(581)
Loan Modifications	**-**	**3,439**
(Upward)/Downward Subsidy Re-estimates	**4,264**	**609**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**3,398**	**4,218**
FFEL Liquidating Account Liability for Loan Guarantees	(10)	(27)
Liabilities for Loan Guarantees	**$ 3,388**	**$ 4,191**

Other activity includes negative special allowance collections, collections on defaulted FFEL loans, expenditures, and loan cancellations due to death, disability, or bankruptcy.

The following schedules provide reconciliations between the beginning and ending balances of the allowance for subsidy for the loan purchase commitment component and the loan participation purchase component of the FFEL program. Loans in these programs are loans acquired by the Department. Acquired loans are reported at their net present value of future cash flows.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2015	2014
Beginning Balance, Allowance for Subsidy	**$ 5,228**	**$ 5,188**
Activity		
Subsidy Allowance Amortization	(724)	(749)
Loan Cancellations	274	116
Contract Collection Cost and Other	40	72
Total Activity	**(410)**	**(561)**
(Upward)/Downward Subsidy Re-estimates	**(408)**	**601**
Ending Balance, Allowance for Subsidy	**$ 4,410**	**$ 5,228**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2015	2014
Beginning Balance, Allowance for Subsidy	**$ 8,373**	**$ 8,208**
Activity		
Subsidy Allowance Amortization	(1,362)	(1,304)
Loan Cancellations	518	224
Contract Collection Cost and Other	44	93
Total Activity	**(800)**	**(987)**
(Upward)/Downward Subsidy Re-estimates	**-**	**1,152**
Ending Balance, Allowance for Subsidy	**$ 7,573**	**$ 8,373**

The following schedule provides FFEL program subsidy expense for the years ended September 30, 2015 and 2014, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

	2015	2014
FFEL Guaranteed Loan Program Subsidy Re-estimates	$ 4,264	$ 609
Loan Purchase Commitment Subsidy Re-estimates	(408)	601
Loan Participation Purchase Subsidy Re-estimates	-	1,152
ABCP Conduit Subsidy Re-estimates	-	203
FFEL Program (Upward)/Downward Subsidy Re-estimates	**3,856**	**2,565**
FFEL Guaranteed Loan Program Modification Costs	-	4,020
FFEL Program Subsidy Expense	**$ 3,856**	**$ 6,585**

FFEL guaranteed re-estimated subsidy cost was adjusted downward by $3.9 billion in FY 2015. Subsidy costs decreased $2.1 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments. Subsidy costs decreased $706 million due to lower deferment rates on consolidated loans that have subsidized components of outstanding debt. The Department pays interest benefits when loans are in deferment, so lower deferment rates mean less interest benefits when loans are in deferment, so lower deferment rates mean less interest benefit payments to lenders. Other assumption updates produced offsetting subsidy costs, with the remainder attributable to interest on the re-estimate.

Subsidy rates are sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL subsidy costs by $17.5 billion.

FFEL guaranteed re-estimated subsidy cost was adjusted downward by $0.6 billion in FY 2014. Subsidy costs decreased $411 million due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Subsidy costs decreased $111 million due to maturity and debt distribution assumption updates. Other assumption updates produced offsetting subsidy costs, with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL subsidy costs by $18 billion.

FY 2014 Modification. The Department modified FFEL loans in FY 2014, but not in FY 2015.The *Bipartisan Budget Act of 2013* eliminated guaranty agencies' retention share of original defaulted student loan amounts, and reduced the cap on the amount of collection costs they can charge a borrower. The act required these agencies to send rehabilitated loans to the Department if they cannot find a private lender buyer. These technical changes resulted in a $4 billion downward subsidy cost modification and a $581 million modification adjustment transfer loss for the FFEL financing account.

Other Credit Programs for Higher Education

Federal Perkins Loan Program. The Federal Perkins Loan program provides low-interest loans to eligible postsecondary school students. In some statutorily defined cases, funds are provided to reimburse schools for loan cancellations. For defaulted loans assigned to the Department, collections of principal, interest, and fees, net of amounts paid by the Department to cover contract collection costs, are transferred to Treasury annually.

As of September 30, 2015 and 2014, loan and interest receivables, net of allowance for losses, were $410 million and $387 million, respectively. These receivables are valued at net realizable value with estimated allowance for losses of $168 million and $161 million as of September 30, 2015 and 2014, respectively.

TEACH Grant Program. The Department awards annual grants of up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to Direct Unsubsidized Stafford Loans. Since grants can be converted to direct loans, for budget and accounting purposes, the program is operated as a loan program under the FCRA.

As of September 30, 2015 and 2014, loan receivables were $631 million and $536 million, respectively. The receivable balance is net of allowance for subsidy of $108 million and $120 million as of September 30, 2015 and 2014, respectively.

The subsidy rates applicable to the 2015 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2015

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	**12.39%**	**0.23%**	**0.00%**	**3.95%**	**16.57%**

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. Credit program receivables, net of allowance for subsidy and liabilities for loan guarantees, as of September 30, 2015 and 2014 were $123 million and $115 million, respectively. All loan activity for 1992 and beyond is recorded in corresponding financing accounts.

Facilities Loan Programs. The Department also administers the HBCU Capital Financing program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and, in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with HEA, as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.4 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and approximately $236 million obligated to support near term lending as of September 30, 2015.

The Department administers the College Housing and Academic Facilities Loan (CHAFL) program, the College Housing Loan program, and the Higher Education Facilities Loan program. From 1952 to 1993, these programs provided low-interest financing to institutions of higher education for the construction, reconstruction, and renovation of housing, academic, and other educational facilities.

The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

Facilities Loan Programs Loan Receivables, Net
(Dollars in Millions)

	2015	2014
Principal Receivable	$ 1,463	$ 1,324
Interest Receivable	14	12
Total	1,477	1,336
Allowance for Subsidy	(169)	(209)
Facilities Loan Programs Loan Receivables, Net	**$ 1,308**	**$ 1,127**

Administrative Expenses

Administrative expenses, for the years ended September 30, 2015 and 2014, consisted of the following:

Administrative Expenses
(Dollars in Millions)

	2015		2014	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 653	$ 442	$ 604	$ 390
Other Expense	28	18	22	14
Total	**$ 681**	**$ 440**	**$ 626**	**$ 404**

Note 7. Property and Equipment, Net and Leases

Property and equipment, as of September 30, 2015 and 2014, consisted of the following:

Property and Equipment, Net
(Dollars in Millions)

	2015		
	Asset Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 196	$ (175)	$ 21
Furniture and Fixtures	3	(3)	-
Property and Equipment, Net	**$ 199**	**$ (178)**	**$ 21**

	2014		
	Asset Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 181	$ (174)	$ 7
Furniture and Fixtures	3	(3)	-
Property and Equipment, Net	**$ 184**	**$ (177)**	**$ 7**

The Depreciation expense was $1 million for the years ended September 30, 2015 and 2014.

The major drivers of fixed assets at the Department are improvements to information technology, including financial management and program management systems. Specifically, recent enhancements have been made to the Department's automated grant management and financial reporting systems for the Department and FSA. The Department has acquired more robust information technology to augment its significant capabilities to manage student loan and grant operations. In addition, the Department has very limited or no acquisition cost associated with furniture and fixtures.

All Department and contractor staff are housed in leased buildings. The Department does not own real property for the use of its staff. The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, and are expensed as incurred. The Department leases 21 privately owned and 12 publicly owned buildings in 20 cities. Building lease expense, as of September 30, 2015 and 2014, was $73 million and $70 million, respectively. The majority of leases is for information technology, telecommunications equipment, and leased buildings.

Estimated future minimum lease payments for the privately and publicly owned buildings are presented below.

Future Minimum Lease Payments
(Dollars in Millions)

2015		2014	
FY	**Amount**	**FY**	**Amount**
2016	83	2015	78
2017	76	2016	83
2018	81	2017	88
2019	79	2018	91
2020	82	2019	97
After 2020	84	After 2019	100
Total	**$ 485**	**Total**	**$ 537**

Note 8. Other Assets

Other intragovernmental assets primarily consist of advance payments to the U.S. Department of the Interior's (DOI) Bureau of Indian Education under terms of an interagency agreement. Under this agreement, funds are transferred from DOI to fund initiatives that include, but are not limited to: (1) Improving Basic Programs Operated by Local Education Agencies; (2) Comprehensive School Reform; (3) Teacher Quality Improvement Formula Grants; (4) Enhancing Education through Technology; and (5) 21st Century Community Learning Centers. Other intragovernmental assets were $76 million and $55 million as of September 30, 2015 and 2014, respectively.

Other assets with the public consist of payments made to grant recipients in advance of their expenditures and in-process invoices for interest benefits and special allowances for the FFEL program. Other assets with the public were $6 million and $13 million as of September 30, 2015 and 2014, respectively.

Note 9. Accounts Payable

Accounts payable, as of September 30, 2015 and 2014, consisted of the following:

Accounts Payable
(Dollars in Millions)

	2015	2014
Accrual for Unreimbursed Loan Disbursements	$ 2,938	$ 3,027
In Process Disbursements:		
Direct Loans	298	312
Grants	245	264
FFEL Claim Payments	118	311
Contractual Services	159	212
Other	(63)	(126)
Accounts Payable to the public	**3,695**	**4,000**
Intragovernmental Accounts Payable	1	1
Total Accounts Payable	**$ 3,696**	**$ 4,001**

Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. The Department pays vendor invoices according to the *Prompt Payment Act* rules that are built into the financial system as a control mechanism, generally within 25–30 days of receipt of goods and proper invoicing. The Department also monitors and leverages vendor discount opportunities by processing payments to coincide with discount terms when possible.

FY 2015 and FY 2014 accounts payable other abnormal balances of $(63) million and $(126) million, respectively, are primarily due to temporary adjustments related to FFEL Guaranteed Loan program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 2015 and 2014, consisted of the following:

Debt
(Dollars in Millions)

	2015			
	Beginning Balance	Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 819,007	$ 159,667	$ (68,747)	$ 909,927
FFEL Program				
Guaranteed Loan Program	43,254	-	-	43,254
Loan Purchase Commitment	36,271	732	(3,295)	33,708
Loan Participation Purchase	64,302	1,825	(5,145)	60,982
ABCP Conduit	1,973	-	(146)	1,827
TEACH Program	555	108	(17)	646
Facilities Loan Programs	37	-	(8)	29
Total Treasury Debt	**965,399**	**162,332**	**(77,358)**	**1,050,373**
Debt to the FFB				
HBCU	1,272	160	(29)	1,403
Total Debt to the FFB	**1,272**	**160**	**(29)**	**1,403**
Total	**$ 966,671**	**$ 162,492**	**$ (77,387)**	**$1,051,776**

	2014			
	Beginning Balance	Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 698,361	$ 171,227	$ (50,581)	$ 819,007
FFEL Program				
Guaranteed Loan Program	43,254	-	-	43,254
Loan Purchase Commitment	38,598	976	(3,303)	36,271
Loan Participation Purchase	68,017	790	(4,505)	64,302
ABCP Conduit	2,543	203	(773)	1,973
TEACH Program	485	99	(29)	555
Facilities Loan Programs	37	-	-	37
Total Treasury Debt	**851,295**	**173,295**	**(59,191)**	**965,399**
Debt to the FFB				
HBCU	1,137	156	(21)	1,272
Total Debt to the FFB	**1,137**	**156**	**(21)**	**1,272**
Total	**$ 852,432**	**$ 173,451**	**$ (59,212)**	**$ 966,671**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2015, debt increased 9 percent from $967 billion in the prior year to $1,052 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Over 86 percent of the Department's debt, as of September 30, 2015, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements. Net borrowing in the Direct Loan program for FY 2015 totaled $160 billion. The new financing was used to disburse new loans and make negative subsidy transfers. The Department also borrowed funding to execute the downward subsidy re-estimate on the entire portfolio and to pay its interest to Treasury at year-end. Principal payments were made during the year. FFEL and some Facilities Loan programs are no longer offering new financing to public borrowers or entering into guaranty agreements with lending authorities.

The Department also borrows from Treasury for activity in the TEACH and HBCU programs. During FY 2015, TEACH net borrowing of $91 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2015, debt in HBCU increased by $131 million, or 10 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

Note 11. Other Liabilities

Other liabilities, as of September 30, 2015 and 2014, consisted of the following:

Other Liabilities
(Dollars in Millions)

	2015		2014	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 14	$ -	$ 26	$ -
Employer Contributions and Payroll Taxes	3	-	3	-
Liability for Deposit Funds and Clearing Accounts	7	84	(22)	74
Accrued Payroll and Benefits	-	15	-	13
Deferred Revenue	-	18	-	50
Liabilities in Miscellaneous Receipt Accounts	5,527	-	3,783	-
Total Other Liabilities Covered by Budgetary Resources	**5,551**	**117**	**3,790**	**137**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	38	-	38
Noncurrent				
Accrued Unfunded FECA Liability	3	-	3	-
Custodial Liability	-	-	2	-
Liabilities in Miscellaneous Receipt Accounts	395	-	376	-
Capital Transfers	2,786	-	2,242	-
Accrued FECA Actuarial Liability	-	16	-	2
Total Other Liabilities Not Covered by Budgetary Resources	**3,184**	**54**	**2,623**	**40**
Other Liabilities	**$ 8,735**	**$ 171**	**$ 6,413**	**$ 177**

Other liabilities include current and noncurrent liabilities. The current liabilities covered by budgetary resources primarily consist of $5.5 billion for executed negative subsidy transfers and executed downward re-estimates.

The noncurrent liabilities not covered by budgetary resources primarily relate to capital transfers, excess unanticipated collections on defaulted loans in liquidating accounts in the amount of $2.8 billion, and the student loan receivables of the Federal Perkins Loan program in the amount of $395 million.

Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled $3.2 billion and $2.6 billion as of September 30, 2015 and 2014, respectively.

As of September 30, 2015 and 2014, liabilities totaled $1,068.3 billion and $981.2 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $1,065.1 billion and $978.6 billion as of September 30, 2015 and 2014, respectively.

Note 12. Accrued Grant Liability

The accrued grant liability by major program office, as of September 30, 2015 and 2014, consisted of the following:

Accrued Grant Liability
(Dollars in Millions)

	2015	2014
FSA	$ 1,571	$ 1,719
OESE	231	386
OSERS	144	182
Other	431	200
Accrued Grant Liability	**$ 2,377**	**$ 2,487**

The majority of accrued grant liability is composed of Pell Grants. The remaining accrued grant liability also includes discretionary, formula, and campus-based student aid grants.

Note 13. Net Position

Unexpended appropriations, as of September 30, 2015 and 2014, consisted of the following:

Unexpended Appropriations
(Dollars in Millions)

	2015	2014
Unobligated Balances:		
Available	$ 11,768	$ 12,078
Not Available	1,211	1,169
Undelivered Orders	49,761	53,200
Unexpended Appropriations	**$ 62,740**	**$ 66,447**

Cumulative Results of Operations. The cumulative results of operations of $(7,937) million and $(23,741) million as of September 30, 2015 and 2014, respectively, consists mostly of unfunded upward subsidy re-estimates for Direct and FFEL Loan programs, other unfunded expenses, and net investments of capitalized assets.

Other Financing Sources. Negative subsidy transfers, downward subsidy re-estimates, and other in the other financing sources section of the statement of changes in net position was $(14,293) million and $(36,767) million as of September 30, 2015 and 2014, respectively. The amount was primarily comprised of Direct Loan and FFEL program activity.

Appropriations Received. Appropriations received was $100,955 million and $95,293 million as of September 30, 2015 and 2014, respectively, and comprised primarily of Pell Grant, Direct Loan, Special Education, and Education for the Disadvantaged programs.

Note 14. Intragovernmental Cost and Exchange Revenue by Program

As required by the *GPRA Modernization Act of 2010,* each of the Department's major program offices has been aligned with the goals presented in the Department's *Strategic Plan 2014–2018. Strategic Plan* Goals 1–5 guide the Department's program offices to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these five strategic goals. The Department also has a cross-cutting *Strategic Plan* Goal 6, U.S. Department of Education Capacity, focusing primarily upon improving the organizational capacities of the Department to implement the *Strategic Plan* Goals 1–5. The costs associated with *Strategic Plan* Goal 6 are allocated to Goals 1–5 based on the number of full-time employee equivalents of each program. Some principal offices support more than one Departmental strategic goal, but have been assigned to a single net cost program for the purposes of this table based on their primary area of support.

Net Cost Program	Program Office	Strategic Goal
Increase College Access, Quality, and Completion	FSA OPE OCTAE	**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.
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	OESE HR	**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.
Ensure Effective Educational Opportunities for All Students	OELA OCR OSERS	**Goal 4: Equity.** Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.
Enhance the Education System's Ability to Continuously Improve	IES OII	**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.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2015

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 33,873	$ -	$ -	$ 80	$33,953
With the Public	25,627	-	-	4,117	29,744
Total Gross Program Costs	**59,500**	**-**	**-**	**4,197**	**63,697**
Earned Revenue					
Intragovernmental	(5,134)	-	-	(11)	(5,145)
With the Public	(26,413)	-	-	(42)	(26,455)
Total Program Earned Revenue	**(31,547)**	**-**	**-**	**(53)**	**(31,600)**
Total Program Cost	**27,953**	**-**	**-**	**4,144**	**32,097**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	179	-	-	179
With the Public	-	22,169	-	2	22,171
Total Gross Program Costs	**-**	**22,348**	**-**	**2**	**22,350**
Earned Revenue					
Intragovernmental	-	(12)	-	-	(12)
With the Public	-	(8)	-	-	(8)
Total Program Earned Revenue	**-**	**(20)**	**-**	**-**	**(20)**
Total Program Cost	**-**	**22,328**	**-**	**2**	**22,330**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	91	33	124
With the Public	-	-	15,776	756	16,532
Total Gross Program Costs	**-**	**-**	**15,867**	**789**	**16,656**
Earned Revenue					
Intragovernmental	-	-	(2)	-	(2)
With the Public	-	-	(8)	(1)	(9)
Total Program Earned Revenue	**-**	**-**	**(10)**	**(1)**	**(11)**
Total Program Cost	**-**	**-**	**15,857**	**788**	**16,645**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	100	100
With the Public	-	-	-	2,312	2,312
Total Gross Program Costs	**-**	**-**	**-**	**2,412**	**2,412**
Earned Revenue					
Intragovernmental	-	-	-	(4)	(4)
With the Public	-	-	-	(55)	(55)
Total Program Earned Revenue	**-**	**-**	**-**	**(59)**	**(59)**
Total Program Cost	**-**	**-**	**-**	**2,353**	**2,353**
Net Cost of Operations	**$ 27,953**	**$ 22,328**	**$ 15,857**	**$ 7,287**	**$ 73,425**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2014

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 31,267	$ -	$ -	$ 87	$31,354
With the Public	34,203	-	-	4,189	38,392
Total Gross Program Costs	**65,470**	**-**	**-**	**4,276**	**69,746**
Earned Revenue					
Intragovernmental	(4,293)	-	-	(12)	(4,305)
With the Public	(24,686)	-	-	(40)	(24,726)
Total Program Earned Revenue	**(28,979)**	**-**	**-**	**(52)**	**(29,031)**
Total Program Cost	**36,491**	**-**	**-**	**4,224**	**40,715**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	202	-	-	202
With the Public	-	23,196	-	4	23,200
Total Gross Program Costs	**-**	**23,398**	**-**	**4**	**23,402**
Earned Revenue					
Intragovernmental	-	(4)	-	-	(4)
With the Public	-	(11)	-	-	(11)
Total Program Earned Revenue	**-**	**(15)**	**-**	**-**	**(15)**
Total Program Cost	**-**	**23,383**	**-**	**4**	**23,387**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	115	30	145
With the Public	-	-	16,146	810	16,956
Total Gross Program Costs	**-**	**-**	**16,261**	**840**	**17,101**
Earned Revenue					
Intragovernmental	-	-	(2)	-	(2)
With the Public	-	-	(12)	(1)	(13)
Total Program Earned Revenue	**-**	**-**	**(14)**	**(1)**	**(15)**
Total Program Cost	**-**	**-**	**16,247**	**839**	**17,086**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	114	114
With the Public	-	-	-	1,932	1,932
Total Gross Program Costs	**-**	**-**	**-**	**2,046**	**2,046**
Earned Revenue					
Intragovernmental	-	-	-	(3)	(3)
With the Public	-	-	-	(61)	(61)
Total Program Earned Revenue	**-**	**-**	**-**	**(64)**	**(64)**
Total Program Cost	**-**	**-**	**-**	**1,982**	**1,982**
Net Cost of Operations	**$ 36,491**	**$ 23,383**	**$ 16,247**	**$ 7,049**	**$ 83,170**

Note 15. Interest Expense and Interest Revenue

For FY 2015 and FY 2014, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2015					
	Expenses			Revenue		
	Federal	Nonfederal	Total	Federal	Nonfederal	Total
Direct Loan Program	$ 27,593	$ -	$27,593	$ 4,206	$23,387	$27,593
FFEL Program :						
Guaranteed Loan Program	2,083	(1,826)	257	257	-	257
Loan Purchase Commitment	1,091	-	1,091	63	1,028	1,091
Loan Participation Purchase	2,018	-	2,018	130	1,888	2,018
ABCP Conduit	60	-	60	4	56	60
TEACH Program	20	-	20	2	18	20
Other Programs	40	-	40	11	32	43
Total	**$ 32,905**	**$(1,826)**	**$31,079**	**$ 4,673**	**$26,409**	**$31,082**

	2014					
	Expenses			Revenue		
	Federal	Nonfederal	Total	Federal	Nonfederal	Total
Direct Loan Program	$ 25,152	$ -	$25,152	$ 3,670	$ 21,482	$25,152
FFEL Program :						
Guaranteed Loan Program	2,083	(1,843)	240	240	-	240
Loan Purchase Commitment	1,163	-	1,163	64	1,099	1,163
Loan Participation Purchase	2,102	-	2,102	119	1,983	2,102
ABCP Conduit	75	-	75	14	61	75
TEACH Program	18	-	18	2	16	18
Other Programs	35	-	35	11	40	51
Total	**$ 30,628**	**$ (1,843)**	**$28,785**	**$ 4,120**	**$ 24,681**	**$28,801**

Federal interest expense is recognized on the Department's outstanding borrowing from Treasury (debt). The Direct Loan and FFEL programs have $910 billion and $140 billion in debt, respectively, as of September 30, 2015. Federal interest revenue is earned on Fund Balance with Treasury for the Direct Loan and FFEL programs. The interest rate set by OMB is the same for interest expense and interest revenue.

Nonfederal interest expense results from the amortization of loan subsidy. Nonfederal interest revenue is interest earned from the public on credit program receivables held by the Department. The Department holds $1,017.7 billion in outstanding credit program net receivables as of September 30, 2015.

Note 16. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2015, budgetary resources were $350 billion and net agency outlays were $167 billion. As of September 30, 2014, budgetary resources were $356 billion and net agency outlays were $180 billion.

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2015 and 2014, consisted of the following:

Obligations Incurred by Apportionment Type and Category
(Dollars in Millions)

	2015	2014
Direct:		
Category A	$ 2,083	$ 1,755
Category B	318,212	329,043
Exempt from Apportionment	104	194
Total Direct Apportionment	320,399	330,992
Reimbursable:		
Category A	4	3
Category B	64	68
Obligations Incurred	**$ 320,467**	**$ 331,063**

Obligations incurred can be either direct or reimbursable. Reimbursable obligations are those financed by offsetting collections received in return for goods and services provided, while all other obligations are direct. The apportionment categories are determined in accordance with the guidance provided in OMB regulations. Category A apportionments are those resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

Unused Borrowing Authority

Unused borrowing authority and related changes in available borrowing authority, as of September 30, 2015 and 2014, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2015	2014
Beginning Balance, Unused Borrowing Authority	**$ 61,327**	**$ 138,695**
Current Year Borrowing Authority	171,807	182,860
Funds Drawn From Treasury	(162,492)	(173,451)
Borrowing Authority Withdrawn	(15,813)	(86,777)
Ending Balance, Unused Borrowing Authority	**$ 54,829**	**$ 61,327**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, TEACH, and other loan programs. Unused borrowing authority is a budgetary resource and is available to support obligations for these programs. The Department periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2015 and 2014, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2015	2014
Budgetary	$ 49,838	$ 53,332
Nonbudgetary	75,064	76,889
Undelivered Orders (Unpaid)	**$ 124,902**	**$ 130,221**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in unexpended appropriations. Undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Undelivered orders for trust funds, reimbursable agreements, and federal financing and liquidating funds are not funded through appropriations and are not included in unexpended appropriations. (See Note 13)

Distributed Offsetting Receipts

The majority of the distributed offsetting receipts line item on the SBR represents amounts paid from the Direct Loan program and FFEL program financing accounts to general fund receipt accounts for downward current fiscal year executed subsidy re-estimates and negative subsidies. Distributed offsetting receipts, for the years ended September 30, 2015 and 2014, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2015	2014
Negative Subsidies and Downward Re-estimates:		
FFEL Program	$ 4,658	$ 7,945
Direct Loan Program	8,211	31,551
Facilities Loan Programs	83	24
TEACH Program	31	13
HEAL Program	19	-
Total Negative Subsidies and Downward Re-estimates	13,002	39,533
Other	103	119
Distributed Offsetting Receipts	**$ 13,105**	**$ 39,652**

Explanation of Differences Between the Statement of Budgetary Resources and the *Budget of the United States Government*

The *FY 2017 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2015, has not been published as of the issue date of these financial statements. The FY 2017 President's Budget is scheduled for release in February 2016.

A reconciliation of the FY 2014 SBR to the FY 2016 President's Budget (FY 2014 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays is presented below.

SBR to *Budget of the United States Government*

(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	**$ 356,009**	**$ 331,063**	**$ 39,652**	**$ 179,761**
Expired Funds	(1,590)	(438)	-	-
FFEL Guaranty Agency amounts Included in the President's Budget	10,749	10,749	-	-
Distributed Offsetting Receipts	-	-	-	39,652
Other	(1)	(1)	3	5
***Budget of the United States Government*[1]**	**$ 365,167**	**$ 341,373**	**$ 39,655**	**$ 219,418**

[1]Amounts obtained from the Appendix, *Budget of the United States Government*, FY 2016.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from the Department's direct control, budgetary resources and obligations incurred are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the FY 2014 SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

Note 17. Reconciliation of Net Cost of Operations to Budget

The reconciliation of net cost of operations to budget reconciles the resources used to finance activities, both those received through budgetary resources and those received through other means, with the net cost of operations on the statement of net cost. This reconciliation provides an explanation of the differences between budgetary and financial (proprietary) accounting, as required by FASAB Standard No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

Resources used to finance activities (section one) are reconciled with the net cost of operations by: (a) excluding resources used or generated for items not part of the net cost of operations (section two); and (b) including components of the net cost of operations that will not require or generate resources in the current period (section three). The primary resources used to finance activities that do not fund the net cost of operations include the acquisition of net credit program assets, the liquidation of liabilities for loan guarantees, and subsidy re-estimates accrued in the prior period. Significant components of the net cost of operations that will not generate or use resources in the current period include subsidy amortization, interest on the liability for loan guarantees, and increases in exchange revenue receivable from the public.

The reconciliation of net cost of operations to budget, as of September 30, 2015 and 2014, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2015	2014
Resources Used to Finance Activities:		
Obligations Incurred	$ 320,467	$ 331,063
Spending Authority from Offsetting Collections and Recoveries	(145,810)	(196,485)
Offsetting Receipts	(13,105)	(39,652)
Net Budgetary Resources Obligated	**161,552**	**94,926**
Imputed Financing from Costs Absorbed by Others	30	36
Other Financing Sources	(14,293)	(36,767)
Net Other Resources	**(14,263)**	**(36,731)**
Net Resources Used to Finance Activities	**147,289**	**58,195**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	5,177	85,345
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(20,131)	2,383
Credit Program Collections	102,183	80,365
Acquisition of Fixed Assets	(15)	(4)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(165,850)	(186,999)
Resources from Non-Entity Activity	14,948	36,787
Net Resources That Do Not Finance the Net Cost of Operations	**(63,688)**	**17,877**
Net Resources Used to Finance the Net Cost of Operations	**83,601**	**76,072**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	1	(1)
Subsidy Amortization and Interest on the Liability for Loan Guarantees	16,710	11,615
Other	-	581
Total Components Not Requiring or Generating Resources	**16,711**	**12,195**
Increase/(Decrease) in Annual Leave Liability	-	2
Accrued Re-estimates of Credit Subsidy Expense	2,598	20,130
Increase in Exchange Revenue Receivable from the Public	(29,486)	(25,233)
Change in Accrued Interest with Treasury	1	2
Other	-	2
Total Components Requiring or Generating Resources in Future Periods	**(26,887)**	**(5,097)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(10,176)**	**7,098**
Net Cost of Operations	**$ 73,425**	**$ 83,170**

Note 18. Incidental Custodial Collections

The Department administers certain activities associated with the collection of nonexchange revenues. The Department collects these amounts in a custodial capacity and transfers the amounts collected to the General Fund of the Treasury at the end of each fiscal year. These collections primarily consist of penalties on accounts receivable and are considered incidental to the primary mission of the Department. During FY 2015 and FY 2014, the Department collected $1.1 million and $2.0 million, respectively, in custodial revenues.

Note 19. Contingencies

The Department discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, Accounting for Liabilities of the Federal Government. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Guaranty Agencies

The Department may assist guaranty agencies experiencing financial difficulties. No provision has been made in the financial statements for potential liabilities. The Department has not done so in fiscal years 2015 or 2014 and does not expect to in future years.

Federal Perkins Loan Program

The Federal Perkins Loan program provides financial assistance to eligible postsecondary school students. In FY 2015, the Department provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the latest academic year that ended June 30, 2015, approximately 527 thousand loans were made totaling $1.2 billion at 1,474 institutions, making an average of $2,197 per loan. The Department's equity interest was approximately $6.7 billion as of June 30, 2015.

Federal Perkins Loan program borrowers who meet statutory eligibility requirements—such as those who provide service as teachers in low-income areas or as Peace Corps or AmeriCorps VISTA volunteers, as well as those who serve in the military, law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service.

The Federal Perkins Loan program officially ended on September 30, 2015. However, if schools made the first disbursement of a Federal Perkins Loan to a student for the 2015–16 award year prior to October 1, 2015, the school may make any remaining disbursements of that 2015–16 loan after September 30, 2015. In addition, there is a narrow "grandfathering" provision that allows schools to make Federal Perkins Loans to certain students for up to five additional years (through September 30, 2020) to enable students who received loans for award years that end prior to October 1, 2015 to continue or complete courses of study.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Other Matters

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department's financial position.

United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2015

(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Unobligated Balance, Brought Forward, October 1	$ 14,837	$ 10,109	$ 12,642	$ 9,857	$ 836	$ 309	$ 1,050	$ 252
Recoveries of Prior Year Unpaid Obligations	1,978	20,727	921	20,727	643	271	143	-
Other Changes in Unobligated Balance (+ or -)	(681)	(24,526)	(196)	(24,520)	(210)	(140)	(135)	(6)
Unobligated Balance from Prior Year Budget Authority, Net	$ 16,134	$ 6,310	$ 13,367	$ 6,064	$ 1,269	$ 440	$ 1,058	$ 246
Appropriations (Discretionary and Mandatory)	100,701	904	55,798	904	21,575	16,201	7,127	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	171,807	-	171,624	-	-	-	183
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	383	53,439	504	53,365	3	(184)	60	74
Total Budgetary Resources (Note 16)	**$ 117,218**	**$ 232,460**	**$ 69,669**	**$ 231,957**	**$ 22,847**	**$ 16,457**	**$ 8,245**	**$ 503**
Status of Budgetary Resources:								
Obligations Incurred (Note 16)	$ 102,444	$ 218,023	$ 56,950	$ 217,721	$ 22,047	$ 16,184	$ 7,263	$ 302
Unobligated Balance, End of Year:								
Apportioned	11,806	550	10,473	550	677	33	623	-
Unapportioned	2,968	13,887	2,246	13,686	123	240	359	201
Total Unobligated Balance, End of Year	$ 14,774	$ 14,437	$ 12,719	$ 14,236	$ 800	$ 273	$ 982	$ 201
Total Status of Budgetary Resources (Note 16)	**$ 117,218**	**$ 232,460**	**$ 69,669**	**$ 231,957**	**$ 22,847**	**$ 16,457**	**$ 8,245**	**$ 503**
Change in Obligated Balance:								
Unpaid Obligations								
Unpaid Obligations, Brought Forward, October 1	$ 56,219	$ 80,316	$ 21,466	$ 80,104	$ 15,948	$ 8,921	$ 9,884	$ 212
Obligations Incurred	102,444	218,023	56,950	217,721	22,047	16,184	7,263	302
Outlays (Gross) (-)	(103,847)	(199,496)	(58,209)	(199,218)	(22,402)	(15,806)	(7,430)	(278)
Actual Transfers, Unpaid Obligations (net) (+ o -)	(193)	-	-	-	-	(193)	-	-
Recoveries of Prior Year Unpaid Obligations (-)	(1,978)	(20,727)	(921)	(20,727)	(643)	(271)	(143)	-
Unpaid Obligations, End of Year	**$ 52,645**	**$ 78,116**	**$ 19,286**	**$ 77,880**	**$ 14,950**	**$ 8,835**	**$ 9,574**	**$ 236**
Uncollected Payments								
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ (1)	$ (26)	$ -	$ (4)	$ -	$ -	$ (1)	$ (22)
Change in Uncollected Payments, Federal Sources (+ or -)	(2)	-	-	-	-	-	(2)	-
Uncollected Payments, Federal Sources, End of Year (-)	$ (3)	$ (26)	$ -	$ (4)	$ -	$ -	$ (3)	$ (22)
Memorandum (non-add) Entries								
Obligated Balance, Start of Year (+ or -)	$ 56,218	$ 80,290	$ 21,466	$ 80,100	$ 15,948	$ 8,921	$ 9,883	$ 190
Obligated Balance, End of Year (+ or -)	**$ 52,642**	**$ 78,090**	**$ 19,286**	**$ 77,876**	**$ 14,950**	**$ 8,835**	**$ 9,571**	**$ 214**
Budget Authority and Outlays, Net:								
Budget Authority, Gross (Discretionary and Mandatory)	$ 101,084	$ 226,150	$ 56,302	$ 225,893	$ 21,578	$ 16,017	$ 7,187	$ 257
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(713)	(122,387)	(647)	(122,283)	-	-	(66)	(104)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	(2)	-	-	-	-	-	(2)	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 100,369**	**$ 103,763**	**$ 55,655**	**$ 103,610**	**$ 21,578**	**$ 16,017**	**$ 7,119**	**$ 153**
Outlays, Gross (Discretionary and Mandatory)	$ 103,847	$ 199,496	$ 58,209	$ 199,218	$ 22,402	$ 15,806	$ 7,430	$ 278
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(713)	(122,387)	(647)	(122,283)	-	-	(66)	(104)
Outlays, Net (Discretionary and Mandatory)	103,134	77,109	57,562	76,935	22,402	15,806	7,364	174
Distributed Offsetting Receipts (-) (Note 16)	(13,105)	-	(12,957)	-	-	-	(148)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 16)	**$ 90,029**	**$ 77,109**	**$ 44,605**	**$ 76,935**	**$ 22,402**	**$ 15,806**	**$ 7,216**	**$ 174**

United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2014

(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Unobligated Balance, Brought Forward, October 1	$ 16,207	$ 11,315	$ 13,950	$ 11,072	$ 793	$ 335	$ 1,129	$ 243
Recoveries of Prior Year Unpaid Obligations	1,131	97,274	464	97,274	433	138	96	-
Other Changes in Unobligated Balance (+ or -)	(372)	(99,811)	(148)	(99,806)	(99)	(43)	(82)	(5)
Unobligated Balance from Prior Year Budget Authority, Net	$ 16,966	$ 8,778	$ 14,266	$ 8,540	$ 1,127	$ 430	$ 1,143	$ 238
Appropriations (Discretionary and Mandatory)	95,004	581	49,854	581	21,634	16,150	7,366	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	182,860	-	182,749	-	-	-	111
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	473	51,347	411	51,281	-	2	60	66
Total Budgetary R sources (Note 16)	**$ 112,443**	**$ 243,566**	**$ 64,531**	**$ 243,151**	**$ 22,761**	**$ 16,582**	**$ 8,569**	**$ 415**
Status of Budgetary esources:								
Obligations Incurred (Note 16)	$ 97,606	$ 233,457	$ 51,889	$ 233,294	$ 21,925	$ 16,273	$ 7,519	$ 163
Unobligated Balance, End of Year:								
Apportioned	12,125	69	10,617	69	686	49	773	-
Unapportioned	2,712	10,040	2,025	9,788	150	260	277	252
Total Unobligated Balance, End of Year	$ 14,837	$ 10,109	$ 12,642	$ 9,857	$ 836	$ 309	$ 1,050	$ 252
Total Status of Budgetary Resources (Note 16)	**$ 112,443**	**$ 243,566**	**$ 64,531**	**$ 243,151**	**$ 22,761**	**$ 16,582**	**$ 8,569**	**$ 415**
Change in Obligated alance:								
Unpaid Obligations								
Unpaid Obligations, Brought Forward, October 1	$ 59,630	$ 161,747	$ 23,380	$ 161,488	$ 17,557	$ 8,858	$ 9,835	$ 259
Obligations Incurred	97,606	233,457	51,889	233,294	21,925	16,273	7,519	163
Outlays (Gross) (-)	(99,886)	(217,614)	(53,339)	(217,404)	(23,101)	(16,072)	(7,374)	(210)
Recoveries of Prior Year Unpaid Obligations (-)	(1,131)	(97,274)	(464)	(97,274)	(433)	(138)	(96)	-
Unpaid Obligations, End of Year	**$ 56,219**	**$ 80,316**	**$ 21,466**	**$ 80,104**	**$ 15,948**	**$ 8,921**	**$ 9,884**	**$ 212**
Uncollected Payments								
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ (3)	$ (25)	$ -	$ (3)	$ -	$ -	$ (3)	$ (22)
Change in Uncollected Payments, Federal Sources (+ or -)	2	(1)	-	(1)	-	-	2	-
Uncollected Payments, Federal Sources, End of Year (-)	$ (1)	$ (26)	$ -	$ (4)	$ -	$ -	$ (1)	$ (22)
Memorandum (Non-add) Entries								
Obligated Balance, Start of Year (+ or -)	$ 59,627	$ 161,722	$ 23,380	$ 161,485	$ 17,557	$ 8,858	$ 9,832	$ 237
Obligated Balance, End of Year (+ or -)	**$ 56,218**	**$ 80,290**	**$ 21,466**	**$ 80,100**	**$ 15,948**	**$ 8,921**	**$ 9,883**	**$ 190**
Budget Authority and Outlays, Net:								
Budget Authority, Gross (Discretionary and Mandatory)	$ 95,477	$ 234,788	$ 50,265	$ 234,611	$ 21,634	$ 16,152	$ 7,426	$ 177
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(624)	(97,463)	(542)	(97,375)	-	(2)	(80)	(88)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	2	(1)	-	(1)	-	-	2	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 94,855**	**$ 137,324**	**$ 49,723**	**$ 137,235**	**$ 21,634**	**$ 16,150**	**$ 7,348**	**$ 89**
Outlays, Gross (Discretionary and Mandatory)	$ 99,886	$ 217,614	$ 53,339	$ 217,404	$ 23,101	$ 16,072	$ 7,374	$ 210
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(624)	(97,463)	(542)	(97,375)	-	(2)	(80)	(88)
Outlays, Net (Discretionary and Mandatory)	99,262	120,151	52,797	120,029	23,101	16,070	7,294	122
Distributed Offsetting Receipts (-) (Note 16)	(39,652)	-	(39,559)	-	-	-	(93)	-
Agency Outlays, N (Discretionary and Mandatory) (Note 16)	**$ 59,610**	**$ 120,151**	**$ 13,238**	**$ 120,029**	**$ 23,101**	**$ 16,070**	**$ 7,201**	**$ 122**

Required Supplementary Stewardship Information

The Office of Management and Budget requires each federal agency to report on its stewardship over various resources entrusted to it and certain responsibilities assumed by it which cannot be measured and conveyed through traditional financial reports. These elements do not meet the criteria for assets and liabilities required in the preparation of the Department's financial statements and accompanying footnotes, but are nonetheless important to understanding the agency's financial condition, strategic goals, and related program outcomes.

Stewardship Expenses

Stewardship expenses are substantial investments made by the federal government for the long-term benefit of the nation. Because costs of stewardship resources are treated as expenses in the financial statements in the year the costs are incurred, they are reported as Required Supplementary Stewardship Information to highlight their benefit and to demonstrate accountability for their use.

In the United States, the structure of education finance is such that state and local governments play a much greater overall role than the federal government. Of the estimated more than $1 trillion spent nationally on all levels of education, the majority of funding comes from state, local, and private sources. In the area of elementary and secondary education, nearly 90 percent of resources come from nonfederal sources. These funds serve over 50 million students enrolled in public, private, and charter schools in the United States and its territories, according to the National Center for Education Statistics (NCES). See the NCES *Condition of Education Annual Report* for more information.

With its relatively small role in total education funding, the Department strives to create the greatest number of favorable program outcomes with a limited amount of taxpayer-provided resources. This is accomplished by targeting areas in which funds will go the furthest in doing the most good. Namely, federal funding is used to provide grant, loan, loan forgiveness, loan exit counseling, work-study, and other assistance to more than 20 million postsecondary students. During FY 2015, the majority of the Department's $303 billion in gross outlays were attributable to Direct Loan disbursements administered by Federal Student Aid. Grant-based activity under discretionary, formula, and need-based formats accounted for the remainder of the outlays.

Discretionary grants, such as TRIO and the Teacher Incentive Fund, are awarded on a competitive basis. When funds for these grants are exhausted, they will cease to be funded. The Department reviews discretionary grant applications using:

- a formal review process for selection,
- both legislative and regulatory requirements, and
- published selection criteria established for individual programs.

Formula grants, such as Title I and Title III of the *Elementary and Secondary Education Act* (ESEA), are not competitive. The majority go to school districts, as often as annually, on a formula basis, and:

- provide funds as dictated by a law, and
- allocate funds to districts on a per-student basis.

Need-based grants, including the Federal Pell grant, Federal Work Study, and the Federal Supplemental Educational Opportunity Grant (FSEOG), are based on family income and economic eligibility. While there are many state, institution (college or school), and privately sourced need-based grants, most need-based grants are funded by the federal government where the financial aid formula is determined by a combination of factors, including:

- family income and discretionary assets,
- expected family contribution (EFC), and
- dependency status of the student and other members of their family.

Further details on financial figures and program-level goals can be viewed in the Department's *2015 Budget Summary*.

Investment in Human Capital

Human capital investments are defined similarly by OMB, in Circular A-136, and the Statement of Federal Financial Accounting Standards (SFFAS) No. 8, *Supplementary Stewardship Reporting*. These investments are expenses included in net cost for education and training programs intended to increase or maintain national economic productive capacity; and produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

Departmentwide strategic goals are formed around the agency mission of promoting student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department drives toward accomplishing this mission by establishing priority areas. For 2015, the following six elements of focus were enumerated in the Department's Budget Request:

(1) increasing equity and opportunity for all students,
(2) strengthening support for teachers and school leaders,
(3) expanding high-quality preschool programs,
(4) augmenting affordability and quality in postsecondary education,
(5) promoting educational innovation and improvement, and
(6) improving school safety and climate.

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of "cradle to career" education. Direct loans, guaranteed loans, grants, and technical program assistance are administered and monitored by the Office of Federal Student Aid and numerous other program-aimed components of the Department. The Institute of Education Sciences is the independent nonpartisan research arm of the Department that aims to present scientific evidence on which to ground education practice and policy while providing useful information to all stakeholders in the arena of American education. Further details of each office and their work can be viewed on the Department's Coordinating Structure website.

The following table illustrates the Department's expenses paid for bolstering the nation's human capital, broken out by the nature of the expense, for the last five years.

Summary of Human Capital Expenses
(Dollars in Millions)

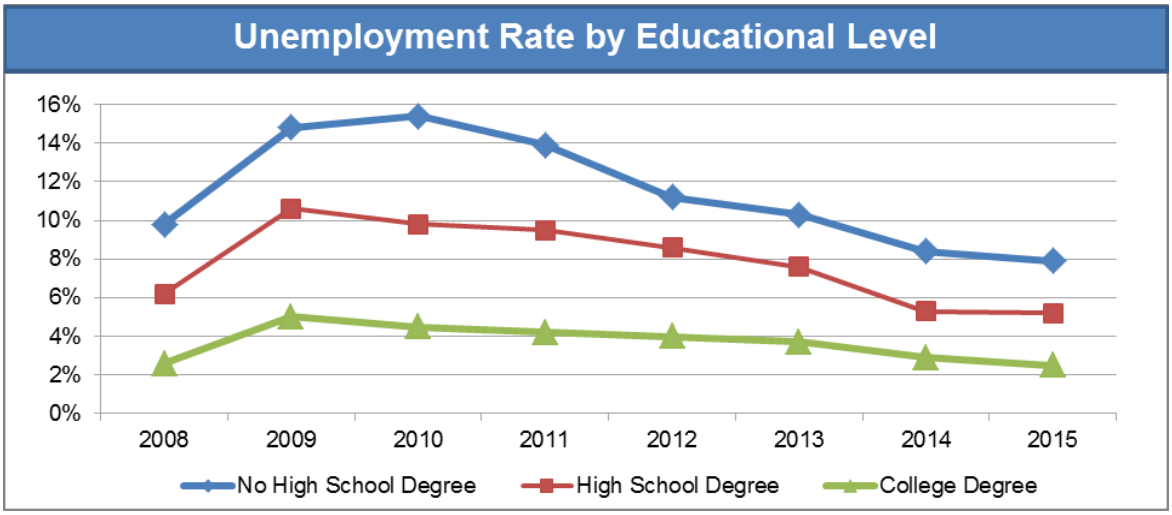
	2015	2014	2013	2012	2011
Federal Student Aid Expense					
Direct Loan Subsidy	$ (892)	$ 8,126	$ (39,557)	$ (10,720)	$ (28,630)
Federal Family Education Loan Program Subsidy	(3,856)	(6,585)	(8,753)	(14,381)	(16,126)
Perkins Loans, Pell and Other Grants	31,400	33,098	33,542	34,310	39,008
Salaries and Administrative	242	206	222	192	193
Subtotal	**26,894**	**34,845**	**(14,546)**	**9,401**	**(5,555)**
Other Departmental					
Elementary and Secondary Education	22,146	22,832	22,221	22,137	21,195
Special Education and Rehabilitative Services	15,751	15,948	15,919	16,139	15,357
American Recovery and Reinvestment Act and Education Jobs Fund	-	-	2,623	7,651	27,945
Other Departmental Programs	6,494	6,938	6,175	6,211	7,341
Salaries and Administrative	511	667	703	481	504
Subtotal	**44,902**	**46,385**	**47,641**	**52,619**	**72,342**
Grand Total	**$ 71,796**	**$ 81,230**	**$ 33,095**	**$ 62,020**	**$ 66,787**

Further detail regarding the nature of expenses and the recipient(s) of payments can be seen in the Department's financial statement footnotes (starting on page 60) and at the Department's *USA Spending Agency Profile Page*.

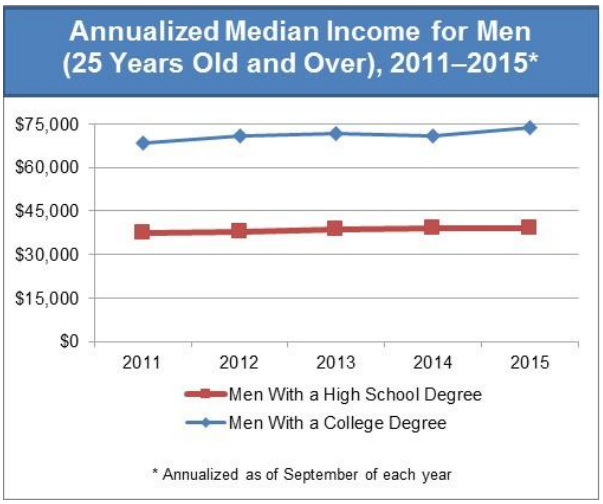
Program Outcomes

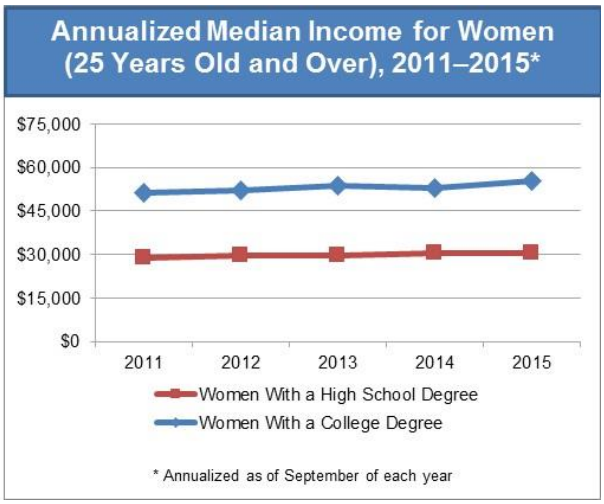
Favorable results in the various programs administered by the Department can be interpreted in many ways. The "cradle to career" analogy in education culminates with the successful completion of academic programs and the receipt of a degree. Accordingly, the effectiveness of the Department's investments in human capital can be gauged by changes in the amount of students who fully complete the requirements for earning a bachelor's or associate's degree. This often final stepping stone in one's educational career correlates strongly with wage and/or salary increases for a person, due to the high-level skills expected by employers of graduates entering the labor force. Attaining a degree has proven to increase an individual's job opportunity outlook for life, making them less susceptible to general economic downturns and allowing them to afford living expenses more comfortably; make debt payments, including student loans; and avoid delinquency and credit problems. Increased employability makes Americans more competitive in the global labor market, yielding lower unemployment, higher economic well-being, and greater national security.

Specific data on unemployment and median incomes in the United States released by the Department of Labor for Fiscal Year 2015 are displayed in the graphs below. Individuals with lower levels of education attained were unemployed at a higher rate. As of September 30, 2015, individuals who had not completed high school were unemployed at a rate of 7.9 percent, as compared to 5.2 percent for those who completed high school and 2.5 percent for those individuals who had completed a bachelor's degree or higher.



Annualized data on employed individuals' incomes show that career advancement trends are consistent for both men and women when accounting for whether an individual has a college education or a high school education. Men with high school diplomas earned an average of $39,156 annually, as compared to $73,532 for men who had completed a college degree. Similarly, women with high school diplomas earned $30,576, while college graduates earned $55,328. For further details, visit the Bureau of Labor Statistics.





Nationally, progress is being made from early education, through the time college graduates enter the workforce, and even after—when they are repaying student loan debt incurred for postsecondary education. Broad improvements to the system increase equitable opportunities for every child to have the privilege to learn, develop life skills, and succeed over the course of their adult life. This undoubtedly moves the nation forward.

Since the year 2000, the number of school-age children living in poverty has decreased by 29 percent. Additionally, more than 65 percent of children 3–5 years old attend preschool—a share that has risen steadily. Successful outcomes like these in early-focus areas lead to rising cohorts of elementary school students who continue to outperform their predecessor classes. This is shown in the fact that 4th and 8th grade metrics for aptitude tests in math and reading, presented by the National Assessment of Educational Progress, are at their highest ever.

At the secondary level, the number of students graduating or completely fulfilling general education requirements continues to rise each year. Increases are also taking place for all levels of postsecondary degrees. Recent data shows that 91 percent of young adults aged 25–29 have a high school diploma or equivalent, 45 percent have an associate's degree, and 34 percent have a bachelor's degree or higher. For the same age range, expanded to include those up to 34 years old, earnings were higher and unemployment was generally lower for each increased level of education.

The accessibility and equity facets of the nation's education system are at the heart of the Department's mission and are implied elements of all six goals of the *2014–2018 Strategic Plan*. High school graduation and drop out statistics continue to rise and fall, respectively, in general. For FY 2015, graduation rates reached an all-time high of 81.4 percent, meaning the Department has continued to make progress toward meeting the President's 2020 goal of 90 percent on-time graduations. More notably in the area of access and equity, demographic statistics show that the on-time rate increases for Black, Hispanic, and Native American students were around or above 4 percent.

With increased completion of high school diplomas, participation in some form of postsecondary education has also risen. In the 2013 cohort of students graduating from high school, for example, 66 percent enrolled in college the following fall. Participation in postsecondary programs is particularly higher for Black and Hispanic students, who have shown a combined increase of 1.1 million students since 2008.

In that student loan disbursements for college degrees make up the largest component of the Department's investment in American human capital, the Department assumes the implied responsibility for ensuring the sustainability of its major loan programs. Moreover, if college-bound students incur debt to earn a degree and then fail to get a job or afford their student loan payments, the Department would be falling short of its fourth strategic focus centered around the affordability of postsecondary education.

One important method used in the area of analyzing student loan programs, borrower activity, and institution participation is the monitoring of default statistics. Each year, substantial stewardship expenses incurred by the Department are aimed at lowering the number of defaulted loans, defaulted borrowers, and disbursed dollars going into default. This is done because every default—when a loan payment is missed for multiple months—results in loan funds that are not replenished, missed opportunities to invest in other degree-seeking human capital, and additional resources used by the government in attempting to collect its money. Each aspect of a default costs American taxpayers, affects the federal budget, decreases economic well-being, and harms borrowers' credit scores.

Although a direct and proven linkage does not exist between the two variables, the Department feels strongly about its ability to mitigate the risk of default through various efforts. Stewardship expenses for this postsecondary goal include those incurred to increase borrower awareness of repayment options, encouraging third-party loan servicers

to work more effectively in helping students avoid default by devising viable repayment plans, and by working with financial aid offices around the country to help them improve the loan counseling provided to students who have yet to graduate or enter repayment.

Default statistics for the FY 2012 cohort of borrowers entering repayment were released at the end of FY 2015. Of the 5.1 million borrowers entering repayment from October 1, 2011 to September 30, 2012, 611,000 defaulted on their loan before September 30, 2014. This default rate of 11.8 percent across all institution types showed a decline from the prior year rate of 12.9 percent for the 2011 cohort. It is important to note that this metric is unadjusted for loan program facets, such as consolidations and forbearance.

Trends in default rates, among other indicating metrics monitored at the Department, continue to support proof of favorable outcomes within programs at all levels. The figures also effectively convey the synergetic nature of the Department's mission for improving one of the most important building blocks of the nation's infrastructure. Individual achievements fostered by the Department's investments in human capital and supporting stewardship expenses as far back as "the cradle" continue to build a powerful foundation for career success and advancement of the nation, in and of itself, and against global competitors.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 13, 2015

The Honorable Arne Duncan
Secretary of Education
Washington, D.C. 20202

Dear Secretary Duncan:

The enclosed reports present the results of the audit of the U.S. Department of Education's (Department) financial statements for fiscal years 2015 and 2014 to comply with the Chief Financial Officers Act of 1990, as amended. The reports should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CliftonLarsonAllen) to audit the financial statements of the Department as of September 30, 2015 and 2014, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements*.

Results of the Independent Audit

CliftonLarsonAllen found:

- The fiscal years 2015 and 2014 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One significant deficiency in internal control over financial reporting; and
- One instance of reportable noncompliance with certain provisions of the Debt Collection Improvement Act of 1996, as amended.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the audit standards established by the Comptroller General. In that regard, we evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CliftonLarsonAllen's reports and related audit documentation; and inquired of its representatives.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Page 2 – The Honorable Arne Duncan

Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or on compliance with certain provisions of laws, regulations, contracts, and grant agreements.

CliftonLarsonAllen is responsible for the enclosed auditors' report and the conclusions expressed in the related reports on internal control and compliance. Our review disclosed no instances where CliftonLarsonAllen did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given CliftonLarsonAllen and my office during the audit. If you have any questions or would like to discuss the reports, please contact me at (202) 245-6900.

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

CliftonLarsonAllen

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Education

Secretary
United States Department of Education

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (financial statements).

Management's Responsibility for the Financial Statements

The Department's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

INDEPENDENT AUDITORS' REPORT (Continued)

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Education as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Department's Management Discussion and Analysis (MD&A), other Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) included in the U.S. Department of Education FY 2015 Agency Financial Report, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, other RSI, and RSSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Secretary, Message from the Chief Financial Officer, and the Other Information in the U. S. Department of Education FY2015 Agency Financial Report are presented for purposes of additional analysis and are not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Internal Control over Financial Reporting and Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control or on management's assertion on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify one deficiency in internal control, described below and in more detail in Exhibit A, which we consider to be a significant deficiency.

<u>Department and Federal Student Aid Management Need to Mitigate Persistent Information Technology Control Deficiencies</u>

Due to the unique requirements of the Department's grant, loan and administrative business activities, the Department manages its general support system and core financial management system and oversees a large portfolio of Federal Student Aid (FSA) or contractor owned information systems. The third party servicers who manage FSA's general support systems and contractor owned and contractor operated financial systems are monitored by FSA management through the use of Service Level Agreements and third party independent reviews. We continued to identify control deficiencies in the areas of security management, personnel security, access controls, and configuration management across these systems. These deficiencies can increase the risk of unauthorized access to the Department's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with our professional responsibilities discussed below.

The results of our tests, exclusive of those required by the Federal Financial Management Improvement Act of 1996 (FFMIA) as discussed below, disclosed one instance of noncompliance with respect to a certain aspect of the Department's debt collection activities, described in Exhibit B, that is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02.

Compliance with FFMIA Requirements
Under FFMIA, we are required to report whether the financial management systems used by the Department substantially comply with the FFMIA Section 803(a) requirements. To meet this requirement, we performed tests of compliance with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA Section 803(a) requirements disclosed no instances in which the Department's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, or (3) the USSGL at the transaction level.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring the Department's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing whether the Department's financial management systems substantially comply with the FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

INDEPENDENT AUDITORS' REPORT (Continued)

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to the Department. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that could have a direct effect on the determination of material financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit C. We did not audit the Department's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of the Department's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 14, 2014. The status of prior year findings is presented in Exhibit D.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2015

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

Department and Federal Student Aid Management Need to Mitigate Persistent Information Technology Control Deficiencies

Due to the unique requirements of the Department's grant, loan and administrative business activities, the Department oversees a large portfolio of government owned and operated, government owned and contractor operated, and contractor owned and operated information systems. Four Federal Student Aid (FSA) systems and one Department system comprise the key financial systems. The third party servicers who manage the Department and FSA's general support systems and contractor owned and operated financial systems are monitored by the Department and FSA management through the use of Service Level Agreements and independent reviews. Managing the information and system security across the Department is the responsibility of the Department's Chief Information Security Officer (CISO), in conjunction with FSA's CISO. For several years, financial and other audits have identified numerous system deficiencies that affect the security and reliability of the information within these systems. Last year, we noted information technology (IT) control deficiencies in the areas of security management, personnel security, access controls, and configuration management in one or more systems. During fiscal year (FY) 2014, FSA implemented an oversight function involving FSA's Business Operations and Finance offices to closely monitor completion of corrective action plans for the noted control deficiencies. This year, none of the independent reviews of FSA systems identified significant system control deficiencies. However, our audit continued to identify control deficiencies in Department and FSA systems in the following areas:

Security management

- The Department's IT policies and procedures continue to be outdated or did not fully address specific controls required by the National Institute of Standards and Technology (NIST)
- System security plan was incomplete
- Annual security control assessments were not performed according to NIST standards
- System risk assessments were not kept current
- Plan of Action and Milestones (POA&Ms) were not always updated and some were closed without adequate documentation to support closure.
- Security awareness training for new system users was not always completed
- Role based security awareness training for users with significant system security responsibilities was not always completed
- Interconnection agreements were not in place or current

Personnel security

- Background investigations were not current and at the correct investigation type based on the appropriate level of risk and sensitivity associated with the employee or contractor position
- Department clearance processes were not always followed for separated employees

Access controls

- User access was not always approved for all roles granted
- Termination of system access for separated employees and contractors was not always completed timely

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

- Inactive accounts were not always disabled
- Certain users had access to application development and production environments
- User access was not always recertified and some user accounts that were recertified had either never used the system or had not logged in for an extended period of time

Configuration management

- System configuration settings were not always in compliance with Department policy
- System security impact assessment was not always conducted

These deficiencies can increase the risk of unauthorized access to the Department and FSA's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information. These findings are discussed in further detail below and in a Limited Distribution Report provided to the Department and FSA management.

Security management

An effective information security management program should have a framework and process for assessing risk, effective security procedures, and processes for monitoring and reporting the effectiveness of these procedures. We noted the Department's information security policies were outdated or did not fully address specific controls required by NIST Special Publication (SP) 800-53, Revision 4, *Recommended Security and Privacy Controls for Federal Information Systems and Organizations*.[1] NIST SP 800-53, Revision 4 was published in 2013 with an April 1, 2014 implementation deadline for executive agencies.

Additionally, the security control assessment for one system was not performed in accordance with NIST requirements, one system security plan did not address all NIST requirements and the risk assessment for another system was not current. This increases the risk that the Authorizing Official, Information System Security Officers (ISSOs), and system owners were not informed of the ongoing security issues and risks to these systems.

With regard to corrective action of system control weaknesses, we noted that the Plans of Action and Milestones (POA&Ms) for one system had passed their scheduled dates of completion without updated milestone information and a POA&M was closed without adequate documentation to support remediation of the weakness. Additionally, we noted POA&Ms for another system were not updated on a quarterly basis as required by Department policy.

[1] NIST SP 800-53 revision 4 was issued in April 2013. According to the Office of Management and Budget (OMB) memorandum M-10-15, *FY 2010 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management* requires that for non-national security programs and information systems, agencies must follow NIST standards and guidelines. For legacy information systems, agencies are expected to be in compliance with NIST standards and guidelines within one year of the publication date unless otherwise directed by OMB. The one year compliance date for revisions to NIST publications applies only to the new and/or updated material in the publications.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

Finally, for three of the four systems tested, we noted system users did not always complete the required security awareness training. Also, individuals with significant system security responsibilities had not always completed role based training for these systems.

Personnel Security
Personnel security involves screening individuals before granting them access to computer resources commensurate with the risk and magnitude of the harm the individual could cause and ensuring all security and information system-related property is retrieved for terminated and transferred personnel. Last year, we found background reinvestigations were not being tracked effectively and position sensitivity levels were not always commensurate with the users' current job duties.

While management had a policy guiding background investigations, there was not a formalized and consistent process for establishing position designations, and tracking and initiating background reinvestigations. Although progress has been made in improving the process for tracking and initiating investigations of employees and contractors, management needs to complete the following:

- Finalize position designations using OPMs Position Designation Automated Tool (PDT) for FSA and Department employees and contractors.
- Implement SLAs for contractor employee clearance monitoring
- Implement a project plan for ensuring employee and contractor background investigations are current and at the correct investigation type based on the appropriate level of risk and sensitivity associated with the employee or contractor position

In addition, this year we noted three from a sample of twenty terminated employee clearance forms were missing signatures to validate confirmation that Department assets were retrieved.

Access Controls
Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Agencies should have formal policies and procedures for controlling access to information systems and related control activities should be properly implemented and monitored. One key element of access control is *boundary protection*. Properly managed interfaces between FSA systems and external parties help reduce the risk of unauthorized access. NIST SP 800-47, *Security Guide for Interconnecting Information Technology Systems,* specifies that an agreement should be documented for the interconnection between organizations. A Memorandum of Understanding (MOU) documents the terms and conditions for sharing data and information resources in a secure method. An Interconnection Security Agreement (ISA) identifies the technical and security requirements for establishing, operating, and maintaining the interconnection and supports the MOU. We identified the lack of interconnection agreements, expired MOUs and instances in which interconnections were not detailed in the System Security Plan for one system.

User authorization refers to the documentation of the granting of user access to only the elements of a system the user needs to perform his or her duties. To be an effective control, user access should be documented, approved and periodically reviewed. Accounts for users should be terminated when the user no longer needs access to the system. Based on our work, we noted:

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

- Accounts for terminated employees and contractors were not disabled for three of the four systems tested
- Inactive accounts were not disabled for two systems
- For one system, an individual was granted a role that was not approved
- User access was not always recertified and some user accounts that were recertified had either never used the system or had not logged in for an extended period of time
- One user had inappropriate access to one system's development and production environments

Configuration Management
Configuration management ensures changes to systems are tested and approved, and systems are configured securely in accordance with policy. In our audit, we found three systems with configuration settings that were not in compliance with Department policy. Additionally, we found security impact assessments were not conducted for one system.

Summary
Both the Department's Chief Information Officer FY2015 Federal Managers' Financial Integrity Act of 1982 (FMFIA) Assurance Letter and FSA's FY2015 FMFIA Assurance Letter reported control deficiencies related to access controls and configuration management. Also, the Department's FY2014 Federal Information Security Modernization Act (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, five of the eleven reporting metrics contained repeat or modified repeat findings from reports issued from 2011 through 2013.

These deficiencies can increase the risk of unauthorized access to the Department's systems used to capture, process, and report financial transactions and balances.

NIST Special Publication 800-39, *Managing Information Security Risk - Organization, Mission, and Information System View*, states:

> "The complex relationships among missions, mission/business processes, and the information systems supporting those missions/processes require an integrated, organization-wide view for managing risk. Unless otherwise stated, references to risk in this publication refer to information security risk from the operation and use of organizational information systems including the processes, procedures, and structures within organizations that influence or affect the design, development, implementation, and ongoing operation of those systems. The role of information security in managing risk from the operation and use of information systems is also critical to the success of organizations in achieving their strategic goals and objectives. Historically, senior leaders/executives have had a very narrow view of information security either as a technical matter or in a stovepipe that was independent of organizational risk and the traditional management and life cycle processes. This extremely limited perspective often resulted in inadequate consideration of how information security risk, like other organizational risks, affects the likelihood of organizations successfully carrying out their missions and business functions. This publication places information security into the

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

broader organizational context of achieving mission/business success. The objective is to:

- Ensure that senior leaders/executives recognize the importance of managing information security risk and establish appropriate governance structures for managing such risk;
- Ensure that the organization's risk management process is being effectively conducted across the three tiers of organization, mission/business processes, and information systems;
- Foster an organizational climate where information security risk is considered within the context of the design of mission/business processes, the definition of an overarching enterprise architecture, and system development life cycle processes; and
- Help individuals with responsibilities for information system implementation or operation better understand how information security risk associated with their systems translates into organization-wide risk that may ultimately affect the mission/business success.

To successfully execute organizational missions and business functions with information system-dependent processes, senior leaders/executives must be committed to making risk management a fundamental mission/business requirement. This top-level, executive commitment ensures that sufficient resources are available to develop and implement effective, organization-wide risk management programs. Understanding and addressing risk is a strategic capability and an enabler of missions and business functions across organizations. Effectively managing information security risk organization-wide requires the following key elements:

- Assignment of risk management responsibilities to senior leaders/executives;
- Ongoing recognition and understanding by senior leaders/executives of the information security risks to organizational operations and assets, individuals, other organizations, and the Nation arising from the operation and use of information systems;
- Establishing the organizational tolerance for risk and communicating the risk tolerance throughout the organization including guidance on how risk tolerance impacts ongoing decision-making activities; and
- Accountability by senior leaders/executives for their risk management decisions and for the implementation of effective, organization-wide risk management programs."

The ineffective and untimely remediation of application control weaknesses and repeat deficiencies identified across multiple applications indicates the need for improved strategic IT management.

Although the Department and FSA CISOs continue to work together to improve the framework for more effectively managing system security risk, similar information system control weaknesses remain.

In order to fully implement an agency-level program for monitoring compliance with the information security program, the procedures and guidance supporting the Information Assurance/Cybersecurity Policy need to be completed, approved and disseminated in order to

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

define the agency-wide information security program and practices. Without comprehensive current information security policies and procedures, there is an increased likelihood that information security may not be addressed throughout the lifecycle of the Department and FSA's information systems. Moreover, employees and contractors may be performing tasks without clear direction or training. Due to the continuance of persistent IT control deficiencies across multiple systems, the CISOs need to continue to refine the process for ensuring accountability of the Department and FSA system owners, ISSOs, contractors, and FSA's Technology Office and Business Operations responsible for the security, operation and maintenance of the Department and FSA systems to remediate control deficiencies.

Recommendations:

We 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. Strengthen and refine the 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. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in the Department and FSA's systems.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT B
Instance of Noncompliance

Noncompliance with Title 31 United States Code (U.S.C.) Section 3716(c)(6)

Title 31 U.S.C. Section 3716(c)(6) states that any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset.

The Digital Accountability and Transparency Act (DATA Act), Public Law 113-101, was signed into law on May 9, 2014. Section 5 of the DATA Act amends Title 31 U.S.C. Section 3716(c)(6) and now requires agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset. Section 5 of the DATA Act also added a new requirement, according to which "the Secretary of the Treasury shall notify Congress of any instance in which an agency fails to notify the Secretary [of the Treasury] as required" by 31 U.S.C. Section 3716(c)(6)(A).[2]

In response to these changes in debt collection required by the DATA Act, the Department requested clarification of the requirement from the Department of the Treasury (Treasury). The Treasury's Bureau of Fiscal Service (Fiscal Service) Office of General Counsel concluded the Department and FSA will be considered compliant with the revised law if they refer direct student loans to Fiscal Service for administrative offset 271 days after the date of delinquency, calculated from the date of the first missed payment under the promissory note or under any subsequently approved repayment agreement. Similarly, the Department and FSA will be considered compliant if they refer defaulted guaranteed student loans for administrative offset 120 days after a reinsurance claim is paid to a guarantee agency holding loans guaranteed under the Federal Family Education Loan Program.

As of September 30, 2015, the Department and FSA are not in compliance with the new timing requirement of 31 U.S.C. Section 3716(c)(6) because FSA has not yet revised their loan servicing systems, procedures and internal processes in response to this ruling.

Recommendation:

We recommend that the Secretary of Education work with the Federal Student Aid Chief Operating Officer to:

2. Modify FSA's loan servicing systems, procedures and internal processes to comply with the timing requirement of Title 31 U.S.C. Section 3716(c)(6), as amended by the DATA Act as clarified by the Department of the Treasury.

[2] The U.S.C has not yet been amended to reflect the statutory change due to the passage of the DATA Act.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT C
Management's Response

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

MEMORANDUM

NOV - 6 2015

TO: Kathleen S. Tighe
Inspector General

FROM: Thomas P. Skelly
Delegated to Perform the Functions
and Duties of the Chief Financial Officer

Danny A. Harris, Ph.D.
Chief Information Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2015 and 2014 Financial Statements
U.S. Department of Education
ED-OIG/A17P0001

Please convey our sincere thanks and appreciation to everyone on your staff who worked diligently on this financial statement audit. The Department reviewed the draft Fiscal Years 2015 and 2014 Financial Statement Audit Report. We concur and agree with the Independent Auditors' Report, including the Opinion on the Financial Statements, Report on Internal Control over Financial Reporting, and Report on Compliance. OCIO has completed remediation on several deficiencies noted for the OCIO systems reviewed.

We will share the final audit results with responsible senior officials, other interested program managers, and staff. At that time, we will also request the preparation of corrective action plans to be used in the resolution process.

Again, please convey our appreciation to everyone on your staff whose efforts permitted the Department to complete the audit within the established timeframe.

Please contact Gary Wood, Director, Financial Management Operations, at (202) 245-8118 with any questions or comments.

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www.ed.gov

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

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT D
Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

Fiscal Year 2014 Recommendation	Fiscal Year 2015 Status
CLA recommended 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.	Repeat finding; see Significant Deficiency
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.	Repeat finding; see Significant Deficiency
1c. Implement a process for holding contractors accountable for remediation of control deficiencies in the Department and FSA's systems.	Repeat finding; see Significant Deficiency
Noncompliance with Laws and Regulations	
CLA recommended that the Secretary of Education and FSA Chief Operating Officer:	
2. Revise their loan servicing procedures and internal processes to comply with the timing requirement of Title 31 U.S.C. Section 3716(c)(6), as amended by the DATA Act.	Repeat finding; see Instance of Noncompliance

Other Information

About the Other Information Section

This section includes improper payments reporting details, the schedule of spending, a summary of assurances, a summary of the Office of Inspector General's view on the Department's management and performance challenges for FY 2016, freeze the footprint information, and civil monetary penalty inflation adjustment information.

Improper Payments Reporting Details

The Improper Payments Reporting Details summarizes the Department's efforts to prevent, identify, and recover improper payments. It includes data regarding the Department's high risk programs, including assessments of risk, estimates of improper payments, actions to mitigate improper payments, and recoveries of improper payments. Two new subsections have been incorporated based on the FY 2015 update to OMB Circular A-136, *Financial Reporting Requirements*: 1) The Improper Payment Root Cause Categories subsection provides a matrix showing estimated dollar amounts for each program deemed susceptible to significant improper payments, and 2) the Internal Control over Payments subsection provides additional details about our internal controls over improper payments.

Combined Schedule of Spending

The Schedule of Spending (SOS) presents: (a) what money was available to the Department to spend, (b) how the money was spent, and (c) who the money went to. For information on spending, USASpending.gov is a searchable website that provides information on federal awards and is accessible to the public at no cost.

Summary of Financial Statement Audit and Management Assurances

This summary table provides information on any material weaknesses reported by the agency or through the audit process. The Department reported no material weaknesses in FY 2015.

Office of Inspector General's Management and Performance Challenges

The Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2016 report is summarized in this section. The OIG identified the following five challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, (4) Data Quality and Reporting, and (5) Information Technology System Development and Implementation. The full report is available at the OIG website.

Freeze the Footprint

The Freeze the Footprint summarizes the Department's efforts to comply with OMB Management Procedures Memorandum 2013-02, the *Freeze the Footprint policy* implementing guidance. That guidance directs that all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to an FY 2012 baseline.

Improper Payments Reporting Details

The Office of Management and Budget's (OMB) Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, implements the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), and directs federal agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments. Significant improper payments are defined as those in any particular program that exceed both 1.5 percent of program payments and $10 million annually or that exceed $100 million.

In FY 2015, the Department determined that the Pell Grant and Direct Loan programs were susceptible to significant improper payments risk. Details on improper payment estimates and reduction targets for both programs are included within the Improper Payment Reporting subsection.

As described in the Analysis of Systems, Controls, and Legal Compliance section, the Office of Inspector General (OIG) reported that the Department was not compliant with IPERA because it did not meet the FY 2014 annual reduction target for the Direct Loan program that was published in the FY 2013 AFR. The full report, including the Department's response, is available for review at the OIG website. The Department submitted a plan to Congress on August 11, 2015, describing the corrective actions the agency will take to address OIG's findings and become complaint with IPERA.

Risk Assessment

As required by OMB A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program that is not already reporting an improper payments estimate. A summary of this assessment is presented in the Risk Assessment Results table below.

Risk Assessment Results		
Program	**Last Risk Assessment**	**Risk-Susceptible?**
FSA Managed Programs		
Federal Pell Grant	FY 2014	Yes
The Teacher Education Assistance for College and Higher Education Grant	FY 2014	No
Federal Supplemental Educational Opportunity Grant	FY 2014	No
Iraq and Afghanistan Service Grant	FY 2014	No
Federal Perkins Loan Program	FY 2014	No

Risk Assessment Results		
Program	**Last Risk Assessment**	**Risk-Susceptible?**
Federal Direct Loan Program	FY 2014	Yes
Federal Family Education Loan Program	FY 2014	No[1]
Federal Work-Study Program	FY 2014	No
Health Education Assistance Loan Program	FY 2015	No[2]
Other Department Programs		
Title I	FY 2013	No[3]
Other Grant Programs	FY 2013	No
Contract Payments	FY 2013	No
Administrative Payments	FY 2014	No

[1] The Federal Family Education Loan (FFEL) program was formally reclassified in FY 2015 as no longer susceptible to significant improper payments.
[2] On July 1, 2014, the Health Education Assistance Loan (HEAL) program was transferred from the U.S. Department of Health and Human Services (HHS) to the Department. As a result, an additional FSA-managed program was identified for FY 2015. However, based on the results of the risk assessment, the HEAL program was determined not to be susceptible to significant improper payments.
[3] Title I is included in the Risk Assessment Results table because it is a Section 57 program. OMB A-11, dated 2002, Section 57, Exhibit 57B requires agencies to report on programs deemed at risk for erroneous payments. Further reporting on this program is contained in Tables 1 and 4.

FSA-Managed Programs

For all FSA-managed programs, risk assessment meetings were held with program owners, key personnel, and other designees to discuss the inherent risk of improper payments according to the following 10 risk factors:

- Newness of Program or Transactions;
- Complexity of Program or Transactions;
- Volume of Payments;
- Level of Manual Intervention;
- Changes in Program Funding Authorities, Practices, and Procedures;
- History of Audit Issues;
- Prior Improper Payments Reporting Results;
- Human Capital Management;
- Nature of Program Recipients; and
- Management Oversight.

Process owners assigned a risk rating to each risk factor based on their detailed understanding of the processes and risk of improper payment. Weighted percentages were assigned to each risk factor rating based on a judgmental determination of the direct or indirect impact on improper payments. An overall risk score was then computed for each

program, calculated by the sum of the weighted scores for each risk factor and overall rating scale. Based on risk assessments conducted in FY 2014, the Department determined that the Pell Grant and Direct Loan programs were susceptible to risk of significant improper payments.

According to OMB Circular A-123, Appendix C, if a program has previously been identified as susceptible to improper payments, but has documented at least two consecutive years of improper payments that are below the IPERA threshold, the agency may request relief from the annual reporting requirement for this program. The Federal Family Education Loan (FFEL) program reported improper payment estimates below the statutory threshold during FY 2013 and FY 2014. On August 4, 2015, OMB approved the Department's request, with OIG's concurrence, for relief from improper payments reporting for the FFEL program. Accordingly, the Department has formally reclassified the FFEL program as not susceptible to significant improper payments.

Other Department Programs

The Department performed a risk assessment for all other grant programs during FY 2013 using the methodology described in the FY 2011 AFR, pages 114–115. This methodology relies on an examination of the total questioned costs for each program that result from required OMB Circular A-133 Single Audits. The Department's FY 2013 assessment determined that none of the other grant programs were susceptible to significant improper payments. The specific grant programs reviewed are provided at the Department's website. During FY 2013, the Department also completed a risk assessment of contract payments, including those made by FSA, and determined that contract payments were not susceptible to significant improper payments.

In 2014, the Department completed a risk assessment on administrative payments to employees in accordance with IPERIA. The areas of administrative payments that were examined include: Salary/Locality Pay, Travel, Purchase Cards, and Transit Benefits. The analysis was based on a review of actual recaptured payments versus total outlay for each of the related payment areas and the likelihood of payment errors. The Department determined that administrative payments to employees were not susceptible to significant improper payments.

Improper Payment Estimation Methodology

On September 17, 2014, the Department obtained approval from OMB to use an alternative methodology for estimating improper payments for the Pell Grant and Direct Loan programs. The alternative methodology leverages data collected through FSA Program Reviews, which include procedures such as verifying student-reported income levels, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. The alternative methodology, although it does not use statistical sampling techniques, provides for a more efficient allocation of resources by integrating the estimation methodology into core FSA monitoring functions. The methodology is described in detail on the Department's improper payments website.

On June 30, 2015, the Department submitted updates to the alternative sampling plan and estimation methodology to OMB for approval in response to findings from the OIG's FY 2014 IPERA compliance audit report, U.S. Department of Education's Compliance With

Improper Payment Reporting Requirements for Fiscal Year 2014. Updates included clarification of sample sizes, updates to formulas, citations and references, and inclusion of justification for use of the alternative methodology. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on October 20, 2015.

During FY 2015, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments.

Elementary and Secondary Education Act of 1965, Title I, Part A Program

The Department estimates improper payments for Title I using questioned cost data in audit reports. This methodology is described in the FY 2012 AFR. The Department's risk assessment has not identified Title I as a program susceptible to significant improper payments. Title I is included in this section because it is a Section 57 program.

Improper Payment Reporting

Table 1. Improper Payment Reduction Outlook

($ in millions)

Program or Activity	PY Outlays [1]	PY IP % [2]	PY IP $ [2]	CY Outlays [3]	CY IP % [4]	CY IP $ [4]	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays [5]	CY + 1 Est. IP %	CY + 1 Est. IP $	CY + 2 Est. Outlays [5]	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays [5]	CY + 3 Est. IP %	CY + 3 Est. IP $
Pell Grant	31,554.13	2.16	681.57	29,909.28	1.88	562.29	457.59	104.70	31,013.00	1.87	579.94	31,664.00	1.86	588.95	32,504.00	1.85	601.32
Direct Loan	102,140.49	1.50	1,532.10	98,771.65	1.30	1,284.03	1,122.51	161.52	104,707.00	1.29	1,350.72	109,802.00	1.29	1,416.44	115,163.00	1.28	1,474.08
Title I [6]	16,372.00	.214	35.03	15,715.00	.127	19.95	19.95	0.00	16,444.00	.127	20.88	15,294.00	.127	19.42	16,411.00	.127	20.84
Federal Family Education Loan [7]	10,016.31	0.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL [8]	**160,082.93**	**1.40**	**2,248.70**	**144,395.93**	**1.29**	**1,866.27**	**1,600.05**	**266.22**	**152,164.00**	**1.28**	**1,951.54**	**156,760.00**	**1.29**	**2,024.81**	**164,078.00**	**1.28**	**2,096.24**

[1] The source of FY 2014 outlays for all programs is FMS as presented in the FY 2014 AFR.
[2] The PY improper payment estimates reported in the table above reflect the improper payment estimates for FY 2014 as reported in the FY 2014 AFR. FSA has published recalculated FY 2014 improper payment rates in response to the FY14 IPERA Compliance Audit Report published by OIG on May 15, 2015. The updated improper payment rates are prepared in accordance with OMB-approved methodologies and correct for data, calculation, and estimation methodologies errors. The estimated improper payment rate and improper payment total for the Direct Loan program as recalculated are 1.46% and $1,491 million, respectively. The estimated improper payment rate and improper payment total for the Pell Grant program as recalculated are 2.21% and $697 million, respectively. These estimates are reported using the alternative sampling and estimation methodology approved as of April 3, 2015.
[3] The source of FY 2015 outlays for all program amounts is FMS.
[4] In FY 2015, the Pell and Direct Loan program improper payment estimates are reported using the updated methodology. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on October 20, 2015. The FY 2015 rates are based on program reviews performed in FY 2014 for award year 2012–2013 data.
[5] The source of FY 2016–2018 Pell, Direct Loan, and Title I outlay amounts is the FY 2016 President's Budget at the Mid-Session Review.
[6] Title I is included in this table because it is a Section 57 program. OMB A-11, dated 2002, Section 57, Exhibit 57B requires agencies to report on programs deemed at risk for erroneous payments.
[7] The Federal Family Education Loan (FFEL) program was granted a relief from reporting from OMB on August 4, 2015.
[8] The total of the estimates for the agency does not represent a true statistical estimate for the agency.

High-Priority Programs

In FY 2011, OMB designated the Pell Grant program a high-priority program, because estimated FY 2010 Pell Grant improper payments of $1,005 million exceeded the OMB FY 2010 high-priority program threshold of $750 million. Since then, the Department has worked with OMB to implement all applicable high-priority program requirements. On February 4, 2015, OMB also designated the Direct Loan program as a High Priority program as estimated improper payments of $1,532 million in FY 2014 exceeded the statutory $750 million threshold.

Under the Executive Order 13520, agencies with high-priority programs shall establish annual or semi-annual measurements or actions for reducing improper payments. The Department submitted supplemental measures for the Pell Grant and Direct Loan programs to OMB to be approved for FY 2015 reporting. OMB granted approval on October 3, 2015.

The supplemental measure for the Pell Grant program is based on the total number of Pell-eligible applicants who transferred tax data from the IRS to their Free Application for Federal Student Aid (FAFSA) as a percentage of the total number of Pell-eligible applicants who were determined to be eligible to use the Internal Revenue Service Data Retrieval Tool (IRS DRT) to transfer tax data. The rate for this measure for award year 2014–15 is 65.92 percent and the target for award year 2015–16 is 69.42 percent. This supplemental measure will be reported annually on PaymentAccuracy.gov.

For the Direct Loan program, a similar supplemental measure is in place based on the total number of Direct Loan recipients who transferred tax data from the IRS to the FAFSA as a percentage of the total number of Direct Loan recipients who were determined to be eligible to use the IRS DRT to transfer tax data. The rate for this measure for award year 2014–15 is 45.46 percent and the target for award year 2015–16 is 48.14 percent. This supplemental measure will be reported annually on PaymentAccuracy.gov.

Use of the IRS DRT to directly transfer tax information from IRS to the online FAFSA verifies applicants' income, and as applicable their parents' income to determine how much aid they are eligible to receive. Errors in income on an application is one of the most prevalent root causes of improper payments for both the Direct Loan and Pell Grant programs; transferring tax data to the FAFSA with the IRS DRT helps ensure that the income is more accurate and therefore reduces the likelihood of an improper payment being made.

Measures to Ensure Program Access

FSA is committed to ensuring program access and providing federal student aid to all eligible students pursuing postsecondary education. The IRS DRT supports access to aid programs by allowing students to transfer tax data directly from the IRS to the online FAFSA and lessens the burden of income verification. We continue to offer additional application methods to individuals to ensure that applicants can take advantage of an application option that best suits their personal needs. Furthermore, improvements in the last few years to the FAFSA and IRS DRT have resulted in a decrease in the average time it takes a student to complete the online FAFSA.

On February 4, 2013, FSA's Customer Experience group announced a partnership alliance between FSA and the IRS. The partnership focuses on reaching more individuals in low- to

moderate-income communities with the goal of providing them with information, assistance, and access to relevant IRS and FSA services. The partnership is expected to contribute to increased awareness of FSA programs and create opportunities for increased access to the FAFSA.

Beginning with the 2013 tax year (the 2014–15 FAFSA Processing Year), the IRS has added a new, more efficient way that tax filers can request and receive Tax Return Transcripts. With the new IRS "Get Transcript Online" tool, the tax filer submits an online transcript request to the IRS and, if the request is authenticated, a second window displays the transcript in Portable Document Format (PDF). This new IRS tool potentially reduces the burden on FAFSA applicants who are requested to provide tax transcripts.

In March 2014, the Department launched the FAFSA Completion Initiative, through which the Department is partnering with state student grant agencies to allow these agencies to provide secondary schools, school districts, and certain designated entities with limited, yet important, information on student progress in completing the FAFSA form. The initiative will enable state student grant agencies and their school and district partners to identify those students who have not filed a FAFSA form and better target counseling, filing help, and other resources to those students.

Improper Payment Root Cause Categories

Our analysis indicated that the underlying root cause of improper payments for the Pell Grant and Direct Loan program in FY 2015 was failure to verify financial data and administrative or process errors made by other parties. The root causes were identified through improper payment testing and categorized using categories of error as defined in the October 2014 update to OMB Circular A-123, Appendix C (OMB Memorandum M-15-02). Specific root causes associated with the "Failure to Verify – Financial Data" category include, but are not limited to, ineligibility for a Pell Grant or Direct Loan and incorrect self-reporting of an applicant's income which leads to incorrect awards based on Expected Family Contribution (EFC). Specific root causes associated with the "Administrative or Process Errors Made by – Other Party" category include, but are not limited to, incorrect processing of student data by institutions during normal operations; student account data changes not applied or processed correctly; satisfactory academic progress not achieved; incorrectly calculated return records by institutions returning Title IV student aid funds; and processing errors at the servicer level. Table 2 below, Improper Payment Root Cause Category Matrix, summarizes the root cause categories for the Pell Grant and Direct Loan programs.

The Department's risk assessments have not identified Title I as a program susceptible to significant improper payments; Title I is included in the table because it is a Section 57 program.

Table 2. Improper Payment Root Cause Category Matrix ($ in millions)

Reason for Improper Payment		Direct Loan		Pell		Title I	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue							
Inability to Authenticate Eligibility							
Failure to Verify:	Death Data						
	Financial Data	152.90	59.98	38.89	44.21		
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility Data (explain)						
Administrative or Process Error Made by:	Federal Agency						
	State or Local Agency						
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	969.61	101.54	418.70	60.49		
Medical Necessity							
Insufficient Documentation to Determine						19.95	
Other Reason (a) (explain)							
Other Reason (b) (explain)							
TOTAL		**1,122.51**	**161.52**	**457.59**	**104.70**	**19.95**[1]	

[1] Title I is included in this table because it is a Section 57 program. With current documentation, the Department is unable to disaggregate the estimated overpayments due to system restraints. The Department is working on enhancements for future reporting.

Corrective Actions

This section presents the corrective actions for the Pell Grant and Direct Loan programs. The corrective actions presented below are recommendations to the schools for findings that resulted from FSA Program Reviews. The discussion below also includes other long-term corrective actions applicable to these programs, such as the IRS DRT and verification.

As part of the Program Review process, FSA evaluates an institution's compliance with federal student aid requirements for institutional eligibility, financial responsibility, and administrative capability. FSA also assesses liabilities for errors, identifies corrective actions, and initiates referrals for sanctions if applicable. Final Program Review determinations indicate the action(s) the institution is required to take in order to make the Title IV, HEAL programs, or the recipients whole for any funds that were improperly managed and to prevent the same problems from recurring. Overall, FSA requires that all findings identified during the FSA Program Reviews are tracked through resolution via the Postsecondary Education Participants System (PEPS). This corrective action process is further described in the FY 2012 AFR.

FSA also continues to utilize the IRS DRT, which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online FAFSA.

For the 2017–18 award year, applicants will be able to complete their FAFSA using "prior-prior year" tax data. This is in contrast with the current "prior year" process where many applicants submit their FAFSAs before tax returns have been completed, resulting in the need to estimate income and tax information that subsequently needs to be corrected once the tax return is filed; or worse, waiting to complete their FAFSA until after the tax return has been filed. Also, applicants will be able to initiate their application earlier in the 2017–18 award year. The start of the FAFSA cycle for 2017–18 will move up from January 1 to October 1. Both of these changes will assist in preventing improper payments as the IRS DRT is anticipated to be used more and there is more time for effective verification procedures.

Additionally, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. These and certain other ongoing corrective actions, such as system edits and compliance audits, are described in the FY 2012 AFR.

Going forward, FSA will expand the use of data analytics to identify anomalies, trends, and patterns in application and disbursement data to help identify potential risk factors that may inform risk-based decisions regarding program oversight. FSA will further collaborate with OIG to receive and analyze fraud referrals and to identify potential fraud indicators for suspicious student activity. FSA has engaged contract support and is in the process of establishing a fraud group to support OIG fraud referrals. The primary objective of initial activities includes the intake, analysis, and disposition of referrals. FSA will use this analysis to inform recommendations on data analytics and identify ways to improve controls.

Direct Loan Consolidations and Refunds

Improper payments identified through testing of Direct Loan Consolidations for FY 2014 were remediated or are in the process of being remediated. For Direct Loan Consolidations and Refunds determined to be improper payments during the current assessment year, FSA is coordinating with the respective Title IV Additional Servicers (TIVAS) and Not-For-Profit (NFP) servicers to develop and implement corrective action plans.

Internal Control over Payments

To minimize improper payments, the Department maintains strong internal controls designed to prevent, detect, and recover improper payments. These controls are an essential part of the Department's internal control framework described in the Analysis of Systems, Controls, and Legal Compliance section. The Department periodically assesses the payment controls for design and operating effectiveness as part of the Department self-assessments of internal controls. Key controls related to improper payments include: risk assessments; financial, programmatic, and control risks evaluations; use of automated systems to detect anomalies in payments; and grants management and audit resolution, among others.

FSA also has a robust and mature framework of internal control over payments which includes assessment of disbursement processes over Pell Grant and Direct Loan programs. Table 3 below summarizes FSA's self-assessment on the status of its internal control over payments for these programs.

Table 3. Status of Internal Controls

Internal Control Standards	Pell Grant	Direct Loan
Control Environment	4	4
Risk Assessment	4	4
Control Activities	3	3
Information and Communication	3	3
Monitoring	3	3

Legend:
4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

FSA leverages its OMB Circular A-123 Appendix A (A-123A) assessment to evaluate the design and operating effectiveness of controls intended to prevent and detect improper payments. FSA assesses these controls overall and by the internal control components identified below:

- **Control Environment**. FSA has a robust entity-level controls framework that provides discipline and structure to help FSA achieve its objectives. Part of this framework is a governance structure that includes an Improper Payment Working Group, a body of accountable stakeholders that informs decisions related to improper payment requirements, estimation, and control.
- **Risk Assessment.** FSA uses a risk assessment approach to target high risk areas and focus resources. FSA's Office of Program Compliance, School Eligibility Service Group performs annual risk assessments to inform decisions on where and how to target each year's program reviews. As a function of its A-123 program, FSA performs annual risk assessment of business processes and systems, including Pell and Direct Loan payment processes, to determine where to focus control testing. FSA performs a qualitative risk assessment at least once every three years to identify FSA programs susceptible to significant improper payments.
- **Control Activities.** In FY 2015, FSA identified 292 controls related to improper payments prevention or detection through its A-123A assessment. As an example, FSA annually conducts approximately 300 Program Reviews of the approximately 6,000 eligible schools to assess institutions' compliance with Title IV regulations.
- **Information and Communication.** FSA's internal control framework supports quality information management and communication. FSA has an incident reporting process to collect information such as high-dollar overpayment on a quarterly basis; reports an estimate of the annual amount and rate of improper payments for all programs and activities susceptible to significant improper payments; and provides guidance to third parties through Federal Register notices, Dear Colleague Letters, and the Information for Financial Aid Professionals (IFAP) website, among others.

- **Monitoring.** FSA has a set of activities to monitor program performance, identify instances of improper payments, and promptly resolve findings of audits and other reviews related to improper payments. As an example, upon completion of Program Reviews, FSA monitors appropriate corrective action and resolution of improper payments.

As indicated above, the Department is committed to preventing improper payments with front-end controls, and detecting and recovering them if they occur. The Department continues efforts to: 1) assess the risk of improper payments, 2) estimate improper payments, 3) address root causes of improper payments, and 4) recover improper payments.

Accountability

FSA and other Department offices, managers, and staff are held accountable for meeting applicable improper payments reduction targets and for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, and promptly detects and recovers any improper payments that may occur. Offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria.

Schools are responsible and held accountable for recipient verification for need-based aid. FSA certifies a school's eligibility for participation in Title IV programs, conducts periodic Program Reviews of schools to verify compliance, and evaluates school financial statement and compliance audits to ensure any potential compliance issues or control weaknesses are resolved. Department and FSA contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.

Agency Information Systems and Other Infrastructure

Continuous Monitoring and Data Analytics

The Department has a Continuous Controls Monitoring System (CCMS) to help detect improper payments. This system applies a series of integrity checks to the Department's grant (non-FSA) and administrative payments and flags anomalous transactions for follow-up analysis. Examples of issues that can be detected include duplicate drawdown by grantees, unusual refunds by grantees, bank information alteration, and outlier drawdown amounts. The Department is implementing an upgrade to this system to expand the transactions being evaluated, improve the relevance of the checks with improved algorithms, and integrate new sources of comparative data. A key objective of this initiative is development of predictive modeling to prevent improper payments to the maximum degree possible.

Risk Management

The Department takes measures to prevent improper payments through the use of the Decision Support System (DSS) to run Entity Risk Review (ERR) reports for non-FSA grant awards. Using data drawn from the Federal Audit Clearinghouse, Dun & Bradstreet, the

Department's grant system, and Institutes of Higher Education (IHE) accreditation reporting, this report identifies financial, programmatic, and controls risks posed by award to the prospective grantee. Grant officers and awarding officials use the ERR reports in the preaward stage of the grant process to assess grantees' risk and assist in the determination of special conditions for grant awards. They also apply these reports in devising monitoring plans for the life of the grant, strengthening them as the Department's first line of defense against improper payments by grantees.

In FY 2015, the Department produced 261 reports assessing risk for 10,762 grant applicants to support the Department's award of 6,886 Discretionary awards. In total, 100 percent of all discretionary new and continuation awards were assessed for risk prior to award in the areas of: financial stability; adequacy of management systems to meet applicable standards; performance history; and compliance with applicable laws and regulations, including those related to Suspension and Debarment. This work successfully demonstrated the Department's early compliance with 2 C.F.R. Section 205, Federal Awarding Agency Review of Risk Posed by Applicants.

Audit Follow-up

The Department gathers and manages thousands of audits of grantees in an Audit Accountability and Resolution Tracking System (AARTS). AARTS data is analyzed to determine trends in audit findings and resolution, allowing the Department to search for and better understand commonalities. This effort is assisting the Department in reducing improper payments by strengthening audit resolution and grants management.

Barriers

The Department believes that the high burden of proof requirements in the *General Education Provisions Act* (GEPA) are a significant reason why the Department recovers such a small percentage of the original questioned costs in grant program audits. The GEPA, 20 U.S.C. 31 Subchapter IV § 1234a, requires the Department to establish a prima facie case for the recovery of funds, including an analysis reflecting the value of services obtained. In accordance with 20 U.S.C. 31 Subchapter IV § 1234b, any amount returned must be proportionate to the extent of harm the violation caused to an identifiable federal interest. As it relates to FSA programs, the Department does not see significant barriers in taking corrective action in reducing improper payments. A detailed discussion of program-specific barriers can be found in the FY 2012 Report on the Department of Education's Payment Recapture Audits.

Recapture of Improper Payments Reporting

Agencies are required to conduct recovery audits for contract payments and programs that expend $1 million or more annually if conducting such audits would be cost-effective. The Department performed a cost-benefit analysis and determined that a payment recapture audit program would not be cost-effective for FSA programs, other grant programs, and contracts. OMB was notified on October 30, 2014,[1] that it was not cost effective to conduct a payment recapture audit and the programs/activities would be excluded from a payment

[1] The Department initially submitted a payment recapture audit plan to OMB on January 14, 2011, and has subsequently submitted its reports on an annual basis noting that it was not cost effective to conduct a payment recapture audit program. Latest report was submitted to OMB on October 30, 2014.

recapture audit program. OMB sent their concurrence to the Department on September 21, 2015. A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's FY 2012 Report on the Department of Education's Payment Recapture Audits.

The Department identifies and recovers improper payments through sources other than payment recapture audits. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in compliance audits, OIG audits, and Department-conducted program reviews as potential improper payments. Accounts receivable are established for amounts determined to be due to the Department and collection actions are pursued. Recipients of Department funds can appeal management's decisions regarding funds to be returned to the Department, thereby delaying or decreasing the amounts the Department is able to collect.

In addition, for the Pell Grant program, recoveries also occur when overpayments to students are assigned to FSA for collection. Pell Grant amounts recovered through student debt collection were approximately $10.3 million in FY 2015 and $13.7 million in FY 2014. While all programs may have student debts transferred to debt collection, the categorization of resulting collections as an improper payment recovery is unique to Pell. Unlike loans, Pell Grant payments transferred to debt collection commonly indicate a potential improper payment at time of disbursement.

The Department has not established formal recovery targets for contract payments given the consistently insignificant findings. Since FY 2004, the Department's audits have found no improper payments for recovery, and there are no outstanding overpayments to report. Should future contract payments be identified for recovery, the Department will establish recovery targets, taking into consideration the nature of the overpayments and any potential barriers to recovering funds.

Table 4, Improper Payment Recaptures without Audit Programs, below provides estimates of the amounts identified and recovered through Compliance Audits, OIG Audits, and Program Reviews for FY 2015.

Table 4. Improper Payment Recaptures without Audit Programs[1]
($ in millions)

Overpayments Recaptured outside of Payment Recapture Audits		
Program or Activity[2]	**Amount Identified**	**Amount Recaptured**
FSA Programs	111.700	12.891
Other ED Programs		
Office of Career, Technical, and Adult Education	-	.002
Office of Elementary and Secondary Education	8.174	.688
Office of Postsecondary Education	.638	.760
Office of Special Education and Rehabilitative Services	1.078	.331
Consolidated Grants to the Outlying Areas, Recovery Act	-	.018
TOTAL	**121.590**	**14.690**

[1] The Department's cost-benefit analysis determined that a payment recapture audit program would not be cost-effective for FSA programs, other grant programs, and contracts. As a result, OMB A-136 Guidance Table 5, Disposition of Funds Recaptured Through Payment Recapture Audits, and Table 6, Aging of Outstanding Overpayments Identified in the Payment Recapture Audits, have been omitted.
[2] The Department is unable to show the breakdown of recoveries by program due to system restraints. The Department is working on enhancements for future reporting.

Additional Comments

No additional comments.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

Table 7. Results of the Do Not Pay Initiative in Preventing Improper Payments ($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate[3]	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases[1]	1.3666	190,262.2941	0	0	.0019	.7289
Reviews with databases not listed in IPERIA[2]	.0008	44.0173	0	0	.0004	19.4275

[1] IPERIA databases used for payment screening include the Death Master File (DMF) and the System for Award Management (SAM).
[2] Reviews with databases not listed in IPERIA include payments reviewed through the Department's Continuous Controls Monitoring System (CCMS).
[3] Payments requiring further review and identified as proper.

The Department continues its efforts to prevent and detect improper payments via the Do Not Pay (DNP) Business Center portal as required by IPERIA. During FY 2015, 1.37 million payments, totaling $190,262.29 million, were reviewed for potential improper payments through the DNP portal. There were 750 payment matches with the Death Master File and 1,116 matches with the System for Award Management. The Department validated that potential improper payments identified were adjudicated and reported to Treasury in a timely manner. The Department also reviewed 835 payments, totaling $44.02 million, for potential improper payments through the Continuous Controls Monitoring System. A total of 2,701 payments, with and without IPERIA databases, were further reviewed and determined to be accurate.

United States Department of Education
Combined Schedule of Spending
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015		FY 2014	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Section I: What Money Is Available to Spend?				
This section presents resources that were available to spend by the Department.				
Total Resources	$ 117,218	$ 232,460	$ 112,443	$ 243,566
Amount Available but Not Agreed to be Spent	(11,806)	(550)	(12,125)	(69)
Amount Not Available to be Spent	(2,968)	(13,887)	(2,712)	(10,040)
Total Amounts Agreed to be Spent	**$ 102,444**	**$ 218,023**	**$ 97,606**	**$ 233,457**
Section II: How Was the Money Spent?				
This section presents services and items purchased, is grouped by major program, and is based on outlays.				
Increase College Access, Quality, and Completion				
Credit Program Loan Disbursements and Claim Payments	$ 25,249	$ 198,431	$ 18,835	$ 216,506
Grants	35,569	-	37,223	-
Personnel Compensation and Benefits	273	-	270	-
Contractual Services	1,248	1,065	1,205	1,108
Other [1/]	37	-	35	-
Total Program Spending	**62,376**	**199,496**	**57,568**	**217,614**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs				
Grants	22,322	-	23,032	-
Personnel Compensation and Benefits	73	-	69	-
Contractual Services	106	-	96	-
Other [1/]	15	-	12	-
Total Program Spending	**22,516**	-	**23,209**	-
Ensure Effective Educational Opportunities for All Students				
Grants	16,474	-	16,793	-
Personnel Compensation and Benefits	148	-	162	-
Contractual Services	49	-	55	-
Other [1/]	23	-	23	-
Total Program Spending	**16,694**	-	**17,033**	-
Enhance the Education System's Ability to Continuously Improve				
Grants	1,661	-	1,519	-
Personnel Compensation and Benefits	94	-	91	-
Contractual Services	491	-	451	-
Other [1/]	15	-	15	-
Total Program Spending	**2,261**	-	**2,076**	-
Total Spending	**$ 103,847**	**$ 199,496**	**$ 99,886**	**$ 217,614**
Amounts Remaining to be Spent[2/]	(1,403)	18,527	(2,280)	15,843
Total Amounts Agreed to be Spent	**$ 102,444**	**$ 218,023**	**$ 97,606**	**$ 233,457**
Section III: Who Did the Money Go To?				
This section identifies with whom the Department is spending money based on obligations incurred.				
Nonfederal Obligations	$ 101,977	$ 218,023	$ 97,101	$ 233,457
Federal Obligations	467	-	505	-
Total Amounts Agreed to be Spent	**$ 102,444**	**$ 218,023**	**$ 97,606**	**$ 233,457**

[1/] Other primarily consists of payments for rent, utilities, communication, travel, and transportation.

[2/] The "Amounts Remaining to be Spent" line is the difference between "Total Spending" and "Total Amounts Agreed to be Spent." Actual spending in the current FY may include spending associated with amounts that are agreed to be spent during previous FYs, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

The combined schedule of spending presents an overview of how and where the Department spent its funding. The budgetary information in this schedule is presented on a combined basis and not a consolidated basis.

- The “what money is available to spend” section summarizes the resources that were available to spend during the fiscal year.
- The “how was the money spent” section summarizes the Department’s outlays for the fiscal year, categorized by the OMB budget object class definitions found in Circular A-11, “Preparation, Submission and Execution of the Budget,” and by payment types.
- The “who did the money go to” section summarizes the Department’s obligations by federal and nonfederal components.
- The total amount agreed to be spent in each section is equal to the obligations incurred shown on the combined statement of budgetary resources. Similar data are also submitted to USAspending.gov; however, the amounts will not reconcile primarily because reporting requirements differ, particularly for loan programs and for payroll and employee benefits.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditor's report can be found beginning on page 107 and the Department's management assurances on pages 39–49.

Summary of Financial Statement Audit

Audit Opinion: Unmodified*
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting—*Federal Managers' Financial Integrity Act* (FMFIA) 2

Statement of Assurance: Unqualified*

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

The Department had no material weaknesses in the design or operation of the internal control over financial reporting.

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unqualified*

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: The Department systems conform to financial management system requirements.

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Nonconformances	**0**	**0**	**0**	**0**	**0**	**0**

Compliance with *Federal Financial Management Improvement Act (FFMIA)*

	Agency	Auditor
1. System Requirements	**No lack of substantial compliance noted**	**No lack of substantial compliance noted**
2. Federal Accounting Standards	**No lack of substantial compliance noted**	**No lack of substantial compliance noted**
3. United States Standard General Ledger at Transaction Level	**No lack of substantial compliance noted**	**No lack of substantial compliance noted**

*Table uses the term "unmodified" for financial statement audit opinions and "unqualified" for management assurances based on OMB guidance.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

The Inspector General

October 9, 2015

TO: The Honorable Arne Duncan
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2016

The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department), Office of Inspector General to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges. To identify management challenges, we routinely examine past audit, inspection, and investigative work, as well as issued reports where corrective actions have yet to be taken; assess ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyze new programs and activities that could post significant challenges because of their breadth and complexity.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2016.

The FY 2016 management challenges are:

(1) Improper Payments,
(2) Information Technology Security,
(3) Oversight and Monitoring,
(4) Data Quality and Reporting, and
(5) Information Technology System Development and Implementation.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2016 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2016 Executive Summary

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires the OIG to identify and report annually on the most serious management challenges the Department faces. The *Government Performance and Results Modernization Act of 2010* requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2016.

The FY 2016 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring,

(4) Data Quality and Reporting, and

(5) Information Technology System Development and Implementation.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2016 Management Challenges Report is available at http://www2.ed.gov/about/offices/list/oig/management challenges.html.

Management Challenge 1—Improper Payments

Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments.

Our recent work has demonstrated that the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments. In May 2015, we reported that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 because it did not meet the

annual reduction target for the Direct Loan program. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies and improper payments involving grantees. Our semiannual reports to Congress from April 1, 2012, through March 31, 2015, included more than $1.4 million in questioned or unsupported costs from audit reports and more than $36 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it faces a significant challenge in striking the right balance between providing timely and accurate payments to grant recipients and students while at the same time ensuring that its policies and controls are not too costly and burdensome to the Department and fund recipients. The Department stated that it continuously assesses its business processes and controls to further enhance them, while striving to balance risks, costs, and benefits.

The Department stated that it has developed corrective actions in response to OIG recommendations that are intended to improve the accuracy and completeness of its improper payment estimates, provide more detailed reporting, and enhance its controls over student aid payments. It routinely analyzes payment data and considers other factors, such as OIG reports, to detect and recover improper payments that have occurred and to help devise ways to further reduce the risk of improper payments. The Department further stated that its primary strategy for minimizing improper payments is to implement front-end controls that prevent improper payments from occurring before it disburses Federal funds.

The Department added that the office of Federal Student Aid (FSA) has continued its efforts to catalog improper payment and fraud-related controls and to assess them for effectiveness. Additionally, FSA has improved its coordination with the OIG on fraud referrals, to include developing processes to analyze referrals and identify potential fraud indicators for suspicious student activity. The Department added that FSA plans to build on this collaboration with the OIG and establish a fraud group during FY 2016 to oversee its intake, analysis, and disposition of fraud referrals.

What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. Overall, the Department needs to develop estimation methodologies that improve the accuracy, completeness, and reliability of improper payment estimations. The Department should continue to work to develop estimation methodologies that adequately address recommendations made in our audit work.

Management Challenge 2—Information Technology Security

Why This Is a Challenge

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. Department systems contain or protect an enormous amount of sensitive information such as personal records, financial information, and other personally identifiable information. Without

adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, OIG investigative work has identified IT security control concerns in areas such as the FSA personal identification number system.

Progress in Meeting the Challenge

The Department identified numerous activities intended to improve its IT security in its response to our draft Management Challenges report. The Department stated that it provided corrective action plans to address the recommendations in FY 2012, FY 2013, and FY 2014 OIG audits. It further indicated it had completed actions designed to help address this challenges that included the following:

- implementing a new Department-wide Security Operations Management system, to provide overall case management and Security Operations Center operations;
- implementing a solution to provide two-factor authentication for accessing email remotely from personal computers and mobile devices, replacing the username and password authentication method;
- implementing a new student identification system as part of FSA's Enterprise Identity Management Program; and
- implementing the FSA Security Operations Center to strengthen FSA's network and data security.

What Needs to Be Done

Overall, the Department needs to effectively address IT security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

The Department needs to develop more effective capabilities to respond to potential IT security incidents. Although the Department and FSA have begun to implement their own incident response teams and establish Security Operations Centers, this capability is still being developed. The Department needs to continue to make progress within this area to ensure the timeliness and effectiveness of its response processes.

While the Department has made process towards implementing its two-factor authentication plans, it needs to continue its process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users.

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. The Department must continue to strive towards a robust capability to identify and respond to malware installations or intruder activity.

Management Challenge 3—Oversight and Monitoring

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended, programs are achieving goals and objectives, and the Department is obtaining the products and level of services for which it has contracted. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Four subareas are included in this management challenge—Student Financial Assistance (SFA) program participants, distance education, grantees, and contractors.

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. During the 2014–2015 award year, FSA provided about $169.6 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2016 budget request outlines $176.1 billion in Federal student aid, including $28.9 billion in Pell Grants and more than $141.7 billion in student loans. More than 13.2 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Our audits and inspections, along with work the Government Accountability Office conducted, continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. In addition, our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. OIG investigations have also identified various schemes by SFA program participants to fraudulently obtain Federal funds.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it has made significant progress in providing the public with information about financial assistance options available for postsecondary education, while working at the same time to manage the risks inherent in providing Federal student aid.

The Department stated that FSA has a broad compliance and oversight monitoring program that includes making referrals to the OIG when it identifies potential fraud. The Department further reported that its reviews of institutions are risk-based and that FSA uses predictive analytics and data matching as part of its processes to address student financial assistance fraud.

The Department identified numerous specific activities designed to improve its effectiveness in overseeing and monitoring SFA program participants. This included the following:

- implementing and enhancing a customized verification process for Free Application for Federal Student Aid data elements that must be verified before an applicant received Title IV aid,
- providing training for Department employees,
- issuing guidance and proposing regulations,
- implementing a Quality Control Process regarding program reviews, and
- restructuring its external audit follow-up process.

What Needs to Be Done

Given the significant challenges that FSA faces in overseeing and monitoring SFA program participants, the Department needs to improve its systems to ensure it has controls in place to ensure funds are disbursed for only eligible students and to effectively manage the performance of the Federal student loan portfolio.

Additionally, FSA needs to establish systematic procedures to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. FSA further needs to assess its control environment to ensure that it is working to address known and newly identified risks including those OIG reviews and other sources have identified.

Oversight and Monitoring—Distance Education

Why This Is a Challenge

Management of distance education programs presents a challenge for the Department and school officials because there are few or no in-person interactions to verify the student's identity or attendance. In addition, laws and regulations are generally modeled after the campus-based classroom environment, which does not always fit delivering education through distance education. Distance education uses certain technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between the student and the instructor. The flexibility it offers is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment.

Our investigative work has noted an increasing risk of people attempting to fraudulently obtain Federal student aid through distance education programs. Our audits have identified noncompliance by distance education program participants that could be reduced through more effective oversight and monitoring.

Progress in Meeting the Challenge

The OIG issued an Investigative Program Advisory Report in 2011 alerting FSA to significant fraud vulnerability in distance education programs. The OIG report provided recommendations that, if implemented, would mitigate future risk of fraud ring activity in the Title IV programs. The Department reported that it has implemented numerous controls to address these concerns, including expanding data analysis capabilities to detect patterns and predict potential fraud and enhancing verification requirements. The Department stated

that it is now incumbent on schools to verify certain data elements, such as the student's identity and whether the student completed secondary school or its equivalent. The Department added it has also expanded the program review procedures to strengthen oversight of distance education programs. The procedures were revised to expand general assessment reviews, collect additional distance education recipient data, and expand the annual risk assessment.

What Needs to Be Done

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs and other information needed to analyze the differences between traditional education and distance education. Because FSA does not require schools to indicate when a student is enrolled in a distance education program, it cannot identify, analyze, and mitigate system problems related to distance education. Our work indicates that the Department still needs to define instruction and attendance in a distance education environment and clarify how to calculate the return of Federal student aid in a distance education environment.

In addition, the Department should develop regulations that require schools offering distance education to establish processes to verify a student's identity as part of the enrollment process. Finally, the Department should work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student should include only those costs that reflect actual educational expenses.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,900 public school districts and 50 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include Title I of the Elementary and Secondary Education Act, which under the President's 2016 request would deliver $15.4 billion to help nearly 24 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide about $11.7 billion to help States and school districts meet the special educational needs of 6.6 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency (LEA) fiscal control issues, State educational agency (SEA) control issues, fraud perpetrated by LEA and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that actions completed during FY 2015 included issuing policy and guidance and providing

training and technical assistance to program staff to enhance business operations in the area of grant award monitoring and oversight. The Department reported that it planned additional activities for FY 2016 to improve its monitoring and oversight efforts that include new training for Department employees on grant monitoring in on-site and virtual environments, as well as training for grantees in the areas of cash management, internal controls, discretionary and formula grants administration, and indirect cost.

What Needs to Be Done

Effective implementation of the Office of Management and Budget Uniform Grant Guidance, with specific focus on requirements relating to internal control and recipient and subrecipient monitoring, provides an excellent opportunity for the Department to address longstanding challenges. The Department should also consider methods to use the single audit process and updates to the Office of Management and Budget A-133 Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs. Given its vast oversight responsibilities and limited resources, it is especially important for the Department to effectively implement actions that build its own capacity and leverage the resources of other entities that have roles in grantee oversight.

In addition to its efforts to improve grant administration and oversight, the Department should pursue several regulatory or statutory changes that would strengthen its ability to detect and address fraud and abuse in its programs.

Oversight and Monitoring—Contractors

Why This Is a Challenge

The Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. As of May 2015, more than $5.6 billion[2] has been obligated towards the Department's active contracts. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations.

OIG audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. These issues are primarily related to the appropriateness of contract pricing and the effectiveness of contract management.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that its high percentage of fixed-price contracts and deliverable-based payment schedules inherently lowers the risk of improper payments and unsuccessful contract performance.

[2] This figure, from the Department's *active contracts* list, represents the total amount obligated to currently active contracts awarded by FSA, the Office of Chief Financial Officer's Contracts and Acquisition Management, and the National Assessment Governing Board. This list does not capture the amount obligated on contracts awarded by the principal office's executive office warrant holders.

The Department believed that this approach, coupled with annual Contract Monitoring Plan and Contract Management reviews, provides a comprehensive appraisal of contractor performance and helps ensure that the Department manages and monitors its contracts properly.

The Department stated that FSA's contractor control environment has been strengthened through process improvements and that FSA has recently established a Quality Assurance team within its acquisition organization. The Department also reported that its Contracts and Acquisitions Management function has undertaken actions to ensure that the Department has appropriately qualified staff in place and in sufficient number to provide effective oversight of its contracts.

What Needs to Be Done

The Department has outlined numerous processes and efforts that have to the potential to improve its oversight and monitoring of contractors. The Department needs to develop methods that can assist it in demonstrating the effectiveness of recent process changes. These may include items such as assessing the effect of FSA's Quality Assurance team on its contractor control environment and the success of hiring and training activities intended to increase its staffing of qualified contractor oversight professionals.

Management Challenge 4—Data Quality and Reporting

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. This includes weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

Progress in Meeting the Challenge

The Department cited controls in place to help it mitigate risks and verify and validate the data it relies on that included data system monitoring and edit checks, program monitoring, evaluation of the accuracy and effectiveness of reporting, and partnering with third-party reviewers. The Department further identified strategies that it is developing, considering, or implementing to ensure continuous improvements. These strategies include developing policies and procedures to improve and strengthen integrity in obtaining and reporting data; coordinating technical assistance with stakeholders to establish a common understanding of the verifiability, validity, and reliability of data sources; and continuing efforts to improve data quality in the ED*Facts* system.

What Needs to Be Done

The Department is working to improve staff capabilities and internal systems for analyzing data and using it to improve programs. It must continue to work to implement effective controls at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported. The multiple initiatives that the Department has put in place to improve data quality show both the scope of the challenge it faces as well as the effort needed to address this challenge area. In particular, its efforts to develop and implement consistent policies and procedures and to assess the reliability of key data are important steps needed to show progress in addressing this challenge.

Management Challenge 5—Information Technology System Development and Implementation

Why This Is a Challenge

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with consistent staffing levels. The Department reported that its inflation-adjusted administrative budget is about the same as it was 10 years ago, while its full-time equivalent staffing level has declined by 8 percent. This makes effective information systems development and implementation, and the greater efficiencies such investments can provide, critical to the success of its activities and the achievement of its mission.

According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2015 was $683.1 million. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development; these weaknesses have negatively impacted operations and may have resulted in improper payments. For example, we reported that FSA could not ensure that its contractor delivered a fully functional debt management collection system because FSA did not develop an adequate plan, ensure milestones were met, or use appropriate systems development tools. We also identified additional areas for improvement, such as involving FSA's Technology Office to provide technical expertise in the analysis of cost proposals, future contract negotiations, and evaluations of contractor cost overruns.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that managing changes for numerous integrated systems requires effective enterprise change management and investment management processes and continuous review of and improvement on existing project and portfolio management activities. The Department stated that to build on these capabilities, it must hire qualified staff and ensure that they are appropriately trained.

The Department stated that FSA has established project and portfolio management practices that support information technology systems development and implementation.

The Department further stated that it has addressed the OIG-identified and FY 2012 self-reported issues related to Debt Management Collection System (DMCS) and ACS, Inc., Education Servicing System. A new contract was awarded to manage DMCS, and the new

contract included explicit requirements related to the management and tracking of software development activities. The Department also noted that an independent validation and verification contract was awarded to bring more focus on DMCS development activities. The Department stated that FSA has not experienced any further material deficiencies related to system implementations, as the OIG confirmed in the FY 2014 financial statement audit, and has seen significant improvement in a number of areas related to DMCS operations and financial reporting.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that it corrects system deficiencies and that system performance fully supports the Department's financial reporting and operations. Similarly, the Department should ensure that all agreed-on corrective actions are completed timely.

Further actions needed to address this challenge include improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that appropriate expertise to manage system contracts (to include acceptance of deliverables) is obtained.

Freeze the Footprint

This effort strives to bring a new approach to the workplace at the Department, by building greater employee performance and productivity through innovative space designs and technology enhancements, while reducing the agency's space footprint and associated out-year costs. The project will also allow the agency to meet the new federal space guidelines (150–180 usable square footage/person vs. the current usable square footage of 338).

The Department Challenges are:

- Limited IT tools to support new mobile workforce
- IT infrastructure is outdated
- In some cases, telework expansion has outpaced space designs
- Agency employee recruitment efforts restricted to a limited number of states, limiting the size of the mobile workforce

The Department Strategy is to:

- Upgrade the IT infrastructure
- Provide mobile workers with 21st century tools
- Strengthen the Performance Management Program
- Promote cultural acceptance of a mobile workforce
- Design innovative work spaces
- Implement an Electronic Records Management System
- Reduce the space footprint

Freeze the Footprint Baseline Comparison

	FY 2012 Baseline	2014	Change (FY 2012 Baseline–2014)
Square Footage	1,563,641	1,550,158	13,483

The square footage totals are for the office and warehouse domestic assets, which are assets located in the 50 states, Washington, DC, and United States territories. The square footage total includes owned and leased assets. Updated square footage information is posted on the performance.gov website.

Civil Monetary Penalty Adjustment for Inflation

The *Federal Civil Penalties Inflation Adjustment Act of 1990,* as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	January 4, 2005	October 2, 2012	$30,000
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	January 4, 2005	October 2, 2012	$30,000
Violation of Title IV of the HEA	20 USC 1082(g)	November 18, 2002	October 2, 2012	$35,000
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	November 18, 2002	October 2, 2012	$35,000
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	No prior adjustment	October 2, 2012	$1,100
Improper lobbying for Government grants and contracts	31 USC 1352 (c)(1)	November 18, 2002	October 2, 2012	$15,000 to $140,000
False claims and statements	31 USC 3802(a)(1)	November 18, 2002	October 2, 2012	$7,000

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Appendices

Appendix A: Selected Department Web Links and Education Resources

College Cost Lists

The Department provides college affordability and transparency lists under the *Higher Education Opportunity Act of 2008.* Each list is broken out into nine different sectors to allow students to compare costs at similar types of institutions, including career and technical programs. http://collegecost.ed.gov/catc/

College Navigator

The Department provides a multidimensional review of higher education options for students and provides links to other sites. http://nces.ed.gov/collegenavigator/

Open Government Initiative

The Department's Open Government Initiative is designed to improve the way the Department shares information, learns from others, and collaborates to develop the best solutions for America's students. http://www2.ed.gov/about/open.html

College Scorecards

College Scorecards in the Department's College Affordability and Transparency Center make it easier to find out more about a college's affordability and value. The College Scorecard has been redesigned as a tool that further commits to the Administration's Open Data Initiative and incorporates direct input from students, families, and their advisers to provide the clearest, most accessible, and most reliable national data on college cost, graduation, debt, and postcollege earnings. The old way of assessing college choices relied on static ratings lists compiled by someone who was deciding what value to place on different factors. The new way of assessing college choices, with the help of technology and open data, makes it possible for anyone—a student, a school, a policymaker, or a researcher—to decide which factors to evaluate.
http://collegecost.ed.gov/scorecard/index.aspx

One-Stop Shopping for Student Loans

The Department provides a site from which students can manage their loans.
http://studentloans.gov/

College Preparation Checklist

This Departmental tool gives prospective college students step-by-step instructions on how to prepare academically and financially for education beyond high school. Each section is split into subsections for students and parents, explaining what needs to be done and which publications or websites might be useful to them. http://studentaid.ed.gov

Additional resources within the checklist assist students in finding scholarships and grants.

http://studentaid.ed.gov/students/publications/checklist/main.html

https://studentaid.ed.gov/sa/types/grants-scholarships/finding-scholarships

College Completion Toolkit

The College Completion Toolkit provides information that governors and other state leaders can use to help colleges in their state increase student completion rates. It highlights key strategies and offers models to learn from, as well as other useful resources.
http://www.ed.gov/sites/default/files/cc-toolkit.pdf

Resources for Adult and Career and Technical Education

The Department, through the Perkins Collaborative Resource Network, offers resources and tools for the development and implementation of comprehensive career guidance programs. This includes guides for students, parents, teachers, counselors, and administrators across relevant topics, such as planning and exploring careers, selecting institutions, finances, and guidance evaluation. This source is an example of interdepartmental cooperation between the Department and the U.S. Department of Labor.
http://cte.ed.gov/nationalinitiatives/gandctools.cfm?&pass_dis=1

The Literacy Information and Communication System (LINCS) is a Department Initiative that seeks to expand evidence-based practice in the field of adult literacy. LINCS provides high-quality, on-demand educational opportunities to practitioners of adult education in order to help adult learners successfully transition to postsecondary education and employment. LINCS is comprised of three components: 1) the LINCS Resource Collection provides free online access to high-quality, evidence-based materials and self-access courses to help practitioners and state and local staff improve programs, services, instruction, and teacher quality; 2) LINCS Regional Professional Development Centers work with states to offer practitioners training and professional development activities; and 3) LINCS Community provides an online social learning space (a community of practice) for networking, information sharing, and collaboration among adult education leadership, professional developers, administrative staff, and practitioners across the country.
http://lincs.ed.gov/

Program Inventory

The *GPRA Modernization Act of 2010,* P.L. 111-352, requires that OMB establish a single website with a central inventory of all federal programs, including the purpose of each program and its contribution to the mission and goals of the Department. The initial Federal Program Inventory was published in May 2013. The Department described each program within 27 budgetary accounts, as well as how the programs support the Department's broader Strategic Goals and Objectives.

Since that time, Congress passed the Data Accountability and Transparency Act (DATA Act) requiring new public reporting requirements, which impact the definition of program used in this guidance. OMB is currently working with agencies to merge the implementation of the DATA Act and the Federal Program Inventory requirements to the extent possible to

avoid duplicative efforts. While OMB and agencies determine the right implementation strategy, the initial Federal Program Inventory remains available on Performance.gov or at http://www2.ed.gov/programs/inventory.pdf.

Grants Information and Resources

In addition to student loans and grants, the Department offers other discretionary grants. These are awarded using a competitive process, and formula grants, which use formulas determined by Congress with no application process. This site lists Department discretionary grant competitions previously announced, as well as those planned for later announcement, for new awards organized according to the Department's principal program offices. http://www2.ed.gov/fund/grant/find/edlite-forecast.html

For more information on the Department's programs, see http://www2.ed.gov/programs.

Practice Guides for Educators

The Department offers guides that help educators address everyday challenges faced in classrooms and schools. Developed by a panel of nationally recognized experts, practice guides consist of actionable recommendations, strategies for overcoming potential roadblocks, and an indication of the strength of evidence supporting each recommendation. The guides themselves are subjected to rigorous external peer review. Users can sort by subject area, academic level, and intended audience to find the most recent, relevant, and useful guides. http://ies.ed.gov/ncee/wwc/publications_reviews.aspx

Performance Data

EDFacts is a Department initiative to put performance data at the center of policy, management, and budget decisions for all K–12 educational programs. http://www.ed.gov/about/inits/ed/edfacts/index.html

Condition of Education and Digest of Education Statistics

The Condition of Education is a congressionally mandated annual report that summarizes developments and trends in education using the latest available statistics. The report presents statistical indicators containing text, figures, and data from early learning through graduate-level education. http://nces.ed.gov/programs/coe/

The primary purpose of the Digest of Education Statistics is to provide a compilation of statistical information covering the broad field of American education from prekindergarten through graduate school. The Digest includes a selection of data from many sources, both government and private, and draws especially on the results of surveys and activities carried out by the National Center for Education Statistics. http://nces.ed.gov/programs/digest/

Projections of Education Statistics to 2021

For the 50 states and the District of Columbia, the tables, figures, and text in this report contain data on projections of public elementary and secondary enrollment and public high school graduates to the year 2021. The report includes a methodology section that

describes the models and assumptions used to develop national and state-level projections. http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2013008

National Assessment of Educational Progress

The National Assessment of Educational Progress assesses samples of students in grades 4, 8, and 12 in various academic subjects. Results of the assessments are reported for the nation and states in terms of achievement levels—*Basic, Proficient,* and *Advanced.* http://nationsreportcard.gov/

Government Accountability Office

The Government Accountability Office supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people. http://www.gao.gov/docsearch/agency.php

Office of Inspector General

The Office of Inspector General conducts independent and objective audits, investigations, inspections, and other activities to promote the efficiency, effectiveness, and integrity of the Department's programs and operations. http://www.ed.gov/about/offices/list/oig/index.html

For a list of recent reports, go to: http://www2.ed.gov/about/offices/list/oig/reports.html.

Appendix B: FY 2015 List of Applicable Department Financial Statement Laws and Regulations

Financial Management Legislation

- *Sarbanes-Oxley Act of 2002*
- *Accountability of Tax Dollars Act of 2002*
- *Improper Payments Information Act of 2002*
- *Reports Consolidation Act of 2000*
- *Federal Financial Assistance Management Improvement Act of 1999*
- *Clinger-Cohen Act of 1996*
- *Federal Financial Management Improvement Act of 1996*
- *Debt Collection Improvement Act of 1996*
- *Government Management Reform Act of 1994*
- *Inspector General Reform Act of 1994*
- *Government Performance and Results Act of 1993*
- *Debt Collection Act Amendments of 1993*
- *Cash Management Improvement Act Amendments of 1992*
- *Chief Financial Officers Act of 1990*
- *Cash Management Improvement Act of 1990*
- *Federal Credit Reform Act of 1990*
- *Federal Information Security Management Act of 2002* (FISMA)
- *Prompt Payment Act of 1982* (amended 1988)
- *Federal Managers Financial Integrity Act of 1982*
- *Debt Collection Act of 1982*
- Title 31 U.S.C. Chapters 13 and 15
- *Government Corporation Control Act* 31 U.S.C. 9109 et seq
- *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA)
- *College Cost Reduction and Access Act* (CCRAA)
- *American Recovery and Reinvestment Act of 2009*
- *Health Care and Education Reconciliation Act of 2010*
- *Student Aid and Fiscal Responsibility Act*
- *Digital Accountability and Transparency Act* (Data Act)
- Uniform Administrative Procedures, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)—2 CFR 200

Federal Financial Management Regulations

OMB Circulars:

- OMB Circular A-11—Preparation and Submission of Budget Estimates; Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports; and, Planning, Budgeting, and Acquisition of Capital Assets
- OMB Circular A-21—Cost Principles for Educational Institutions
- OMB Circular A-50—Audit Follow-up
- OMB Circular A-87—Cost Principles for State, Local and Indian Tribal Governments
- OMB Circular A-102—Grants and Cooperative Agreements with State and Local Governments
- OMB Circular A-110—Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- OMB Circular A-122—Cost Principles for Nonprofit Organizations
- OMB Circular A-123—Management's Responsibility for Internal Control
- OMB Circular A-129—Managing Federal Credit Programs
- OMB Circular A-130—Management of Federal Information Resources
- OMB Circular A-133—Audits of States, Local Governments, and Non-Profit Organizations
- OMB Circular A-136—Financial Reporting Requirements

Central Agency Regulations:

- GSA Federal Acquisition Regulation, Parts 30, 31, and 32
- U.S. Treasury Financial Manual (TFM)

Department of Education Regulations:

- Code of Federal Regulations (CFR) 34, Education

Appendix C: Glossary of Acronyms and Abbreviations

AARTS	Audit Accountability and Resolution Tracking System
ABCP	Asset-Backed Commercial Paper
ADA	*Anti-Deficiency Act*
AFR	*Agency Financial Report*
APG	Agency Priority Goals
APR	*Annual Performance Report*
CAP	Corrective Action Plan
CAP Goals	Cross-Agency Priority Goals
CAT	Core Assessment Team
CCMS	Continuous Controls Monitoring System
CCRA	*College Cost and Reduction and Access Act of 2007*
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CHAFL	College Housing and Academic Facilities Loan Program
CPSS	Contract and Purchasing Support System
CRDC	Civil Rights Data Collection
CSRS	Civil Service Retirement System
DATA	*Digital Accountability and Transparency Act of 2014*
DCIA	*Debt Collection Improvement Act of 1996*
DMCS	Data Management Collection System
DMF	Death Master File
DNP	Do Not Pay
DOI	U.S. Department of Interior
DOL	U.S. Department of Labor
DSS	Decision Support System
EAG	Enhanced Assesment Grants
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*

EDCAPS	Education Central Automated Processing System
EFC	Expected Family Contribution
ERM	Enterprise Risk Management
ERR	Entity Risk Reviews
ESEA	*Elementary and Secondary Education Act of 1965*
FAFSA	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FISMA	*Federal Information Security Management Act of 2002*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FMSS	Financial Management Support System
FSA	Federal Student Aid
FSEOG	Federal Supplemental Educational Opportunity Grant
FTF	Freeze the Footprint
FY	Fiscal Year
G5	Grants Management System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEPA	*General Education Provisions Act*
GPRA	*Government Performance and Results Act of 1993*
GPRAMA	*GPRA Modernization Act of 2010*
GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities

HCERA	*Health Care and Education Reconciliation Act of 2010*
HEA	*Higher Education Act of 1965*
HEAL	Health Education Assistance Loans
HHS	U.S. Department of Health and Human Services
HR	Hurricane Education Recovery
ICAM	Identify, Credentialing and Access Management
IDEA	*Individuals with Disabilities Education Act*
IES	Institute of Education Sciences
IFAP	Information for Financial Aid Professionals
IHE	Institutes of Higher Education
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IPIA	*Improper Payments Information Act of 2002*
IRS	Internal Revenue Service
IRS DRT	IRS Data Retrieval Tool
ISCM	Information Security Continuous Monitoring
IT	Information Technology
KEA	Kindergarten Entry Assessment
LEA	Local Educational Agency
LINCS	Literacy Information and Communication Systems
NAEP	National Assessment of Educational Progress
NCES	National Center for Educational Statistics
NCLB	*No Child Left Behind Act of 2001*
NFP	Not-for-profit
NIEER	National Institute for Early Education Research
OA	Occupancy Agreement
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer

OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OM	Office of Management
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
PAYE	Pay as You Earn
PDF	Portable Document Format
PEPS	Postsecondary Education Participants System
PIC	Performance Improvement Council
PIV	Personal Identity Verification
POC	Principal Office Component
RDA	Results Driven Accountability
RELs	Regional Educational Laboratories
RMS	Risk Management Service
ROE	Regional Office of Education
RSSI	Required Supplementary Stewardship Information
RTT	Race to the Top
RTTA	Race to the Top-Assessment
RTT-ELC	Race to the Top-Early Learning Challenge
SAFRA	*SAFRA Act*
SAM	System for Award Management

SAP	Special Allowance Payments
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SEA	State Educational Agency
SF	Square Feet
SFA	Student Financial Assistance
SFFAS	Statement of Federal Financial Accounting Standards
SIG	School Improvement Grant
SMC	Senior Management Council
SOC	Security Operations Council
SOS	Schedule of Spending
SPFI	*Summary of Performance and Financial Information*
SSIP	State System
SSP	System Security Plan
STEM	Science, Technology, Engineering, and Mathematics
TEACH	Teacher Education Assistance for College and Higher Education Grant
TFM	Treasury Financial Manual
TIVAS	Title IV Additional Servicers
TOP	Treasury's Offset Program
Treasury	U.S. Department of Treasury
TRIO	Federal TRIO Programs
U.S.	United States
USSGL	U.S. Standard General Ledger

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Within the Office of the Chief Financial Officer, the office of Financial Management Operations (FMO) is responsible for certifying, processing, reconciling, evaluating, and reporting all agency financial transactions; preparing annual financial statements and related notes and schedules; and coordinating the external audit of the agency's financial statements.

Financial Improvement Operations (FIO) provides leadership and direction in the areas of internal control assessment, financial management training, post audit activities, and indirect cost determination.

Contracts and Acquisitions Management (CAM) is responsible for the solicitation, award, administration, and closeout of all contracts and other acquisition instruments for the Department.

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U.S. Department of Education
Office of the Chief Financial Officer

An electronic version is available on the World Wide Web at
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U.S. Department of Education, November 2015

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