Management’s Discussion and Analysis

About the Management's Discussion and Analysis

The U.S. Department of Education (the Department) continued to enhance the usefulness of the Fiscal Year (FY) 2016 *Agency Financial Report* (AFR) by augmenting the report with relevant web content. To take advantage of the numerous hyperlinks embedded in the report, the Department recommends reading it on the Internet. The Department's intent is to provide users with access to helpful information about the Department and its financial and performance activities. 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.

The Department has demonstrated its commitment to fortifying the education system by directing federal resources to, among other things: improve access to early learning programs, reform elementary and secondary education to strengthen critical outcomes, make higher education more accessible and affordable, and work to attract talented people to the teaching profession. The Department also demonstrated good stewardship of federal resources by producing complete and accurate financial reports and 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

For the 8th year, the Department elected to produce separate financial and performance reports. The *Agency Financial Report* for FY 2016 provides a high-level description of performance measures and goals based on the *FY 2014–18 Strategic Plan*. A detailed discussion of performance information for FY 2016 will be provided in the Department's *Annual Performance Report* to be released at the same time as the President's FY 2018 Budget. The Department's annual performance reports for prior years are available online at http://www2.ed.gov/about/reports/annual/index.html.

The section includes an overview of performance reporting and a high-level discussion on the Department's focus areas for FY 2016–17. 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. Finally, the Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on Direct Loans, Shared Services, and Enterprise Risk Management (ERM).

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 prekindergarten through 12th grade (P–12), 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 Enterprise Risk Management and 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. The revised OMB Circular A-123 is effective for FY 2016 and supersedes all previous versions.

Because the Department produces an AFR, detailed performance reporting is included in the *Annual Performance Report*, as specified in OMB Circular 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 1980. Today, the Department supports programs in every area and level of education.

The Department makes funds and information available to individuals pursuing education, colleges and universities, state education agencies, and school districts by engaging in four major types of activities:

- establishing policies related to federal education funding, including distributing 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 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 recruit, prepare, support, retain, and reward outstanding teachers and leaders in America's schools. The Department supports efforts to help students succeed regardless of background or circumstance by establishing challenging content, setting high expectations for all students, and monitoring academic progress.

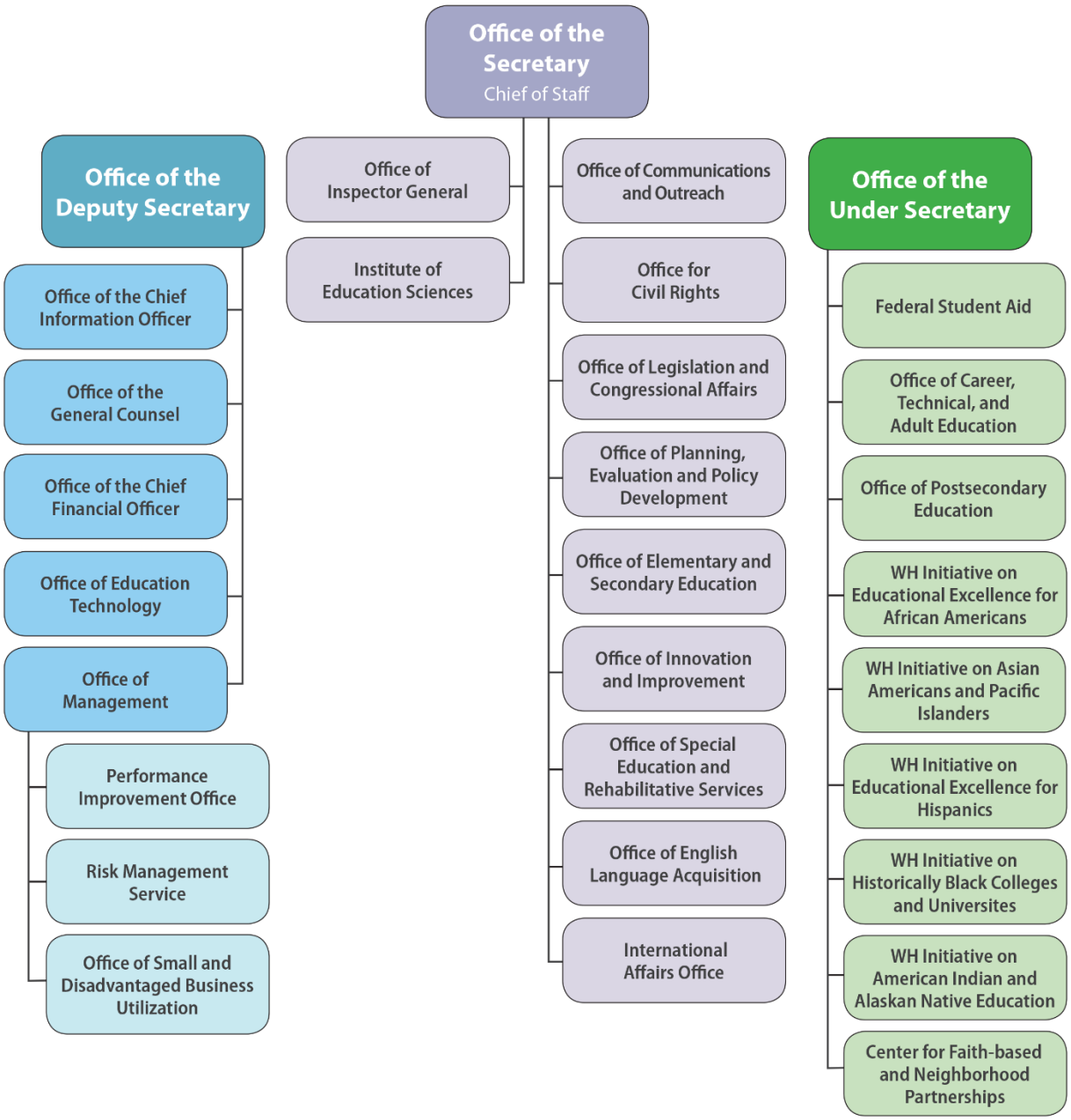
The Department's largest asset is the portfolio of student loans (see the Financial Highlights and Notes sections). Grants to states are the second-largest item, mostly for elementary and secondary education, awarded based on statutory formulas (see the chart on page 6). The third biggest item is student aid to help pay for college through Pell Grants, Work Study, and other campus-based programs (see the Notes section). The Department supports research, collects education statistics, enforces civil rights statutes, and also carries out competitive grant programs to promote innovation (see The Department's Approach to Performance Management 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 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.

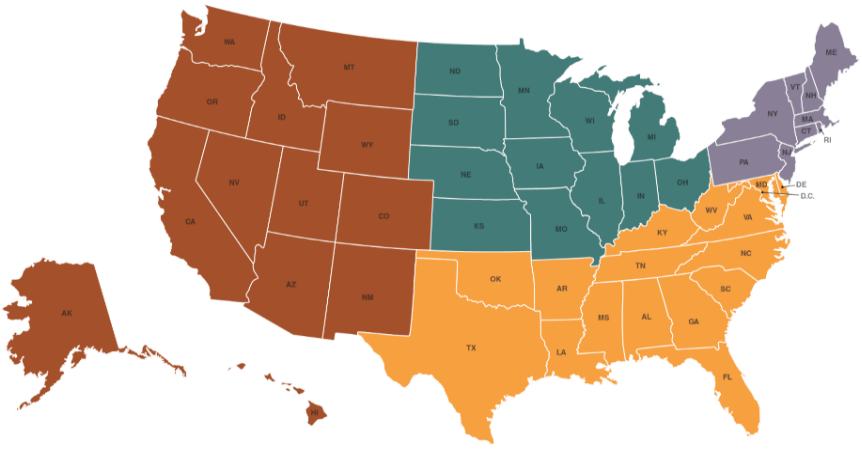
Descriptions of the principal offices and overviews of the activities of the Department and its programs are available on the Department's website.

Our Organization in Fiscal Year 2016

This chart reflects the coordinating structure of the U.S. Department of Education. Interactive and text versions of the FY 2016 coordinating structure of the Department are available.



FY 2015 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	$ 266	$ 41	$ 12
Arizona	820	1,259	78
California	3,947	3,985	397
Colorado	430	478	49
Hawaii	150	77	16
Idaho	161	163	20
Montana	166	71	16
Nevada	246	145	24
New Mexico	355	205	27
Oregon	362	385	56
Utah	267	373	43
Washington	647	454	65
Wyoming	107	36	11
TOTAL	**$ 7,926**	**$ 7,672**	**$ 814**

South	Grades K–12	Postsec	All Other
Alabama	$ 517	$ 508	$ 70
Arkansas	347	269	54
Delaware	112	62	16
Dist. of Columbia	91	141	20
Florida	1,808	1,918	215
Georgia	1,072	1,017	82
Kentucky	488	401	57
Louisiana	617	371	46
Maryland	504	411	58
Mississippi	403	308	52
North Carolina	962	847	125
Oklahoma	453	309	51
South Carolina	504	395	66
Tennessee	652	538	84
Texas	3,111	2,213	301
Virginia	690	687	86
West Virginia	214	232	42
TOTAL	**$ 12,542**	**$ 10,628**	**$ 1,424**

NOTES: Dollars in millions. Detail may not add to totals due to rounding. Data are current as of October 21, 2016.

Midwest	Grades K–12	Postsec	All Other
Illinois	$ 1,471	$ 1,243	$ 133
Indiana	652	801	71
Iowa	276	411	33
Kansas	320	251	25
Michigan	1,148	919	107
Minnesota	462	544	59
Missouri	612	581	73
Nebraska	203	145	23
North Dakota	117	46	12
Ohio	1,246	854	128
South Dakota	163	100	12
Wisconsin	549	427	71
TOTAL	**$ 7,218**	**$ 6,322**	**$ 747**

Northeast	Grades K–12	Postsec	All Other
Connecticut	$ 319	$ 283	$ 32
Maine	144	111	20
Massachusetts	644	521	64
New Hampshire	122	122	14
New Jersey	871	601	76
New York	2,420	1,933	189
Pennsylvania	1,234	977	143
Rhode Island	129	116	17
Vermont	91	51	18
TOTAL	**$ 5,973**	**$ 4,715**	**$ 573**

Other	Grades K–12	Postsec	All Other
American Samoa	$ 24	$ 4	$ 1
Freely Associated States	7	15	0
Guam	41	14	3
Indian Set Aside	240	n/a	37
Northern Mariana Islands	17	3	1
Puerto Rico	686	897	80
U.S. Virgin Islands	26	4	3
All Other	367	n/a	41
TOTAL	**$ 1,408**	**$ 938**	**$ 167**

The Department's Approach to Performance Management

Performance Management Framework

In accordance with the *Government Performance and Results Act (GPRA) Modernization Act of 2010*, the *FY 2014–18 Strategic Plan* is the basis for the Department's performance management framework. The Department uses quarterly performance reviews, targeted strategic initiatives, and outreach to leaders and stakeholders to assess progress and garner engagement toward achieving strategic goals and outcomes. An outline of the Department's *Strategic Plan* is shown below.

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 2016–17 Agency Priority Goals
Goal 1: ***Postsecondary Education, Career and Technical Education, and Adult Education.*** Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.	**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 • Federal Student Aid Transparency
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

FY 2014–18 STRATEGIC PLAN		
Strategic Goals	Strategic Objectives	FY 2016–17 Agency Priority Goals
Goal 3: *Early Learning.* Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.	**Objective 3.1: *Access 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.	• Increase enrollment in high-quality state preschool programs
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.	

The *FY 2014–18 Strategic Plan* is comprised of six strategic goals, which serve as the foundation for establishing long-term priorities. The strategic objectives are actions that the Department will undertake to realize the goals. For each objective, the Department has established measures to gauge its progress. In collaboration with OMB and alongside the release of the President's FY 2017 budget request, the Department announced its FY 2016–17 Agency Priority Goals (APGs) and is reporting quarterly updates on performance.gov. 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*.

The Department welcomes input from Congress, state and local partners, and other education stakeholders on its *Strategic Plan* and APGs. Questions or comments about the Department's performance management framework and reporting should be e-mailed to PIO@ed.gov.

Information in the *Agency Financial Report*

The Department has elected to produce separate financial and performance reports. Because the Department does not produce a Performance and Accountability Report, specific performance reporting related to the Department's *Strategic Plan* may be found in the *Annual Performance Report,* published with the *Budget of the United States Government* (President's Budget), and available on both ed.gov and the government website performance.gov. Performance information in the Department's AFR is limited to high-level, cross-cutting themes with links to help the reader find further details on metrics and trends regarding specific objectives. We also urge readers to seek programmatic data as it is reported in the Congressional Budget Justification, as well as on the web pages of individual programs.

The high-level discussion of performance information in this year's AFR includes performance matters that inform decisions of the Department and its partners. Discussions on challenges concerning operations and finance are provided in a section of the AFR that follows the Department's Financial Highlights.

U.S. Department of Education FY 2016 Priorities

The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. With this mission and challenging, far-reaching strategic goals, the Department has chosen to focus FY 2016 efforts in three areas. These areas, as noted in the Secretary's message, are: (1) advancing equity and excellence; (2) expanding support for teachers and school leaders; and (3) promoting access, affordability, and completion in higher education. In addition, the Department has continued to encourage grantees and practitioners to use data and evidence to improve student outcomes. The following sections highlight a portion of the Department's innovative work in these areas.

Advancing Equity and Excellence

The Department continues to be true to its mission to promote and support equal access to a quality education, from preschool through high school graduation and beyond. That vision includes efforts to improve student achievement and raise graduation rates; make education more equitable; ensure all students achieve at high standards that prepare them for college and careers; enhance the quality of assessments; and increase access to high-quality early learning.

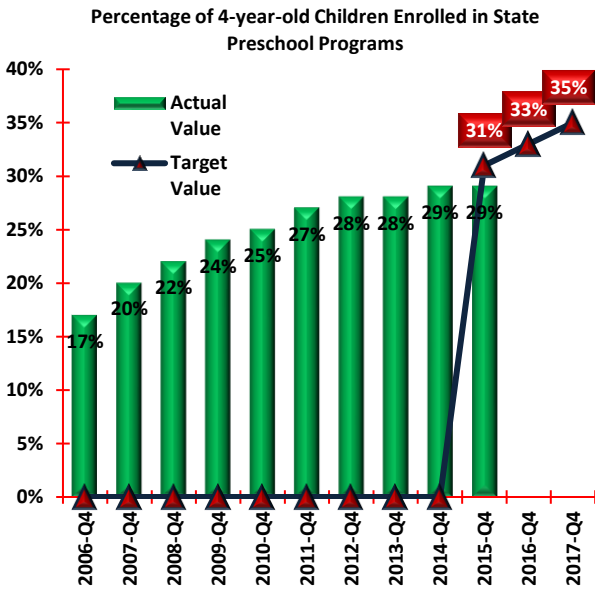
Early in FY 2016, the *Every Student Succeeds Act* (ESSA), which replaced the *No Child Left Behind Act* as the latest authorization of the *Elementary and Secondary Education Act* (ESEA), passed by substantial bipartisan majorities and was signed by President Obama. ESSA embraces many of the priorities and initiatives created or championed by the Obama administration, such as state-determined, college- and career-ready standards for every student and aligned statewide assessments that provide educators, parents, and communities with critical information each year on student progress; state-driven accountability systems that meaningfully differentiate between schools based on multiple measures; a commitment to ensuring more of our youngest learners have access to high-quality early learning opportunities; locally tailored systems for school improvement that include evidence-based interventions; and education innovation through a successor to this administration's Investing in Innovation (i3) program. The Department is focused on supporting states in the implementation of the ESSA to ensure that it provides equal educational opportunities for all students and preserves the ESEA's legacy as a civil rights law.

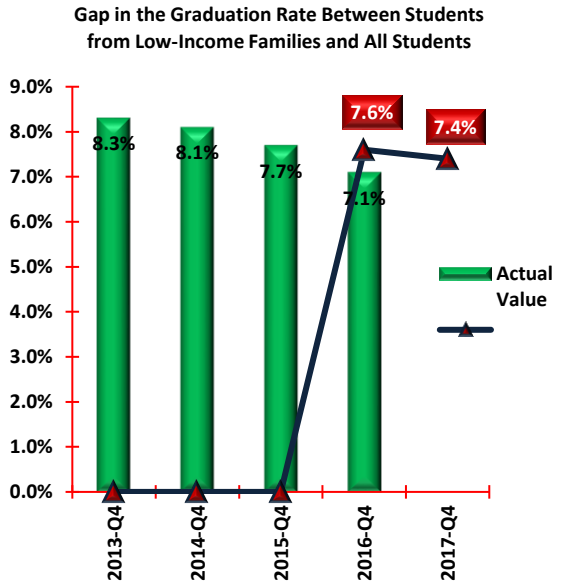
ESSA advances equity by upholding critical protections and maintaining dedicated resources for America's most disadvantaged students. The law requires that action will be taken to improve outcomes for students in schools that are among the lowest performing 5 percent of Title I schools in the state, that fail to graduate over one-third of their students, and where any subgroup of students is consistently underperforming. ESSA also creates opportunities for states to reclaim the goal of a rigorous, well-rounded education for every child—an education that not only includes math and reading, but also provides all students with access to other subjects, such as science, social studies, world languages, the arts, physical education, health, and other key areas of study. As soon as ESSA became law, the Department began developing materials to support its implementation at the state and local level. To date, the Department has published Notices of Proposed Rulemaking (NPRMs) on Title I Accountability, State Plans and Reports Cards, Assessments (Part A and Part B), and Supplement Not Supplant. In addition, six ESSA significant guidance documents have been announced.

The Department continues to build on its commitment to high-quality early childhood education through the Race to the Top—Early Learning Challenge (Early Learning Challenge) program and Preschool Development Grants, which together have invested $1.5 billion in early learning across the country. The Early Learning Challenge, which the Department jointly administers with the Department of Health and Human Services, currently supports 20 states that are implementing a cohesive system of quality early learning programs and services for young children from birth through age 5. In addition, Preschool Development Grants have served as a down payment on the President's vision for universal, voluntary access to high-quality preschool by providing high-quality learning experiences to children in 230 communities across 18 states.

Progress: As states develop their new plans to implement ESSA and support educational opportunity for all students, P–12, the nation's graduation rate is at its highest point ever—at 83 percent. Especially encouraging is that more historically underserved students, including low-income students, English learners, and students with disabilities, are graduating from high school and going to college. In fact, the progress of black and Hispanic students since 2011 has outpaced the growth of all other racial/ethnic groups. Further, in the fall of 2015, Preschool Development Grant states enrolled 28,000 4-year-olds in high-quality programs supported by the grants; 35,000 more 4-year-olds were enrolled in those programs in the fall of 2016. However, significant challenges remain—today, only 41 percent of all 4-year-olds in the United States are enrolled in publicly funded preschool through state programs, Head Start, or special education. Even fewer are enrolled in the highest-quality programs.

In FY 2016, the Department announced a new set of APGs. Among other efforts, the Department is working to increase enrollment in high-quality state preschool programs and ensure equitable educational opportunities. Two measures of our efforts to advance equity and excellence are shown below.





Data Source for Percentage of 4-year-old Children Enrolled: National Institute for Early Education Research Yearbook (The State of Preschool).
Note: Assumptions for the years predating FY 2014 do not align the school year with the fiscal year. Data beginning with FY 2014 align the school year with the actual fiscal year; however, the data are not available to be reported until the following fiscal year.
Data Source for Gap in the Graduation Rate: ED*Facts*.
Note: Data represent the previous school year's data. For example, School Year 2014–15, which corresponds to FY 2015, is being reported in FY 2016.

Expanding Support for Teachers and School Leaders

Research shows what many of us know: a great teacher is the most important in-school factor contributing to student achievement.[1,2] It also shows that the quality of the teacher at the head of the classroom is dramatically impacted by the school leader.[3] Effective school leaders ensure the skillful recruitment and placement of quality teachers. Not only that, but teachers themselves report that the quality of school leadership is often one of the biggest factors in both short- and long-term teacher retention, as well as teacher job satisfaction.[4] Yet, too many young people—especially students of color, low-income students, and other historically underserved children and youths—do not have access to the teachers and school leaders who can best help them

[1] Rivkin, S. G., Hanushek, E. A., & Kain, J. F. (2005). Teachers, schools, and academic achievement. *Econometrica*, 73(2), 417–458.
[2] Aaronson, D., Barrow, L., & Sander, W. (2007). Teachers and student achievement in the Chicago public high schools. *Journal of Labor Economics*, 25(1), 95–135.
[3] See for example Branch, G., Hanushek, E. A., & Rivkin, S. G. (2012). Estimating the effect of leaders on public sector productivity: The case of school principals. Washington, DC: National Center for Analysis of Longitudinal Data in Education Research.
[4] U.S. Department of Education, National Center for Education Statistics, Schools and Staffing Survey (SASS) "Public School Teacher Data Files," and "Private School Teacher Data Files," 2011–12.

succeed.[5] The Department has worked to help states and school districts support great educators.

For example, the Department launched the Excellent Educators for All initiative and called on states to develop plans that would give low-income students the same access to high-quality educators as their more affluent peers. In addition, the Department recently published regulations to increase transparency and establish feedback loops to help teacher preparation programs and states ensure that educators are ready to succeed in the classroom. While giving states the flexibility to determine how program performance is measured, such as how graduates are having an impact on student learning in the classroom, the regulations build on reforms and innovations already happening at the state and local levels across the country.

The Department continued to support Teach to Lead, a project that leverages the experience and expertise of teachers to lead transformation of the teaching profession and bring about better outcomes for students. Today, Teach to Lead continues its efforts to support teacher leadership by hosting regional leadership summits that spotlight and advance the groundbreaking, teacher-led work in states, districts, and schools across the country.

With the passage of the ESSA, states and districts have a great opportunity to reimagine systems and strategies to better support educators in accelerating students' performance. For example, the Department published Title II, Part A Guidance addressing three areas of opportunity: Support for Educators, Educator Equity, and Strengthening Title II, Part A Investments. It is essential that we build upon the progress made with the passing of ESSA if we are to provide every student with a rich, rigorous education.

Progress: Under the Excellent Educators for All initiative, the Department supported a $4.2 million technical support network to help states plan their efforts to increase equitable access. The Department then published a report that highlighted which states and districts fared well or poorly on teacher equity. In addition, more than 40 states have committed to developing teacher and principal evaluation and support systems that reflect the goal of ensuring that these systems provide meaningful, actionable feedback to educators to improve their practice and increase student outcomes.

Promoting Access, Affordability, and Completion in Higher Education

Skills and education promote success, and that makes a college education one of the best investments people can make in their futures. Americans with college degrees are more likely to live healthier lives, be more civically engaged in their communities, have good-paying jobs, and experience greater job security. America's students, families, and the economic strength they provide depend on a higher education system that helps everyone succeed. Achieving this goal requires making college more accessible, affordable, and accountable—especially for historically underserved students—and ensuring that students graduate in a timely way and with a meaningful degree as the basis to thrive in careers and life. That is why President Obama has worked throughout the eight years of his administration to increase college affordability, access, and completion. Since 2009, the Department has taken strong actions to offset the rising costs of higher education, including by making historic investments in federal student aid, such as expanding Pell Grants—federal financial aid offered to undergraduate students—and making student debt more manageable. The President raised the maximum Pell Grant by more

[5] Glazerman, Steven and Jeffrey Max. "Do Low-Income Students Have Equal Access to the Highest-Performing Teachers?" NCEE Evaluation Brief. Washington, D.C.: U.S. Department of Education, Institute of Education Sciences, National Center for Education Evaluation and Regional Assistance. Document No. PP11-23a, 2011.

than $1,000 over the course of his administration, and, for the first time, tied the grant amount to inflation. In 2010, the Obama administration made a landmark investment in the Pell program through the *Health Care and Education Reconciliation Act,* which ended student loan subsidies for private banks and shifted more than $60 billion in savings back to students and taxpayers.

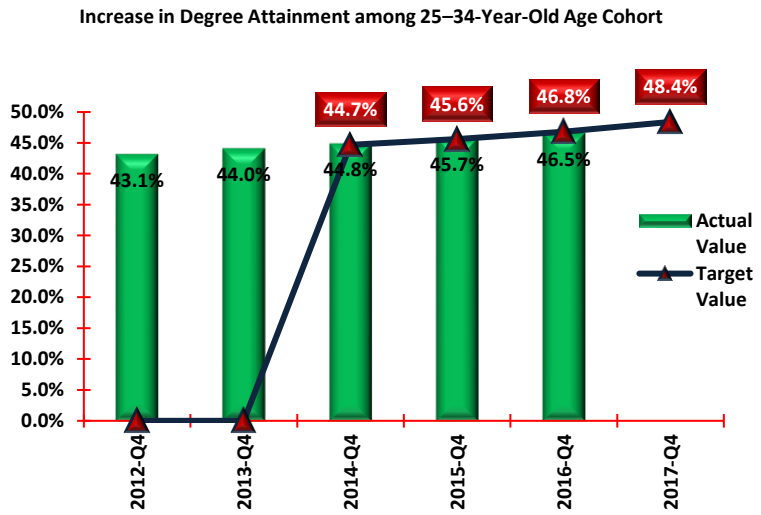
Among the ways to boost college completion is by ensuring that students and families have information to help them apply to and enroll in a school that will help them achieve their educational goals. The Department built a new College Scorecard, which helps students, families, and those who advise them to make better decisions about one of the most significant financial decisions students will make in their lifetimes—where to go to college. The College Scorecard includes comprehensive, reliable data published on students' employment outcomes and success in repaying student loans. Both the Department and other third-party developers are incorporating the data and the tool into their outreach directly to students, ensuring students and families have the information they need to find the schools that are right for them.

Another key is helping students and their families obtain financial aid by making it easier and faster for them to fill out the Free Application for Federal Student Aid (FAFSA). With this understanding, the Obama administration took major steps to streamline the FAFSA. Today, more than 99 percent of the FAFSA applications are submitted online. Moreover, among 2014–15 applicants who had filed their taxes, 58 percent of independent students and 46 percent of parents of dependent students, or over 6 million students and parents, had used the Internal Revenue Service (IRS) Data Retrieval Tool, which allows students and parents to access and automatically transfer their IRS tax return information into the FAFSA. Finally, starting October 1, 2016, for 2017–18 applicants, students and families now can apply for financial aid earlier—as the college application process gets underway—rather than in January, and most families can now electronically retrieve their tax information filed for an earlier year from the IRS Data Retrieval Tool to use on the FAFSA, rather than waiting until tax season to complete their applications.

In addition, the Department has taken comprehensive actions to protect students and taxpayers from the subset of institutions that engage in fraudulent, deceptive, and other predatory practices. That includes implementing the gainful employment rules to hold career colleges accountable for their students' outcomes; publishing the borrower defense regulations to create a streamlined process that is fair to students who may have been victims of fraud and to hold colleges accountable for risky behavior; regulations to ensure the integrity of the federal student aid programs; and increased rigor in reviewing and holding accountable colleges and accrediting agencies.

Progress: The Department's efforts to increase financial aid helped cover the cost of college by about $3,700 for more than 8 million students last year, and approximately 2 million additional Pell Grants have been awarded to students every year since the President took office. In addition to keeping student loan interest rates low, a reform that could save a typical student $1,000 over the life of his or her loan, the Obama administration improved and expanded income-driven loan repayment options to ensure loan payments remain affordable. With these plans, borrowers set their monthly student loan payment at an amount based on income and family size. As of September 2016, income-driven repayment plans have enabled more than 5 million borrowers to take advantage of affordable repayment plans based on students' incomes, up from 700,000 borrowers in 2011. Additionally, borrowers who have committed to careers in public service can have their loans forgiven after 10 years through the Department's Public Service Loan Forgiveness program.

The Department has established an APG to increase college degree attainment and continues its efforts to improve affordability, access, and student outcomes in higher education.



Data Source: NCES Digest of Education Statistics, Table 104.30, Number of persons age 18 and over, by highest level of educational attainment, sex, race/ethnicity, and age: 2015. Tabulated from Current Population Survey data, U.S. Census.

Developing and Using Data and Other Evidence

The Obama administration's robust support of evidence-based innovation gives states and school districts tools to direct their education improvement efforts toward the most effective practices. With a focus on new and promising efforts backed by research, the administration helped schools and communities create supports, partnerships, and programs to help educators tackle persistent challenges, accelerate achievement for all children and youth, and target interventions for students who were historically underserved and most vulnerable.

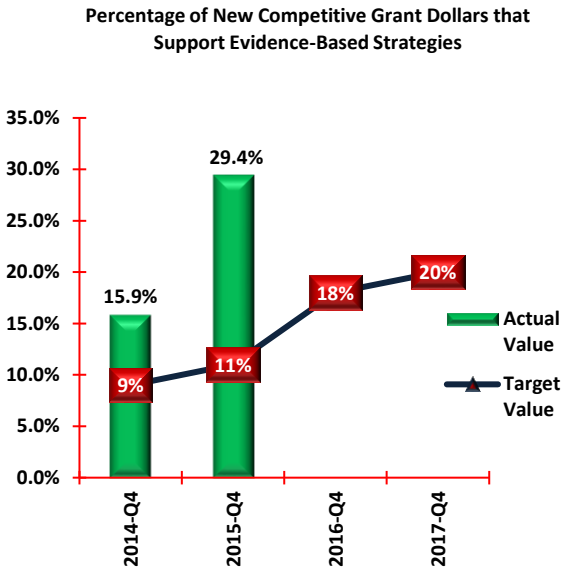
The Department has pioneered efforts that encourage grantees and practitioners to use evidence and data in ways that improve student outcomes. The Department has significantly scaled up the use of evidence-based grant-making. i3, an evidence-based grant program that was also born out of this priority for increased innovation in education, has invested more than $1.3 billion in nearly 160 projects, reaching over 2 million students in all 50 states and the District of Columbia. As part of i3, projects were required to undergo a rigorous, independent evaluation and to share the results publicly, helping to identify strategies that enable students to excel and that educators can adopt or adapt. This work is expanding the knowledge base that the education field can use to help students make even greater progress in the years ahead.

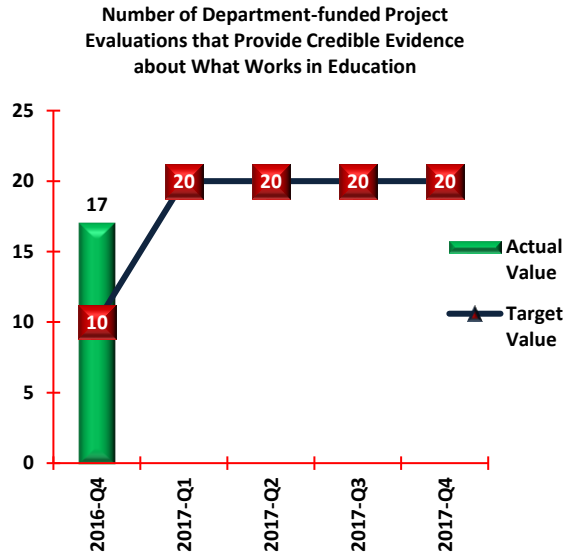
InformED is an initiative launched in 2016 to transform how the Department makes information available and actionable for internal users and the public, using open data and data transparency design concepts. The InformED initiative is building on lessons learned from the success of the College Scorecard and applying these lessons across the education spectrum, from early childhood to adult education. With resources and intuitive tools tailored to different audiences (such as researchers, policymakers and journalists), InformED is pulling together the Department's diverse array of data and studies on a particular topic, and allowing open data access to help unlock answers to pressing education questions and needs.

Progress: The Department is on track for 18 percent of new FY 2016 discretionary grant funding to support evidence-based practices. The i3 program has released 17 rigorous

evaluations that can inform the field. Through InformED, the Department has launched numerous new products that have generated significant public interest. For example, data from the Civil Rights Data Collection have been downloaded over 2,700 times. In addition, more than 1.5 million users have accessed the College Scorecard since September 12, 2015.

The Department has established an APG to enable evidence-based decision making. The graphs below show measures of our efforts to increase use and generation of credible evidence on what works and what does not work in education.





Data Source for Percentage of New Competitive Grant Dollars: Forecast Report issued by the Office of the Chief Financial Officer (OCFO) and final Funding Reports from relevant programs.
Note: Q4 data not yet available but expected in FY 2017.
Data Source for Number of Department-funded Project Evaluations: Discretionary grant slate memoranda, discretionary grant financial forecasts and reports from OCFO, and the What Works Clearinghouse.

Forward-Looking Information

This section summarizes information pertinent to the Department's future progress and success.

Direct Loan Program

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) program, provides students and their families with funds to help meet postsecondary education costs. Easing the burden of student loan debt is a significant priority for the Department. The following is a discussion of (1) the steps the Department has taken to ensure that student debt is manageable and (2) the risks inherent in estimating the cost of the program.

Managing Student Loan Debt

Each year, federal student loans help millions of Americans obtain a college education—an investment that, on average, has high returns. While the average returns to a college degree remain high, substantial inequities in outcomes exist, and some students leave school poorly equipped to manage their debt, whether due to limited labor market opportunities or high debt.

Traditionally, federal loans of this type have had flat 10-year repayment schedules, making it difficult for borrowers to pay at the start of their career when their salaries are lower. The recent introduction and expansion of the Pay As You Earn (PAYE) and related income-driven repayment plans grant students the opportunity for greater financial flexibility as it pertains to their monthly payment. For more details on these plans, visit FSA's *How to Repay Your Loans Portal*.

As the labor market declined during the financial crisis of 2008, serious challenges in student debt repayment came to the forefront of conversations. The availability of income-driven repayment plans like PAYE and an improving labor market has led to substantial improvement, signifying Departmental progress in the focus area of higher education, namely, its efforts to innovate loan program guidelines in order to make student loan debt more manageable for borrowers across the board. Recent trends in student loan repayment data show that

- More than 80 percent of Direct Loan recipients with loans in repayment are current on their loans.
- Growing numbers of borrowers are taking action and responsibility with regard to their student loans when they are in need of modifications and support. More than five million Direct Loan borrowers have enrolled in PAYE and income-driven repayment options, a substantial increase from the same figure from 2011—an enrollment of 700,000 borrowers.
- Cohort default rates for the most recent cohort of Direct Loan borrowers to enter repayment have declined for the third straight year.

The Department has made progress in this area and continues to work relentlessly to make student debt more manageable. Looking to the future, the Department will build on its recent successes by:

- Conducting significant outreach efforts to inform student loan borrowers of their repayment options, including the protections provided by income-driven repayment plans. The Department has announced a goal of enrolling two million more borrowers in plans like PAYE during the next year.

- Reinventing customer service to ensure that borrowers have access to an affordable repayment plan, high-quality customer service, reliable information, and fair treatment.
- Continuing to support additional tools like the College Scorecard and Financial Aid Shopping Sheet to increase transparency around higher education costs and outcomes, in an effort to help students and families make informed decisions before college enrollment.
- Further protecting student borrowers and taxpayers against predatory practices by postsecondary institutions with recently issued Borrower Defense regulations. These regulations clarify and simplify existing regulations that grant students loan forgiveness if they were defrauded or deceived by an institution of higher education or technical training.
- Launching an experiment to test the effectiveness of new types of, and more frequent, loan counseling for student borrowers. The experiment will test whether requiring additional loan counseling is effective in boosting academic outcomes and helping students manage their debt.

Managing Risks and Uncertainty Facing the Direct Loan Program

Direct Loan program costs are estimated consistent with the terms of the *Federal Credit Reform Act of 1990.* Under the Act, the future costs and revenues associated with a loan are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected given the inherent uncertainty involved in developing estimates. There are three types of risk that make estimating lifetime program costs a difficult task.

Legislative, Regulatory, and Policy Risk

There are inherent risks from the possibility that the cost structure of the Direct Loan program may be altered through legislative, regulatory, or administrative action. In addition, even recent legislative, regulatory, and policy action may be difficult to interpret with regard to effects on financial modeling and estimation, given the lack of actual trend data availability. Some examples of current risks include the following:

Income-Driven Repayment Plans: Several new income-driven repayment plans have been introduced in recent years, including Income-Based Repayment, PAYE, and Revised Pay As You Earn. In general, the proliferation of plans has made income-driven repayment terms more generous and made the plans available to a greater number of borrowers. The Department has also engaged in an outreach campaign to broaden borrower awareness of these plans. These trends have affected recent cost re-estimation significantly through changing the absolute cost of the plans as well as increasing participation in the plans.

Public Service Loan Forgiveness: Enacted in 2007, the Public Service Loan Forgiveness (PSLF) program allows a Direct student loan borrower to have the balance of their Direct student loans forgiven after having made 120 qualifying monthly payments under a qualifying repayment plan, while working full time for a qualifying public service employer (such as government or not-for-profit organization). There is still uncertainty as to how many borrowers will take advantage of the program. Much of this uncertainty arises because borrowers do not need to apply for the program until after having made the 120 qualifying monthly payments. While data on current applications is helpful to gauge potential forgiveness, it may not be representative of final participation figures. In addition, since the first date by which a borrower could receive forgiveness under this program is October 1, 2017, the Department does not yet have a robust set of actual forgiveness data. The available data on borrowers who have already certified their employment, nearly 500,000 borrowers as of September 2016, is less valuable

than it appears since it does not track breaks in their repayment or qualifying employment. The Department continues to remain informed on and manage the risk that may arise in relation to uncertainty about the effect of further borrower outreach on boosting participation in the PSLF program.

Borrower Defense: In May 2015, Corinthian Colleges, Inc. (Corinthian), a publicly traded company operating numerous postsecondary schools that enrolled over 70,000 students at more than 100 campuses nationwide, filed for bankruptcy under deteriorating financial conditions and while subject to multiple state and federal investigations. The Department received thousands of claims for student loan relief from Corinthian students under a provision in the *Higher Education Act of 1965* (HEA) referred to as "borrower defense." In August 2015, the Department initiated a rule-making process to establish a more accessible and consistent borrower defense standard to clarify and streamline the borrower defense process to protect borrowers. Since Corinthian, several other postsecondary schools have closed under similar circumstances, including ITT Technical Institute. The overall financial impact of activity that could lead to valid borrower defense claims, particularly in the for-profit postsecondary sector, coupled with the impact of the recently issued Borrower Defense regulations, is an area of uncertainty. The Department continues to monitor instances of this risk factor to its programs.

Estimation Risk

Actual student loan outcomes may deviate from estimated student loan outcomes, which is not unexpected given the long projection window of 40 years. The complexity of the Direct Loan program, as exemplified by the multitude of available projection paths and possible outcomes, results in inherent uncertainty. For example, estimates that need to be made for loans originating in FY 2016 include how long students will remain in school; what repayment plan will be chosen; whether the loan will be consolidated; whether the borrower will die, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed, borrower defense, etc.); if the loan will go into deferment or forbearance; if the loan will go into default and, if so, what collections will be received on the defaulted loan; and if the loan is in income-driven repayment, what the borrower's employment (public sector or not) and income and family status will be over the next 25 years. These estimates are not only extremely difficult to make but are subject to change if future student behaviors deviate from past experience. Lastly, the Direct student loan portfolio has grown from around $380 billion in FY 2011 to around $960 billion as of the end of FY 2016. This growth naturally results in increased re-estimates, since a re-estimate worth 1 percent of the portfolio today would be more than twice as large as a similar re-estimate in FY 2011 ($9.6 billion vs. $3.8 billion).

Macroeconomic Risk

There is inherent risk due to the long-term nature of the subsidy estimates, as well as the underlying uncertainty in projecting macroeconomic variables many years into the future. Some examples include the following:

Interest Rates: Direct Loan subsidy estimates are very sensitive to changes in interest rates. Recent interest rate history has been anomalous, as interest rates have continued to remain lower than their historical averages. Future interest rate "shocks" could result in actual subsidy costs that deviate from estimated subsidy costs. Under the current program terms, the fixed borrower rates for direct loans are established in advance of the upcoming school year, while the Treasury fixed interest rate on borrowings to fund those loans is not set until after those awards are fully disbursed, which can be as much as 18 months later. Unexpected changes in interest rates during this time can significantly impact the subsidy cost of these loans.

Unemployment: The financial crisis of 2008 and ensuing spike in unemployment rates had a dramatic effect on both student loan volume and student loan performance. Student loan volume peaked along with unemployment, as many displaced workers sought higher education opportunities. Student loan performance suffered as many borrowers repaying their loans were left with much less disposable income with which to make their loan payments. For example, default rates for students in two-year schools, which were at a low of 4.6 percent, for loans entering repayment in 2005, began an upward trend reaching as high as 10.0 percent for loans entering repayment in 2011. While recessions and economic downturns are cyclical phenomena, their exact timing and impact on the subsidy estimates remain an area of uncertainty.

Wage Growth: The estimated costs of income-driven repayment plans are largely dependent on trends in observed wage growth. To the extent that future wage growth deviates significantly from prior wage growth, actual subsidy costs of income-driven repayment plans may deviate from projected subsidy costs. The Department continues to manage risks in this area by continuing to learn about its borrower base and remain informed on such labor market statistics.

Continuous Improvement

Improving critical infrastructure, systems, and overall capacity and ensuring sound strategic decision making regarding allocation of resources are essential to the Department's future progress and success. Exploring the use of shared services and incorporating enterprise risk management are two of the Department's key initiatives.

Shared Services

In alignment with OMB Memorandum M-13-08 and the Office of Financial Innovation and Transformation's Federal Agency Modernization Evaluation framework, the Department and Treasury's Administrative Resource Center (ARC) explored ARC's existing core financial management system and its ability to meet the Department's modernization requirements. During FY 2016, the Department and ARC collaboratively delivered a high-level *Readiness Assessment Report* on migration to ARC's solution set. Beginning in FY 2017, the Department and ARC will restart discussions at a more detailed level regarding the Department using ARC's Shared Service solution set for its core financial system.

Enterprise Risk Management

The Department recently established an Enterprise Risk Management Council. The purpose of the council is to promote effective mission achievement by incorporating enterprise risk management into the basic fabric of how the Department conducts strategic decision making and allocates resources. The council serves as the primary governance structure and coordination point for enterprise-level direction setting with regard to risk management as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.* In FY 2017, the council will oversee the development of a risk profile and work to increase the consistency and integration of risk management practices across the Department.

Financial Highlights

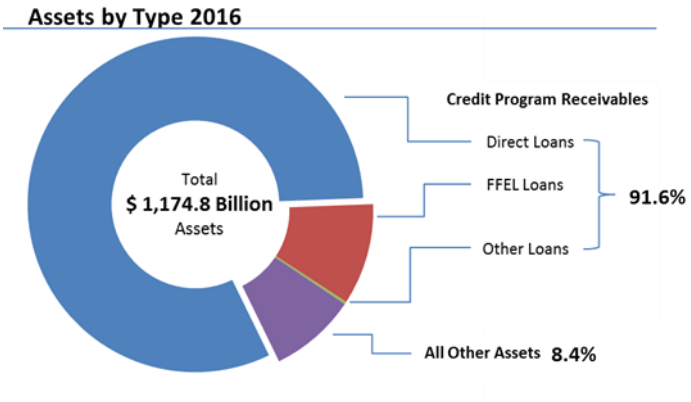
Introduction

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 also provides a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces complete, 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 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 15 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2016 are on pages 46–83 and the Independent Auditors' Report begins on page 92.

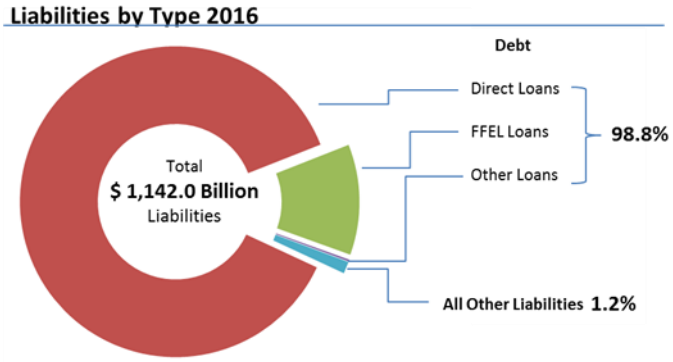
Balance Sheet

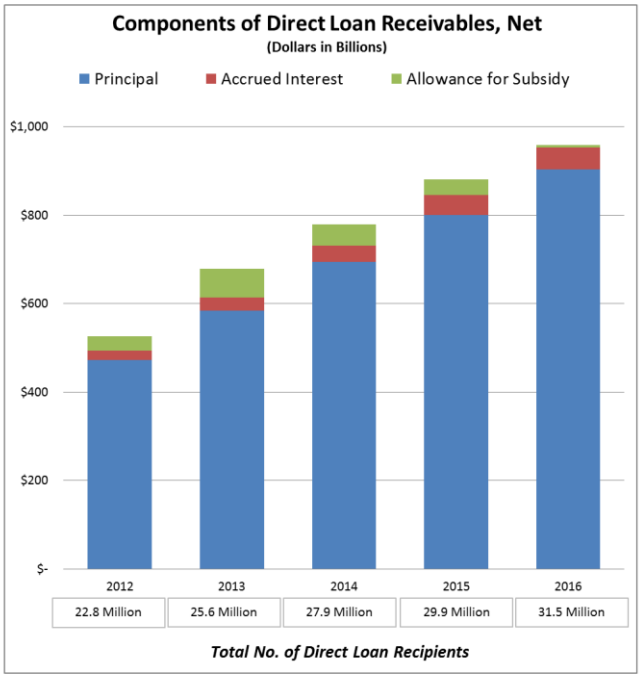
The consolidated balance sheet presents, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.



The Department's assets totaled $1,174.8 billion as of September 30, 2016. The vast majority of the assets relate to credit program receivables, which comprised 91.6 percent of all assets. Direct loans comprise the largest share of these receivables, totaling $958.9 billion. All other assets totaled $98.2 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,142.0 billion as of September 30, 2016. As with assets, the vast majority of the Department's liabilities are associated with credit programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. This debt totaled $1,127.8 billion as of September 30, 2016.





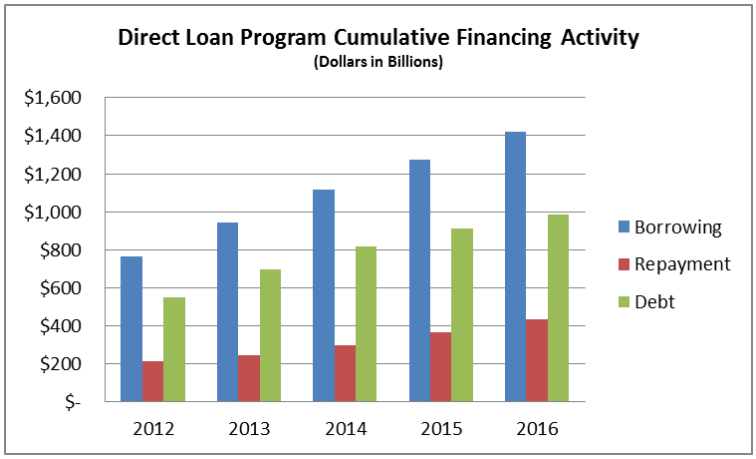
The chart to the left shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program has originated fewer new loans each year since FY 2012 as a result of stagnant and in some cases declining enrollment, coinciding with the recovery from the 2007–09 recession. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers now have more options to stretch out their repayment terms and reduce their monthly payments.

The positive allowance for subsidy represents an estimate of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. This positive allowance for subsidy results primarily from the difference between the interest rates charged by the Department to borrowers and the interest rates charged to the Department on amounts borrowed from Treasury to make the loans. The reduction in the allowance since FY 2013 is due primarily to higher subsidy costs, the main cause being high participation in income-driven repayment plans. Participation in income-driven repayment plans has increased as (a) new plans have become available that are more advantageous to borrowers, (b) new plans have become available that expand the potential pool of borrowers, and (c) the Department has conducted targeted outreach to borrowers to make them aware of their potential eligibility for these plans.

The table on the right shows the payment status of the Direct Loan principal and interest balances outstanding. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans refinanced pursuant to income-driven repayment plans. The Payments Temporarily Postponed category includes payments that have been temporarily suspended due to circumstances such as current enrollment in school, grace periods, and financial hardships.

Payment Status of Direct Loan Principal and Interest Balances
(Dollars in Billions)

Loan Status	FISCAL YEAR			
	2013	2014	2015	2016
Current Repayment	$188.5	$247.2	$332.0	$406.8
Payments Temporarily Postponed	$336.0	$379.6	$387.3	$396.1
Delinquent	$47.8	$54.6	$65.1	$71.8
Default/Bankruptcy/Other	$41.5	$49.8	$60.7	$78.9
Total Dollar Amount of Direct Loans Outstanding	**$613.8**	**$731.2**	**$845.1**	**$953.6**
Total No. of Direct Loan Recipients (in Millions)	25.6	27.9	29.9	31.5

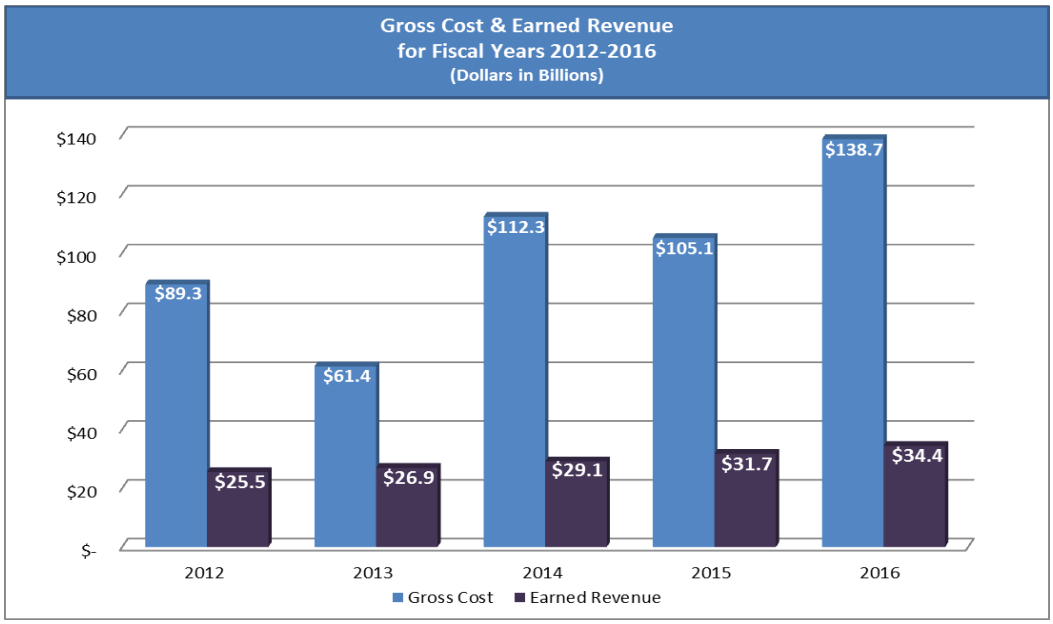


Loans in the Delinquent category are considered in "repayment" status, but payments are anywhere from 31 to 360 days late. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. The percentage of loans in default continues to grow, even as delinquencies and new defaults have declined, because defaulted loans can be difficult to collect on or rehabilitate. The percentage of the portfolio in current repayment, which rose from 31 percent in FY 2013 to 43 percent in FY 2016, has eclipsed payments temporarily postponed and has grown far faster than loans in default. This trend coincides with an improving economy and matches what has been seen in other areas of commercial lending.

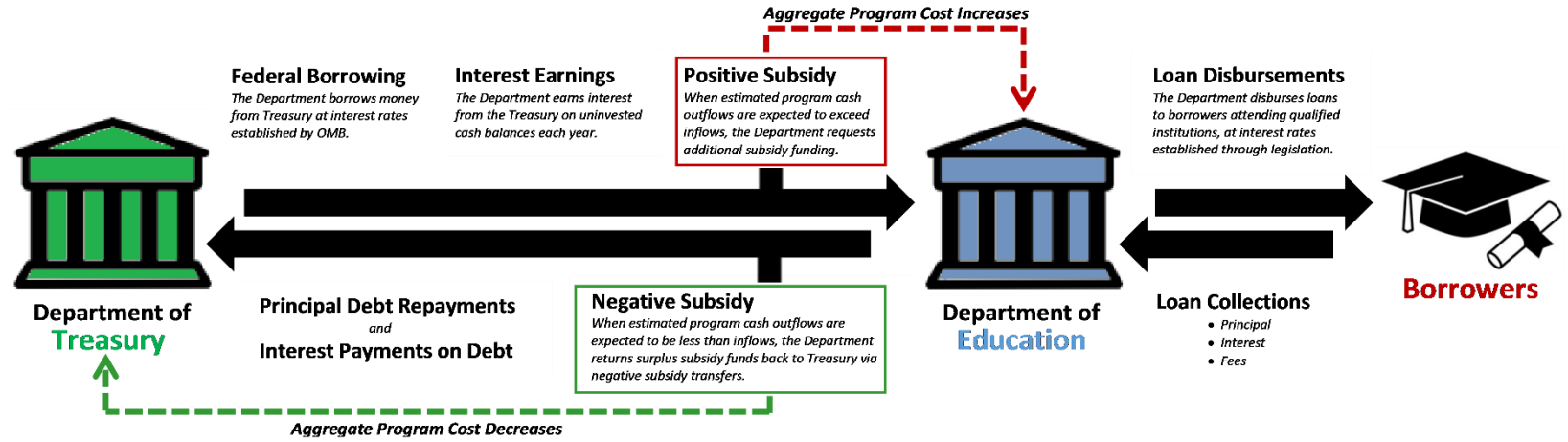
The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows as mandated by the *Federal Credit Reform Act of 1990* (FCRA). The chart to the above right shows the Direct Loan program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan program financing process is displayed with related trend data on page 23 of this report.

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 cost incurred less any exchange (i.e., earned) revenue from activities. Gross cost is composed of the cost of credit and grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.



William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans

Fiscal Year	2012	2013	2014	2015	2016
Borrowing from Treasury	175,881	177,682	171,227	159,667	146,992
Debt Repayments to Treasury	(18,923)	(28,653)	(50,581)	(68,747)	(62,634)
Net Borrowing	**156,958**	**149,029**	**120,646**	**90,920**	**84,358**
Interest Expense to Treasury	(20,643)	(22,661)	(25,152)	(27,593)	(30,503)
Interest Earned from Treasury	4,265	3,409	3,670	4,206	3,943
Current Subsidy Expense (Revenue)	(10,720)	(39,557)	8,126	(892)	16,119
Cumulative Taxpayer Cost / (Savings)	**(32,076)**	**(65,247)**	**(47,358)**	**(35,496)**	**(5,292)**

******All figures are rounded in millions of dollars. Further details of these figures can be found in the Financial Section of this report.******

Direct Loan Program Cash Transactions with Borrowers

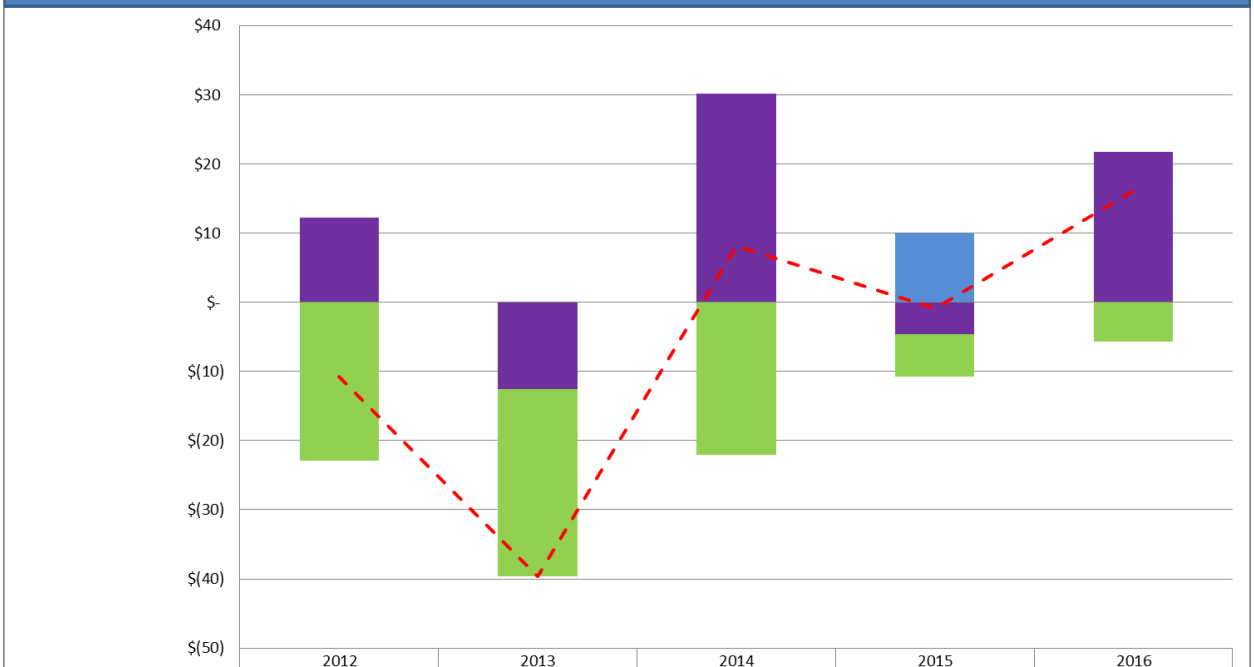
Fiscal Year	2012	2013	2014	2015	2016
Loan Disbursements	**142,286**	**129,512**	**134,052**	**142,248**	**140,525**
Stafford Subsidized	27,095	26,530	25,877	23,953	23,752
Stafford Unsubsidized	58,440	56,122	54,740	52,698	52,254
Parent PLUS	20,720	19,388	18,910	19,163	19,001
Consolidation	36,031	27,472	34,525	46,434	45,518
Loan Collections	**25,257**	**36,222**	**48,774**	**65,068**	**73,173**
Principal	18,079	26,419	36,257	49,967	55,892
Interest	5,480	8,147	10,763	13,351	15,457
Fees	1,698	1,656	1,754	1,750	1,824

Analysis of Direct Loan Program Subsidy Expense

One of the components significantly impacting the Department's gross costs pertains 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 costs annually for new loans disbursed in the current year; 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 five years.

Direct Loan Program Subsidy Expense
(Dollars in Billions)



	2012	2013	2014	2015	2016
Subsidy Expense for New Loans Disbursed in the Current Year	$(22.9)	$(27.0)	$(22.1)	$(6.2)	(5.7)
Subsidy Re-estimates	12.2	(12.6)	30.2	(4.6)	21.8
Subsidy Modification	-	-	-	9.9	-
Total Subsidy Expense	$(10.7)	$(39.6)	$8.1	$(0.9)	16.1

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 expense for new loans disbursed in the current year 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 2016, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy cost by $4.8 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 the repayment plans available to Direct Loan borrowers 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 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 modification increased subsidy expense that resulted from lower expected loan repayments.

Direct Loan program re-estimated subsidy cost was adjusted upward by $21.8 billion in FY 2016. The re-estimates reflect several updated assumptions: however, in this case, the size of the net upward re-estimate was due largely to collection rates on defaulted loans and repayment plan selection. Actual collections on defaults since FY 2011 were lower than anticipated, which reduced estimated lifetime rates and increased the cost to the Department by $10.1 billion. For repayment plan selection, a greater percentage of borrowers chose costlier plans than had been estimated and increased the cost to the Department by $8.1 billion. The percentage of borrowers choosing an income-driven repayment plan was the primary cost driver for that assumption.

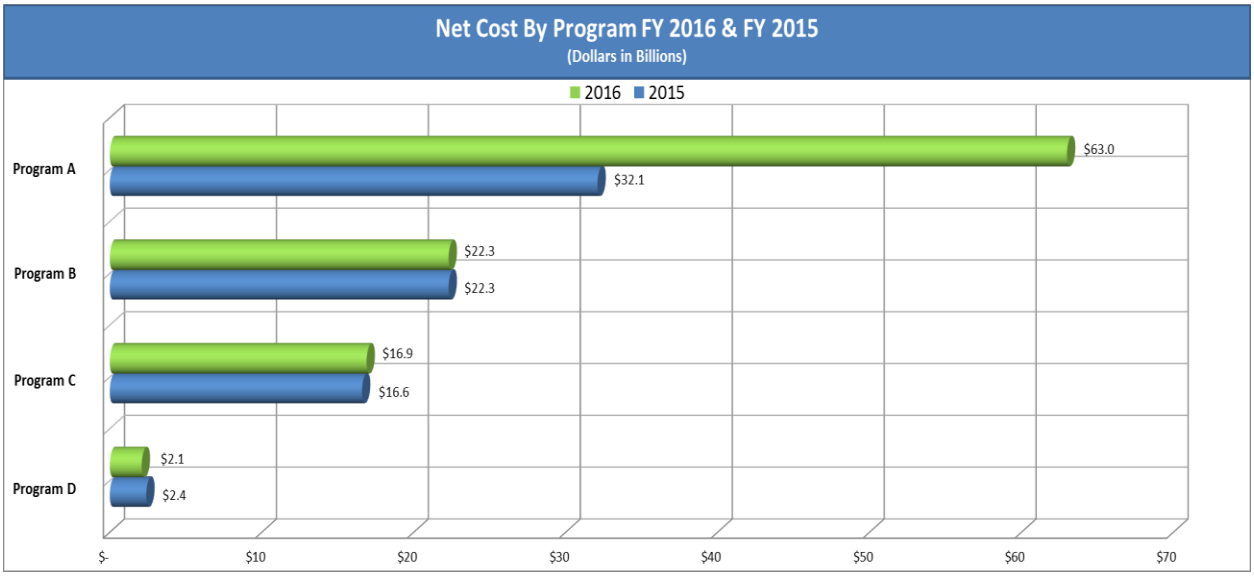
Analysis of Net Cost by Program

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 2014–18 Strategic Plan*. As further described in the performance section of the Management's Discussion & 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.

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.

Net Cost Program	Program Office	Strategic Goal
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 Department has more than 100 grant and loan programs (www.ed.gov/programs/inventory.html). In the statement of net cost, they have been mapped to the applicable strategic goals. The Department's FY 2016 expenditures for grant programs totaled over $75 billion. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* 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. The following table presents a breakdown of net cost by program for FY 2016 and FY 2015.



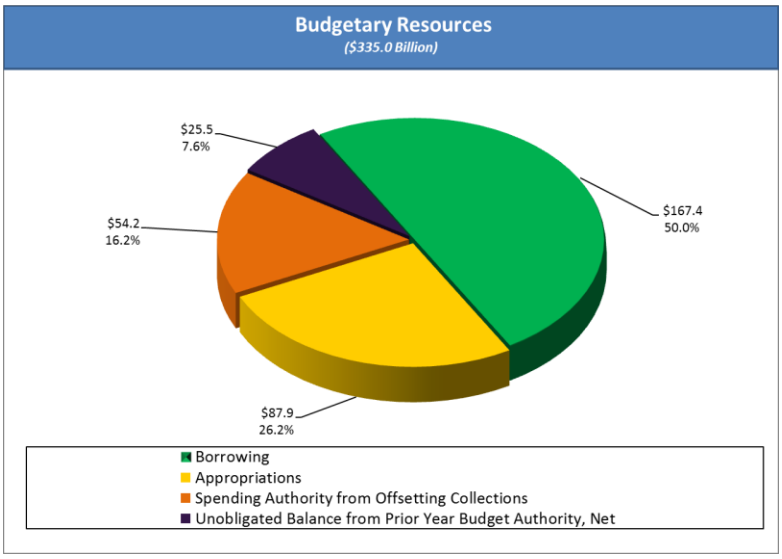
The FY 2016 increase in net cost for Program A is primarily attributed to subsidy loan expenses. FY 2016 Direct Loan program and FFEL program subsidy expense increased by $17 billion and $14 billion, respectively, from FY 2015 subsidy expense amounts.

Statement of Changes in Net Position

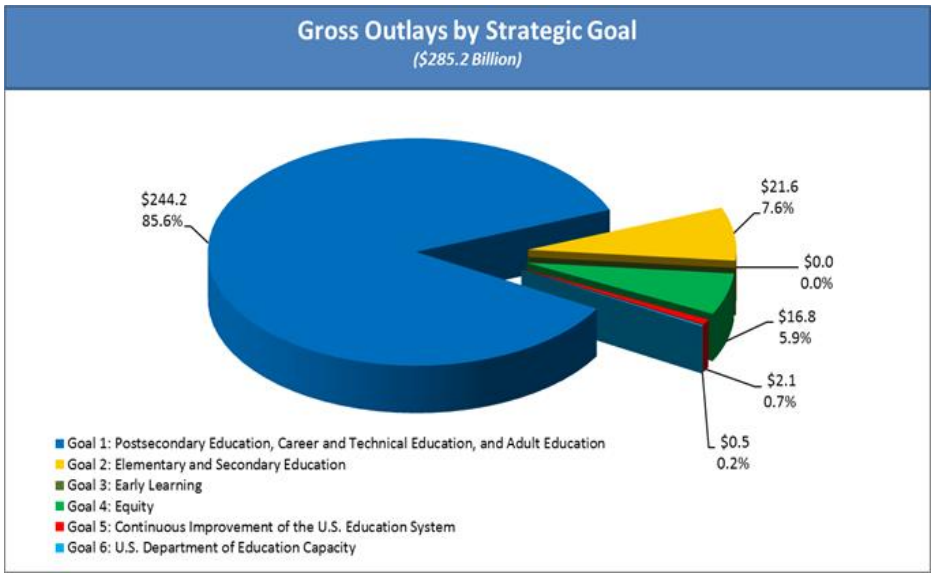
The consolidated statement of changes in net position reports the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended 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 $32.8 billion for the period ended September 30, 2016. This reflects a 40 percent decrease over the net position of $54.8 billion from the prior fiscal year.

Statement of Budgetary Resources

The combined statement of budgetary resources presents information on how budgetary resources were made available and their status at the end of the fiscal year. Information in this statement is reported on the budgetary basis of accounting as prescribed by OMB and Treasury.



The Department's budgetary resources totaled $335.0 billion for the period ended September 30, 2016, decreasing from $349.7 billion, or approximately 4.2 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $103.2 billion and non-budgetary credit reform resources of $231.8 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.



Gross outlays of the Department totaled $285.2 billion for the period ended September 30, 2016, and consisted of appropriated budgetary resources of $88.4 billion and non-budgetary credit program funding of $196.8 billion. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Additional information on the Department's sources and uses of funds is shown in the schedule of spending on page 133. This schedule includes sections titled, "What Money Is Available to Spend," "How Was the Money Spent," and "Who Did the Money Go To."

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2016 and FY 2015, 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

Management Assurances

The Secretary of Education's 2016 Statement of Assurance provided below is the final report produced by the Department's annual assurance process.

STATEMENT OF ASSURANCE
FISCAL YEAR 2016
November 14, 2016

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 Enterprise Risk Management and Internal Control,* management evaluated the effectiveness of the Department's internal controls to support effective and efficient programmatic operations, reliable 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, including controls designed to prevent, detect, and recover improper payments, in accordance with Appendix A of OMB A-123.

The Department has not identified any material weaknesses in operations, reporting, or compliance with applicable laws and regulations.

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, 2016.

John B. King, Jr.

Introduction

Strong risk management practices and internal control help an entity run its operations efficiently and effectively, report reliable information about its operations and financial position, and comply with applicable laws and regulations. The 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 Enterprise Risk Management and Internal Control* implements FMFIA and defines management's responsibilities for ERM and internal control. The Circular provides guidance to federal managers to improve accountability and effectiveness of federal programs as well as mission support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. 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 2016 to meet the three objectives.

Control Framework and Analysis

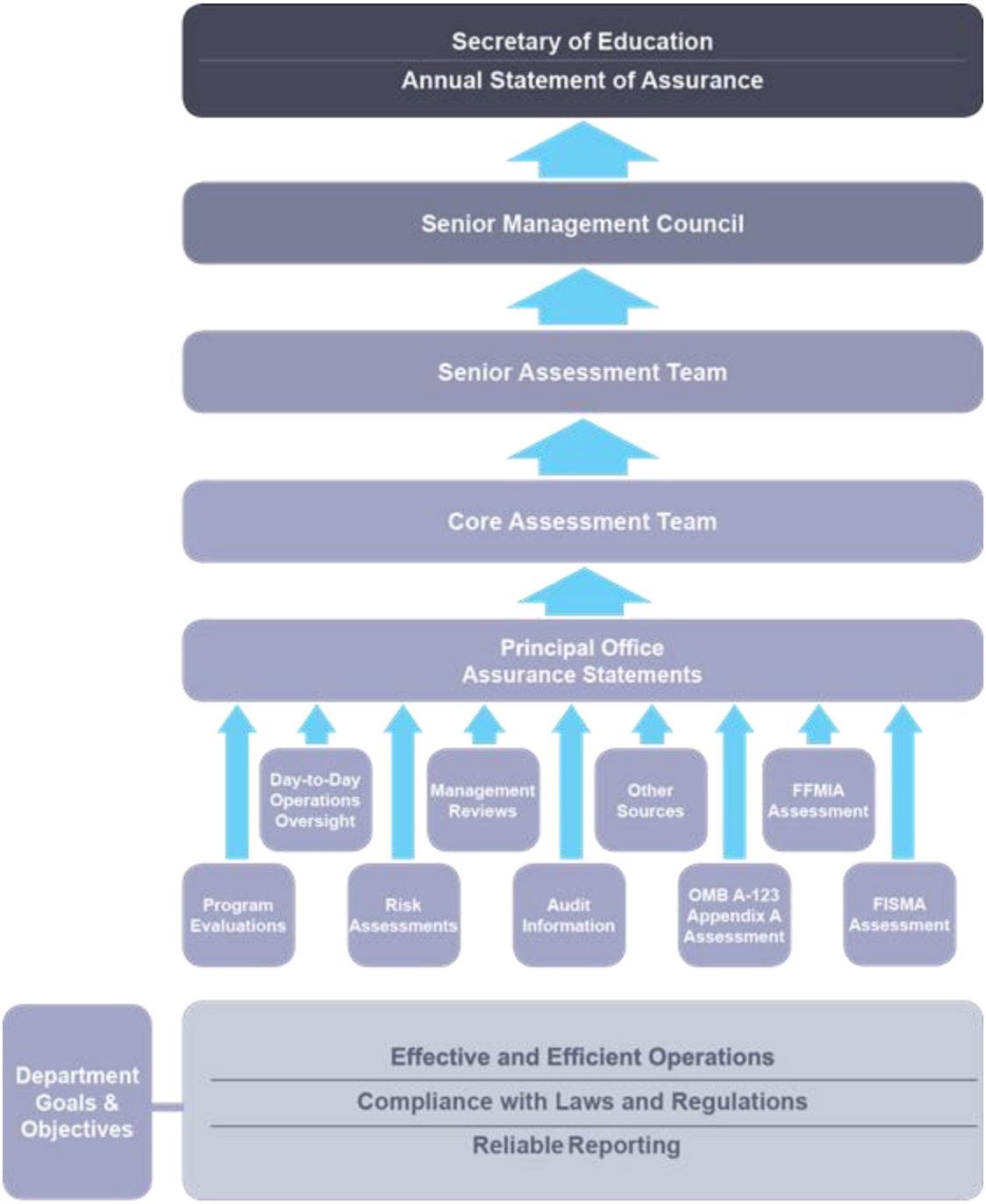
As indicated in the performance management section above, the Department's *Strategic Plan*, including the six FY 2016–17 APGs, sets the foundation for determining the Department's mission goals and objectives. Underpinning the Department's internal control framework are its organizational structure, people, processes, policies and procedures, systems, controls, 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 and preparing accurate reports. This includes providing 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, a Senior Assessment Team (SAT), and a Core Assessment Team (CAT). The Senior Management Council is comprised of senior leaders from across the Department who provide strategic direction and guidance to the SAT and CAT. The SAT and CAT include representatives from OCFO, the Office of the Chief Information Officer (OCIO), student loan and grant-making program offices, Risk Management Service, and other

operational support offices (including the Office of Management). The SAT and CAT provide greater oversight and monitoring of activities related to internal control assessments.

The annual assurance process is the primary mechanism by which the Department implements FMFIA and OMB requirements pertaining to internal control. It requires the head of each principal office to evaluate its respective internal controls and to assert, in a letter to the Chief Financial Officer, that it has reasonable assurance that key internal 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 their assessment, principal office staff consider information such as office managers' personal knowledge of operations, external audit results, internal assessments, and other related material.

OCFO staff work with the principal offices to help them identify potential control deficiencies and consults with the SAT to determine whether they represent significant deficiencies or potential material weaknesses. Any principal office that identifies a significant deficiency or material weakness must prepare a Corrective Action Plan to address the issue. These Corrective Action Plans, in addition to daily operational oversight and management-initiated evaluations, facilitate the correction and monitoring of controls. If potential material weaknesses are identified, they are evaluated by the Senior Management Council to determine if they should be 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. The Department also considers issues identified by external auditors. During FY 2016, the Department revised its annual assurance process to conform to the new requirements contained in the revised U.S. Government Accountability Office publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book"). Additionally, the Department overhauled its entity-level assessment to reflect the updated Green Book.

In FY 2016, 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 Internal Control Exceptions section below. Although no material weaknesses were identified, the Department realizes that it has areas of control that need further strengthening, such as those disclosed in this report and the major challenges identified by the Department's OIG in its *OIG FY 2017 Management Challenges* report. The Department continues to demonstrate its commitment to addressing, mitigating, or resolving its identified management challenges, at the level of root cause, to ultimately eradicate systemic and persistent barriers to achieving its mission, and optimal performance.

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 1,716 key financial and operational controls that align to the business processes[6] (the Department monitors 312 key controls and FSA monitors 1,404 key controls [243 entity-level controls, 850 servicer controls, 311 FSA controls]),
- technical assistance provided to principal offices to help them understand and assess key financial controls,
- a risk-based testing strategy, and
- a process to develop corrective action plans when control deficiencies are found and to track progress against those plans.

During FY 2016, the Department tested 150 key financial controls. Although some weaknesses were detected in the design and effectiveness of controls, the Department did not identify any material weaknesses. Corrective actions have been initiated for the deficiencies identified.

Furthermore, to ensure data accuracy and strengthen internal controls, the Department migrated 20 of its manual reconciliations to an automated reconciliations platform. The Department has undertaken a broader FM segment modernization plan and has identified further manual reconciliations to be automated in the future.

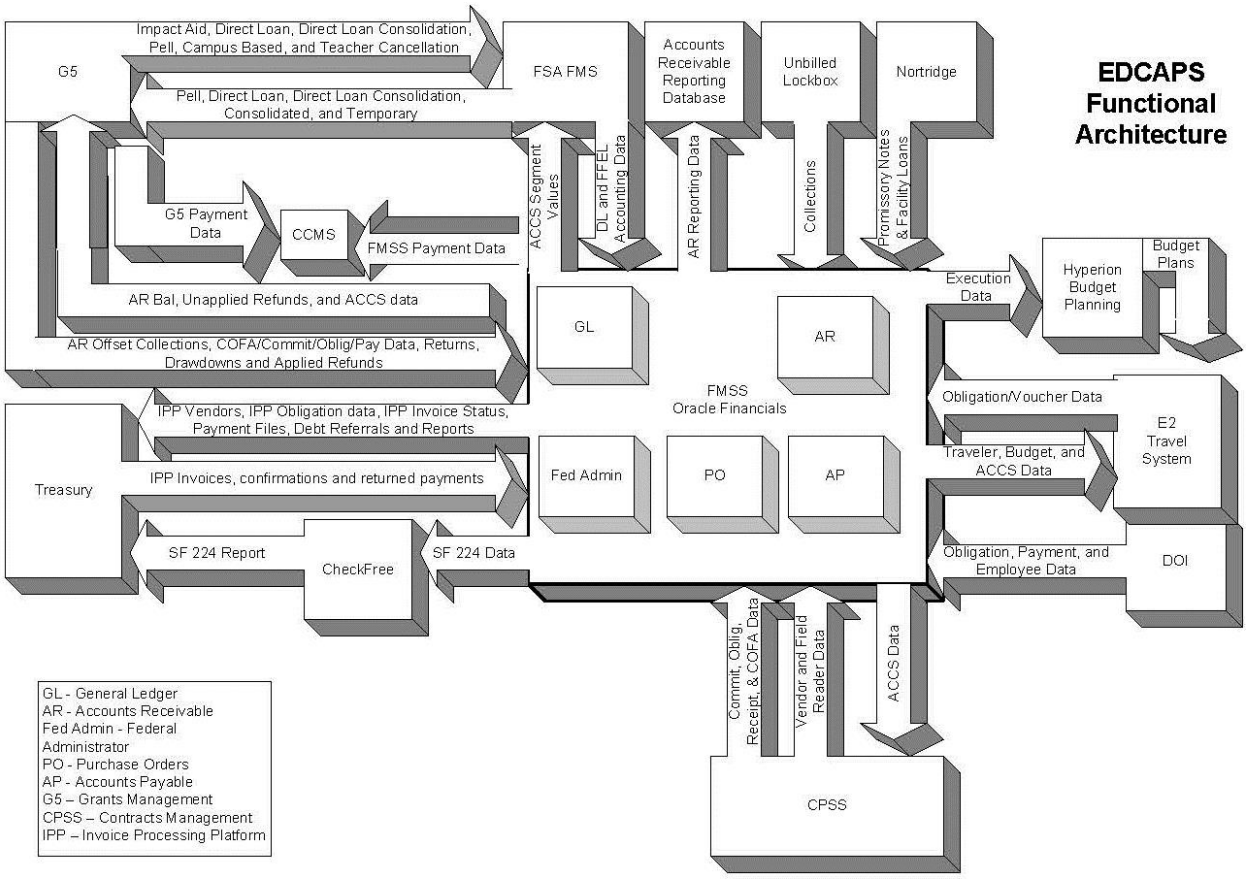
Internal Control over Financial Management Systems

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger 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, *Managing Federal Information as a Strategic Resource,* provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

The Department's core financial systems are under the umbrella of the Education Central Automated Processing System (EDCAPS), serving approximately 8,800 Departmental internal users in Washington, D.C., and 10 regional offices throughout the United States, as well as 39,600 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.

[6] These figures include FSA.



The Department designated the FMSS as a mission-critical system that provides core financial management services, and focused its system strategy on the following areas during FY 2016:

- managing and implementing cross-validation rules throughout the fiscal year to prevent invalid accounting transactions from being processed,
- developing an interface solution with FSA to eliminate the manual collections processing of funds returned to the Department for Perkins Loan Program,
- transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the USASpending.gov initiative as part of the *Federal Funding Accountability and Transparency Act of 2006,*
- meeting required timelines for a successful *Digital Accountability and Transparency Act of 2014* (DATA Act) implementation, and
- establishing transaction assurance reports for validating the condition of data processed through external interface files.

In FY 2017, EDCAPS will continue to provide customer service and improve security of its systems by completing the Department's compliance with Homeland Security Presidential Directive (HSPD-12) user access requirements. The Department is also working to implement interface enhancement between the Invoice Processing Platform and FMSS to automate the receipt creation process, the Purchase Order balances and invoices matching process, and the invoice approval process in FMSS.

The Department's financial management systems are designed to support effective internal control and produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and the results of external audits, the Department has not identified any 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 in the Internal Control Exceptions section, the Department continues to address issues and improve its controls over systems.

Federal Information Security Modernization Act of 2014

The *Federal Information Security Modernization Act of 2014* (FISMA) requires federal agencies to develop, document, and implement an agencywide 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.

The Department's and FSA's information security programs completed a number of significant activities in FY 2016 to improve cybersecurity capabilities and functions, some of which included:

- With the issuance by OMB of the federal government's Cybersecurity Strategy and Implementation Plan (CSIP), the Department focused many of its efforts in FY 2016 to address the recommendations and actions highlighted in the CSIP in order to resolve any cybersecurity gaps and emerging priorities that were noted across the government. The CSIP required the Department to prioritize the identification and protection of high-value information and assets. The Department completed this action, which will enable the Department to better understand the potential impact from a cyber incident, and helps to ensure that robust physical and cybersecurity protections are in place for our high-value assets (HVAs).
- The Department continued to enhance the capabilities of the Department's Security Operations Centers (SOCs). The Department has fully deployed the Einstein capabilities in order to enhance our ability to detect cyber vulnerabilities and protect against cyber threats. The Department has also continued to strengthen its partnership with DHS for the project planning that will accelerate the deployment of Continuous Diagnostics and Mitigation (CDM) capabilities. This will further enhance capabilities that the Department initiated in 2016 to implement network access control (NAC) and data loss prevention (DLP) solutions. The CDM solution will also enable the Department to enhance our configuration management capabilities.
- The Department continued its progress of implementing and enforcing the use of multifactor authentication for all federal employees, contractors, and other authorized users. The Department and FSA focused on increasing the issuance of Personal Identity Verification (PIV) and PIV-I two-factor authentication cards to privileged users to meet OMB requirements.
- The Department made significant strides in its identification, tracking, and remediation of unsupported software across the enterprise.
- The Department achieved all targets in the completion of required annual cybersecurity training courses, and also successfully completed a number of phishing exercises. Of note, 100 percent of Department users completed the annual computer security and privacy awareness training course. The Department strictly enforced compliance with annual

security and privacy awareness training requirements, and disabled network accounts for noncompliant users.

- There has also been an increased Departmental focus on data security at institutions of higher education (IHEs). FSA issued a new "Dear Colleague Letter" to IHEs that receive financial aid stressing the need to comply with the *Gramm-Leach-Bliley-Act* (GLBA) standards and announcing that these standards would now be included in future reviews to be conducted by the Department. The Department recognizes that it is vital to focus on cybersecurity at these IHEs as they connect to FSA systems and access FSA data. It is noteworthy that the Department has successfully implemented two-factor authentication for all external users of the G5 system, which is a customer-facing grants management system. The Department has also engaged the General Services Administration to investigate the use of Login.gov for two-factor authentication to other Department citizen-facing information systems.

As a result of the Department implementing a comprehensive set of activities to strengthen the overall cybersecurity of the Department's networks, systems, and data, significant improvements in its information security program were highlighted by the Department completing actions to close 25 of the 26 recommendations to address the 16 findings made by the OIG in its FY 2015 annual FISMA audit. For the FY 2016 annual FISMA audit, the OIG is only reporting 15 recommendations to address 11 findings, which reflects a noteworthy drop in the total number of findings and recommendations from the previous reporting year.

The OIG FISMA Audit objective was to conduct annual independent evaluations and tests to determine the effectiveness of the information security program policies, procedures, and practices of the Department. Unfortunately, the OIG was provided revised guidance in the last week of the fiscal year for how to score and assess the effectiveness and maturity levels achieved in each of the major parts of the Department's information security program. This late issuance of the guidance left the Department unable to prioritize or allot resources early in the fiscal year to better address some of the specific criteria that were part of the new OIG scoring methodology. The FY 2016 OIG FISMA reporting metrics are organized around the five security functions outlined in the National Institute of Standards and Technology's (NIST) Framework for Improving Critical Infrastructure Cybersecurity (Cybersecurity Framework): Identify, Protect, Detect, Respond, and Recover. The overall results of the OIG audit work for FY 2016 determined that the Department's implementation of two of the five Cybersecurity Framework security functions were assessed to be effective and were rated to be at the highest maturity level. The two Department security functions that were determined to be effective are the security elements of Identify and Recover. The OIG also assessed that the Department needed to continue to make improvements in order to achieve effective maturity level ratings in the Cybersecurity Framework security functions of Protect, Detect, and Respond.

The FY 2016 Financial Statement Audit report contained three new recommendations for the Chief Information Officer's attention:

- Ensure the update, review, approval, and dissemination of the Information Assurance/Cybersecurity Policy and associated guidance is completed in order to comply with NIST standards and OMB guidance;
- Design and implement controls over the handling of Department security and privacy incidents to ensure their resolution is properly documented; and

- Strengthen and refine the process for holding system owners and information system security officers accountable for remediation of control deficiencies and ensuring that the appropriate security posture is maintained for Department and FSA information systems.

The following recommendations were noted as "Repeat Findings" in the audit report:

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

The Department Chief Information Officer concurs with the recommendations and will be developing the required corrective action plans to address them.

Internal Control over Payments

The Department's FY 2016 Statement of Budgetary Resources reports $285 billion in total outlays, consisting of appropriated budgetary resources of $88 billion and non-budgetary credit program funding of $197 billion. The Department developed robust internal controls to ensure payment integrity and to prevent, detect, and recover improper payments. Key controls related to payment integrity include:

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

Additionally, the Department must rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational authority and present higher risks, as evidenced by the OIG work identifying instances of questioned costs and restitution payments.

As described below, in FY 2016, the Department determined that its Pell Grant 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.

In addition, the Department launched Phase I of the Payment Integrity Workgroup in FY 2016 to catalog internal controls around payment integrity to ensure proper payments. Starting in late FY 2016, Phase II of the project is in process to further define and demonstrate payment integrity. The workgroup plans to work collaboratively with process owners to validate internal control measures, develop corrective action plans, address gaps, and ensure the accuracy of the specific controls. The desired outcome of this effort is to minimize improper payments,

improve risk assessment and response, develop more efficiency in the process, and increase positive assurance submissions.

Internal Control Exceptions

The Department identified two instances of noncompliance with laws and regulations in FY 2016. Additionally, reviews and assessments conducted pursuant to information technology-related laws and regulations identified challenges still facing the Department.

Improper Payments Information Act of 2002

The *Improper Payments Information Act of 2002*, 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. IPERA also requires agency Inspectors General to review agency improper payment reporting in the AFR and accompanying materials, and to determine whether the agency has met six compliance requirements.

OIG audits of the Department's IPERA compliance for FY 2015 and FY 2014 found that the Department was not compliant, because estimated improper payments for the Direct Loan program those years did not meet the annual reduction target published in the prior year AFR. The complete OIG reports are available for review at the OIG website. A detailed description of the findings and corrective actions related to this issue of noncompliance is presented in the Other Information section of this report.

We anticipate that the 2016 OIG audit will again find that, as of September 30, 2016, the Department was not compliant with IPERA because the FY 2016 improper payment rates did not meet the annual reduction targets for the Direct Loan or Pell Grant programs published last year.

This determination of noncompliance with the IPERA does not represent a material weakness in the Department's internal controls.

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 DATA Act, Pub. L. 113-101, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require referral of delinquent debt to Treasury's Offset Program within 120 days.

Due to unique program requirements of HEA, the Department requested guidance from Treasury's Bureau of Fiscal Service, Office of General Counsel for the application of this revised DCIA requirement to Title IV debt. Treasury provided its interpretation of this requirement for Title IV debt in July 2015. As of September 30, 2016, 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 its loan servicing systems, procedures, and internal processes in response to this interpretation. During FY 2016, FSA did identify policy changes required to work towards achieving compliance. As of the end of FY 2016, FSA is vetting these policy

changes and expects to begin a multiple-year implementation in FY 2017. This area of noncompliance is noted in the independent auditors' report, exhibit B.

This determination of noncompliance with the DCIA does not represent a material weakness in the Department's internal controls.