

Fiscal Year 2026 Agency Financial Report

U.S. DEPARTMENT OF EDUCATION

U.S. Department of Education
Linda E. McMahon
U.S. Secretary of Education

Office of Finance and Operations
Casey K. Sacks, Ph.D.
Delegated the Duties of
Chief Financial Officer Office of Finance and Operations
U.S. Department of Education

November 16, 2026

This report is in the public domain. Authorization to reproduce it in whole or in part is granted. While permission to reprint this publication is not necessary, the citation should be U.S. Department of Education, *Fiscal Year 2026 Agency Financial Report, Washington, DC*.

This report is available at **http://www.ed.gov/about/reports/annual/index.html**

NOTICE OF AVAILABILITY OF ALTERNATE FORMATS

On request, the report also is available in alternative formats, such as Rich Text Format (RTF) or text format (txt), a thumb drive, an MP3 file, braille, large print, audiotape, compact disc, or other accessible format. For more information, please contact our Alternate Format Center at 202-260-0852 or the 504 coordinator via email at **om_eeos@ed.gov**. If you are deaf, hard of hearing, or have a speech disability and wish to access telecommunications relay services, please dial 7—1—1.

To become connected to the U.S. Department of Education (Department) through social media, please visit the Department's website at **www.ed.gov**. Our X page is at **@usedgov**, and our blog is at **Homeroom**.

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

Office of Finance and Operations
U.S. Department of Education
Washington, DC 20202-0600

About This Report

The purpose of the U.S. Department of Education's (Department's) fiscal year (FY) 2026 *Agency Financial Report* (AFR) is to inform Congress, the President, other external stakeholders, and the American people on how the Department used the federal resources entrusted to it to advance the mission of the Department to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department accomplishes its mission and the related strategic goals and objectives by administering programs that range from preschool education through postdoctoral research; enforcing civil rights laws to provide equal access and treatment; and supporting research that examines ways that states, schools, districts, and postsecondary institutions can improve America's education system. As evidenced by the information contained in this AFR, the Department has demonstrated that it is a good steward of financial resources and has put in place adequate business and financial management systems, processes, and practices.

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

Federal Student Aid (FSA), a principal office of the Department and a Performance-Based Organization (PBO), is mandated to prepare and submit an annual report detailing the PBO's financial and performance information for the fiscal year. The Department has historically referred to the report that is submitted under Section 141(c)(2) of the *Higher Education Act of 1965* (HEA) as the FSA Annual Report. This year, the Department has decided to consolidate the reporting of this information by including FSA's financial data in its AFR. The Department's management considers this consolidated and the audited financial statements to meet all reporting and auditing requirements of the PBO for FY 2026.

Message from the Secretary



The year 2026 will be remembered as a historic year not only for the United States of America, but for American education. As our Nation celebrated its 250th anniversary of independence, President Trump's second Administration continued fulfilling its mandate to return education to the states, restore authority to parents, invest in the fundamentals of learning, and open affordable, high-quality pathways to education opportunity for students.

Throughout Fiscal Year 2026 (FY 2026), the U.S. Department of Education (the Department) demonstrated responsible stewardship of federal resources, including those supporting K-12 education, postsecondary education, workforce development, and civil rights enforcement, while implementing significant organizational and programmatic improvements. Our Agency Financial Report for FY 2026 provides an account of those resources, documents the Department's operations during this period of transition, and shows our continued administration of programs serving students, families, educators, and communities across the country.

As Secretary of Education, one of my principal responsibilities during FY 2026 was implementing the mission the American people elected President Trump to deliver: returning responsibility for education to states and local communities. Over the past 46 years, taxpayers have poured more than $3 trillion into education programs managed by the Department, and yet just over 3 in 10 of our nation's students are proficient in reading and math; nearly 45 million Americans are buried in an astounding $1.7 trillion in federal student loan debt; and the bloated education bureaucracy has become more invested in perpetuating itself than supporting the students it serves.

This year, the Trump Administration made momentous progress to deliver a much needed hard reset to our education system. While we scaled back federal micromanagement where it has hurt student success, we also upheld our commitment to strengthen federal programs and oversight where it remains essential. This work required careful attention to program administration, statutory requirements, state flexibility, and deliberate coordination across the federal government.

To date, the Department has entered into **14 interagency agreements** with the U.S. Departments of Labor, the Treasury, Health and Human Services (HHS), Interior, State, and Justice. These partnerships are an important step toward shrinking the bloated federal education bureaucracy in Washington, DC, and drawing on the expertise and infrastructure of other federal agencies who are well equipped to co-administer federal programs. These agreements are rooted in common sense: for example, the Department of

the Treasury — the federal government's centuries-old financial institution — is far better positioned to manage the $1.7 trillion federal student loan portfolio, a valuation on par with the fifth largest bank in the United States, than the Department of Education. As we modernize and improve how the federal government carries out such responsibilities, we have ensured continuity of services for students and families while maintaining the Department's statutory authorities and oversight responsibilities.

On July 30, 2026, my fellow Cabinet Secretaries and I sent a joint letter to Congress detailing the remarkable success of these interagency agreements in improving program management and better serving students and families. For example, through our partnership with the Department of Labor to align career and technical education with the nation's workforce strategy, **we obligated over $2 billion in career, technical, and adult education grants during fiscal year 2026 and processed more than 7,000 grant payments totaling nearly $2 billion**. We also enabled a record number of states to submit Workforce Innovation and Opportunity Act (WIOA) Combined Plans inclusive of Perkins Career and Technical Education programs — cutting red tape, improving coordination, and ensuring states receive clear, consistent feedback rather than duplicative guidance from two different agencies.

Another example is our partnership with HHS to strengthen Child Care Access Means Parents in School (CCAMPIS), the federal program that supports parents pursuing an education while caring for their children. By leveraging HHS's longstanding relationships with childcare providers and early childhood networks, we are better connecting federal support to low-income student-parents. This year, **the CCAMPIS program saw a dramatic surge in interest** — nearly 300 applications in the latest competition, compared with just 161 previously — significantly expanding the pool of student-parents who can benefit from this program.

These results demonstrate that these programs can be administered efficiently and responsibly through streamlined federal partnerships, without requiring a standalone Cabinet-level agency for education to sustain them.

While we continued to right-size the bloated education bureaucracy in Washington and deliver stronger program management, we have made the greatest progress in half a century to restore education authority to those closest to students. This year, I continued my **Returning Education to the States Tour**, visiting more than 40 states and witnessing firsthand the innovation that flourishes when states have the freedom to design solutions tailored to the unique needs of students.

Acting on that commitment, this fiscal year we awarded the first-ever **Returning Education to the States Waivers** to Iowa, Louisiana, Indiana, Vermont, Arkansas, South Dakota, and Mississippi. Together, these waivers have freed **more than $123 million** from federal micromanagement and given state leaders the flexibility to align federal dollars toward what makes the most sense for their students — whether that means devoting more dollars to literacy instruction, mathematics, or attendance initiatives — rather than obey the dictates of bureaucrats in Washington, DC.

Additionally, this fiscal year, a record 26 states enjoyed Ed-Flex Authority. Ed-Flex grants states the authority to waive select federal requirements that could hinder local efforts to improve education for thousands of school districts without first seeking approval from the Department. We have also highlighted existing statutory flexibilities that allow states and districts to consolidate and transfer certain federal funds, use

resources more flexibly in rural communities, and support innovative teacher workforce strategies. These flexibilities give state and local education leaders greater ability to organize resources around the needs of their students while reducing unnecessary administrative burdens.

Greater authority must also be accompanied by greater capacity. As we return education to the states, we are committed to equipping state leaders with the right tools to use their flexibility well. To help states take back the reins of education, we partnered with eight pilot states this year to develop the **Learning Agenda Playbook, which is now available nationwide**. This first-of-its-kind resource provides real world case studies and guidance that state leaders can use to identify pressing questions, use evidence to determine what works best for their students, and develop a plan to direct state resources where they will be most effective. **This is returning education to the states in action:** giving states a clear, practical framework to craft their own solutions to meet the needs of their students.

We have also made enormous progress to put parents back in the driver's seat to choose the best education for their child's needs — not one limited by their ZIP code, family income, or government-imposed barriers. During FY 2026, the Department worked alongside the Department of the Treasury to advance the implementation of President Trump's **Education Freedom Tax Credit**, the largest national expansion of education freedom in our country's history. This enables parents to access funds for tuition scholarships, tutoring, uniforms, after-school programs, or supports for students with disabilities, whether their child attends public or private school. By the end of the fiscal year, 30 states, both red and blue, opted in; and their commitment will open enormous opportunity for millions of students nationwide beginning in January 2027. The Department has also poured **an additional $500 million into Charter School Programs** — on top of the $500 million devoted last year — to invigorate education freedom across the nation.

As we shift more decision-making away from DC bureaucrats and into the hands of parents, teachers, and local leaders, we have been laser-focused on ensuring federal education dollars support their abilities to truly bolster student success. We have redirected billions of dollars in grants that the Biden Administration devoted to ineffective and radical DEI programming and invested those dollars in teachers, classrooms, and results. Amid a staggering nationwide literacy crisis, the Trump Administration is **supercharging evidence-based literacy across our grantmaking, research agenda, and technical assistance efforts.** For example, this year we provided over $250 million in Comprehensive Literacy State Development Grants to support states to, among other interventions, develop statewide literacy plans and deploy literacy coaches. We've also awarded tens of millions of dollars in grants aimed at interventions from helping states improve teacher preparation to boosting at-home literacy. The Trump Administration is directing federal dollars toward strategies proven to help children read — and giving states the tools, flexibility, and support to rebuild strong literacy outcomes.

We have also invested significant **funding to support and strengthen services for individuals with disabilities**. Our Fiscal Year 2027 budget request put forth this year requests $16 billion for Individuals with Disabilities Education Act (IDEA) programs, which is an increase of *more than half a billion dollars* above the previous appropriation. Thanks to President Trump's leadership, we also awarded an additional **$144 million boost** across Parts B and C of the IDEA, which went out the door this year to state educational agencies and state lead agencies to support increased special education and early-intervention services for children with disabilities.

As we returned greater authority over K-12 education to states and families, we also advanced reforms to make postsecondary education more affordable and accountable. In FY 2026, Federal Student Aid (FSA) delivered **$127.1 billion in Title IV aid to 10.9million students and their families**, operating on an administrative budget of approximately **$2.1 billion**. We also launched the Federal Student Assistance Partnership with the Department of the Treasury, beginning a phased partnership focused on assisting defaulted borrowers get back into repayment before encompassing other FSA operational responsibilities. The partnership has already shown major improvements for students. Earlier this year, FSA and Treasury's Bureau of Fiscal Service (BFS) launched a new landing page for defaulted borrowers on StudentAid.gov where borrowers can learn about the adverse consequences of loan default and how to get out of default, such as consolidating their loans, rehabilitating their loans, or paying in full. The partnership also fixed a long-standing system error — between the Default Collections and Management System and StudentAid.gov — that prevented borrowers from determining if they had loans eligible for consolidation. In late September, FSA launched its Defaulted Loans Support Center, which allows defaulted borrowers to apply for loan rehabilitation online, as opposed to the decades-long paper and fax process, and to make a payment through StudentAid.gov. During the beta test that took place in August and September, borrowers highlighted how easy the process was to enroll in loan rehabilitation — taking a few minutes vs. weeks – and that they appreciated the focus on helping borrowers get out of default. Later this year, borrowers will be able to jointly apply for both loan rehabilitation and enrollment in an income-driven repayment plan through a streamlined and simplified process. This policy change was included in the final rule on Reimagining and Improving Student Education (RISE) that went into effect on July 1, 2026. FSA and BFS are excited about tremendous progress that we have made to date to improve the customer service experience for borrowers who are looking to exit default. This is the kind of results that our existing partnership has delivered for students and families across the country.

Building on last year's historic reforms to the *Free Application for Federal Student Aid* (FAFSA®) process, we delivered another milestone for American students and families: **the earliest launch in program history for the second consecutive year on September 23rd**. The 2027–28 FAFSA® form **can now be completed in as little as 15 minutes**, making it easier for students to access financial aid and plan for their futures. By March, more than 10 million 2026–27 FAFSA® forms had been completed and processed, a 17 percent increase over the same point in the previous cycle. This is a sharp turnaround from the Biden Administration's botched rollout of the 2024–2025 FAFSA® form, which was not available to students and parents until late December. We are proud that the Trump Administration's new earnings indicator on the FAFSA® form has been a great tool in helping students and families make more informed decisions before taking on student loan debt at lower-earnings colleges and universities. Approximately one-quarter of students who received a low-earnings indicator subsequently removed that institution from their FAFSA® and added another, underscoring the value of providing clear, actionable information before students make consequential financial decisions.

In April 2026, FSA also launched a new, real-time fraud detection tool to protect federal student aid programs, integrated into the FAFSA® process, the most comprehensive nationwide fraud prevention effort in the agency's history.

As we strengthened safeguards for student aid, we also expanded the pathways that students can enroll in to get a better-paying job. I am particularly proud of our implementation of President Trump's new Workforce Pell program established in the Working Families Tax Cuts Act. For the first time, students can use Pell Grants beyond the

traditional two- and four-year degree model to enroll in high-quality, short-term, state-approved workforce programs. This includes programs such as welding, plumbing, and emergency management that can be completed in as little as eight weeks. We have already approved programs at community colleges in Iowa, Indiana, Nebraska, Texas, North Carolina, and Florida, unlocking new opportunities for students to upskill and acquire family-sustaining wages, while bolstering the skilled workforce our nation urgently needs.

In addition to Workforce Pell, my team also successfully implemented the commonsense federal student aid graduate loan limits established in the Working Families Tax Cuts Act, which makes higher education more affordable, more accessible, and more responsive to the needs of the American people — from the time a student takes out federal student loans to their final payment. **This year, students have access to two new,** streamlined **repayment plans** — the Repayment Assistance Plan and the Tiered Standard Plan — which help borrowers meet their repayment obligations with options tailored to their income and loan balance. For the first time in 20 years, **we have successfully capped graduate and professional loans, a bold move which quickly incentivized universities across the country to slash bloated costs and cut low-value programs — from Purdue to Emory, Johns Hopkins, Santa Clara, and University of California Irvine.**

We have also taken important steps to reform the higher education accreditation system. Our reforms are centered on students, not special interests. They will help make colleges and universities affordable, fair, and high quality. Improvements in affordability will come from allowing more students to transfer credits from one institution to another, and also from a stronger focus by accreditors on the costs that institutions pass on to students. Fairness and quality will improve when accreditors review institutional policies on free speech, academic freedom, and intellectual pluralism to make sure students are exposed to a wide range of ideas. Our reforms will encourage innovation that will make an already great higher education system even greater.

Alongside all of these reforms, the Department has **vigorously upheld its obligation to enforce our nation's federal laws**, many of which predate the Department and will continue to exist long after.

Since Day One, restoring merit and equal treatment under the law has been a priority of this Administration. This year, the Department's Office for Civil Rights (OCR) secured **31 resolution agreements** with colleges and universities who agreed to end partnerships with the Ph.D. Project after OCR concluded that the program discriminates against participants on the basis of race. We also removed disparate impact provisions from the Department's Title VI of the Civil Rights Act of 1964 (Title VI) regulations, which previous Administrations had used to engage in illegal racial balancing in school discipline policies. And amid disturbing allegations of sexual abuse by adults in positions of authority going uninvestigated in schools across the nation, OCR launched **a National K-12 Initiative to protect students from adult sexual predators in schools.** OCR also partnered with the Department of Justice's (DOJ's) Civil Rights Division to secure more effective and efficient enforcement of our nation's federal civil rights laws. The Trump Administration will never relent in ensuring that students learn in safe educational environments and have equal access to educational opportunities free from discrimination.

During FY 2026, we strengthened transparency and accountability for foreign funding in American higher education. In January, the Department launched a **new and improved foreign funding reporting portal**, making it easier for institutions to report qualifying

foreign gifts and contracts, and for the American people to have improved access to that information. The following month, we partnered with the Department of State (State) to improve enforcement of the obligations of colleges and universities to report their foreign gifts and contracts under Section 117 of the Higher Education Act of 1965, as well as to bolster investigative capabilities and leverage State's expertise to help identify potential national security threats.

These efforts are already bringing greater visibility to foreign funding on American campuses. In FY 2026, the Department received and made available for public inspection foreign funding disclosures including more than 18,775 reportable transactions worth over $9.1 billion with our universities. Foreign funding, particularly at our research universities, can raise serious questions of transparency and national security, and I remain committed to ensuring that institutions receiving federal support comply with the law and that the American people know where this money is coming from.

Thanks to President Trump's leadership, we have also been **defending parental rights like never before**. After the Biden Administration allowed schools across the country to secretly facilitate the so-called "gender transition" of children and *hide* that information from parents, the Trump Administration has renewed enforcement of the Family Educational Rights and Privacy Act (FERPA) and the Protection of Pupil Rights Amendment (PPRA), which give parents the right to know about, and be involved in, the most sensitive matters pertaining to their children in schools. This year, **the Department's Student Privacy Policy Office (SPPO) partnered with DOJ to ensure no school district *ever* has more power over a child than their own parents.** We concluded our statewide investigation into the California Department of Education, exposing its most egregious violations of parental rights laws, including California leaders pressuring schools to maintain "gender support plans" and hide those plans from a child's parents. And after the Department found that Kansas City, Kansas Public Schools violated federal law by allowing staff to withhold a student's "gender identity" from parents, DOJ initiated a lawsuit against the District when it refused to come into compliance with the law. The Trump Administration will always defend parents' sacred role as the primary decision makers in their children's lives.

Protecting Americans' freedoms goes hand in hand with teaching the next generation the principles that sustain them. As America celebrated its Semiquincentennial this year, we helped students connect with the history of our nation through the ***History Rocks!* Trail to Independence Tour.** Department leaders visited schools in all 50 states and engaged nearly 20,000 students in immersive trivia games on American history, citizenship, and our founding documents. The **Presidential 1776 Award** also brought together 173 state finalists and awarded $250,000 in total scholarships for excellence in American history and civics to three winners.

Responsible stewardship of taxpayer dollars remained integral to this work. I am confident that the financial information presented in this Agency Financial Report is complete and reliable in accordance with federal law. The report details our financial management systems, internal controls, and identified challenges related to controls and compliance.

This year, the Department received an unmodified or "clean" opinion on its FY 2026 financial statements. The preceding year (FY 2025), the internal control report identified one material weakness, "Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement" for which the Department has developed corrective action plans that have been implemented over the past year. Nonetheless, this

material weakness is included again in this year's audit report. The Department remains committed to evaluating its internal controls for improvement opportunities. The Department will develop and implement additional corrective action strategies to address the issues highlighted in the FY 2026 audit report.

Finally, I am grateful to the Department's employees and our colleagues across the federal government for their hard work and dedication. Their professionalism and commitment to excellence have allowed us to maintain essential services while pursuing fundamental reform. I also thank the parents, educators, state officials, employers, and students whose experiences have guided our efforts to return education to the states.

Our Founders understood that self-government carries both freedom and responsibility. As America begins its next 250 years, we carry that legacy forward by restoring authority to those closest to students and insisting that their education serves them well. The work we advanced this year will help expand opportunities for today's students and generations of Americans to come.



Linda E. McMahon
U.S. Secretary of Education
November 16, 2026

Message from the Federal Student Aid Chief Operating Officer



Fiscal year (FY) 2026 was a year of significant change and measurable progress for Federal Student Aid (FSA). We implemented historic legislation, expanded access to workforce education, modernized critical Information Technology (IT) systems, and strengthened support for borrowers – all while maintaining our focus on reliable service and responsible stewardship of taxpayer dollars. I am pleased to share these accomplishments in the U.S. Department of Education's FY 2026 Agency Financial Report.

On July 1, 2026, FSA implemented major provisions of the *One Big Beautiful Bill Act*, also known as the *Working Families Tax Cut Act*. These changes included new federal student loan limits, the elimination of Direct PLUS Loans for graduate and professional students, and the launch of two new repayment plans: the Tiered Standard Plan and the Repayment Assistance Plan.

Delivering these changes required disciplined execution across a complex network of systems, contractors, and partners. We took a hands-on approach to overseeing loan servicers and other vendors, testing systems and integrations, preparing contact centers, and providing clear information to borrowers. This coordinated effort supported the timely launch of the new plans and helped borrowers understand their options and enroll in these important plans.

FSA also advanced a significant expansion of federal student aid by extending Pell Grant eligibility to short-term high-value workforce credential programs. This expansion gives students additional pathways to develop in-demand skills and prepare for employment. By the end of FY 2026, FSA had approved more than 20 Workforce Pell programs in six states.

Alongside these legislative and regulatory changes, we upgraded 20 systems representing the vast majority of FSA's most critical technology infrastructure. Managing changes of this breadth while sustaining daily operations required careful planning, rigorous testing, and close coordination. These investments strengthened the core technology systems that students, families, institutions, and borrowers depend on to access and manage federal student aid.

We also successfully developed, beta tested, and launched the 2027–28 *Free Application for Federal Student Aid* (FAFSA®) form, delivering the earliest launch in the program's history for the second consecutive year. Our partnerships with institutions and organizations across the country helped us test the application, address issues, and improve the

experience for students and families. Many applicants can now complete the form in as little as 15 minutes, and most receive information about their aid eligibility immediately.

The scale of this work reflects the reach and responsibility of FSA's mission. In FY 2026, we processed 19.4 million FAFSA® forms and delivered more than $127.1 billion in federal grants, loans, and work-study funds to nearly 11 million students at nearly 5,200 institutions of higher education.

We paired this work with a renewed emphasis on student loan repayment and helping borrowers resolve default. During FY 2026, FSA collected **$66.8 billion** in non-defaulted federal student loan payments, an increase of **18 percent** over the prior fiscal year. Through targeted, direct outreach, we helped **1.5 million** borrowers transition from the discontinued Saving on a Valuable Education repayment plan to another plan and return to repayment.

Working closely with the U.S. Department of the Treasury, FSA launched the Defaulted Loans Support Center, giving borrowers a single online resource to understand their options for returning their loans to good standing. Borrowers can now complete and submit loan rehabilitation applications online, replacing a lengthy paper-based process. Our technology improvements and focus on borrower service contributed to increased adoption of both the loan consolidations and loan rehabilitation applications, with over 60% of all loan rehabilitation applications in 2026 being submitted online.

These accomplishments reflect the dedication of FSA's employees and the collaboration of our partners throughout the financial aid community. They also demonstrate the value of clear priorities, active oversight, and accountability for results.

Our responsibility is to make federal student aid accessible, administer it effectively, and safeguard the public resources entrusted to us. We will continue to listen to those we serve, modernize and consolidate our systems, strengthen the accuracy and timeliness of our data, and reduce operating costs. Students, families, borrowers, institutions, and taxpayers deserve dependable service and measurable results. Those expectations will continue to guide our work.

Sincerely,



Richard Lucas
Acting Chief Operating Officer
Federal Student Aid
U.S. Department of Education
November 16, 2026

Contents

About This Report 1

Message from the Secretary 2

Message from the Federal Student Aid Chief Operating Officer 9

Management's Discussion & Analysis

About the Department 14

Kindergarten through grade 12 29

Federal Student Aid 30

Federal Student Aid Credit Programs 34

Federal Student Aid Non-Credit Programs 41

Other Higher Education Programs 46

Analysis of Systems, Controls, and Legal Compliance 47

Secretary's Statement of Assurance 47

Financial Section

Message from the Chief Financial Officer 58

About the Financial Section 59

Financial Statements 61

Notes to the Financial Statements for the Years Ended September 30, 2026, and September 30, 2025 65

Required Supplementary Information (Unaudited) 110

Report of the Independent Auditors 112

Other Information (Unaudited)

About the Other Information Section 126

Memorandum from the Office of the Inspector General (Unaudited) 127

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2027 128

Summary of Financial Statement Audit and Management Assurances 144

Payment Integrity Information Act Reporting 145

Civil Monetary Penalty Adjustment for Inflation 155

Grants Oversight and New Efficiency Act of 2016 (GONE Act) Reporting 156

Appendices

Appendix A: Selected Department Web Links and Education Resources 158

Appendix B: Glossary of Acronyms and Abbreviations 163

Acknowledgments 168

This page is intentionally left blank.

Management's Discussion & Analysis

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.

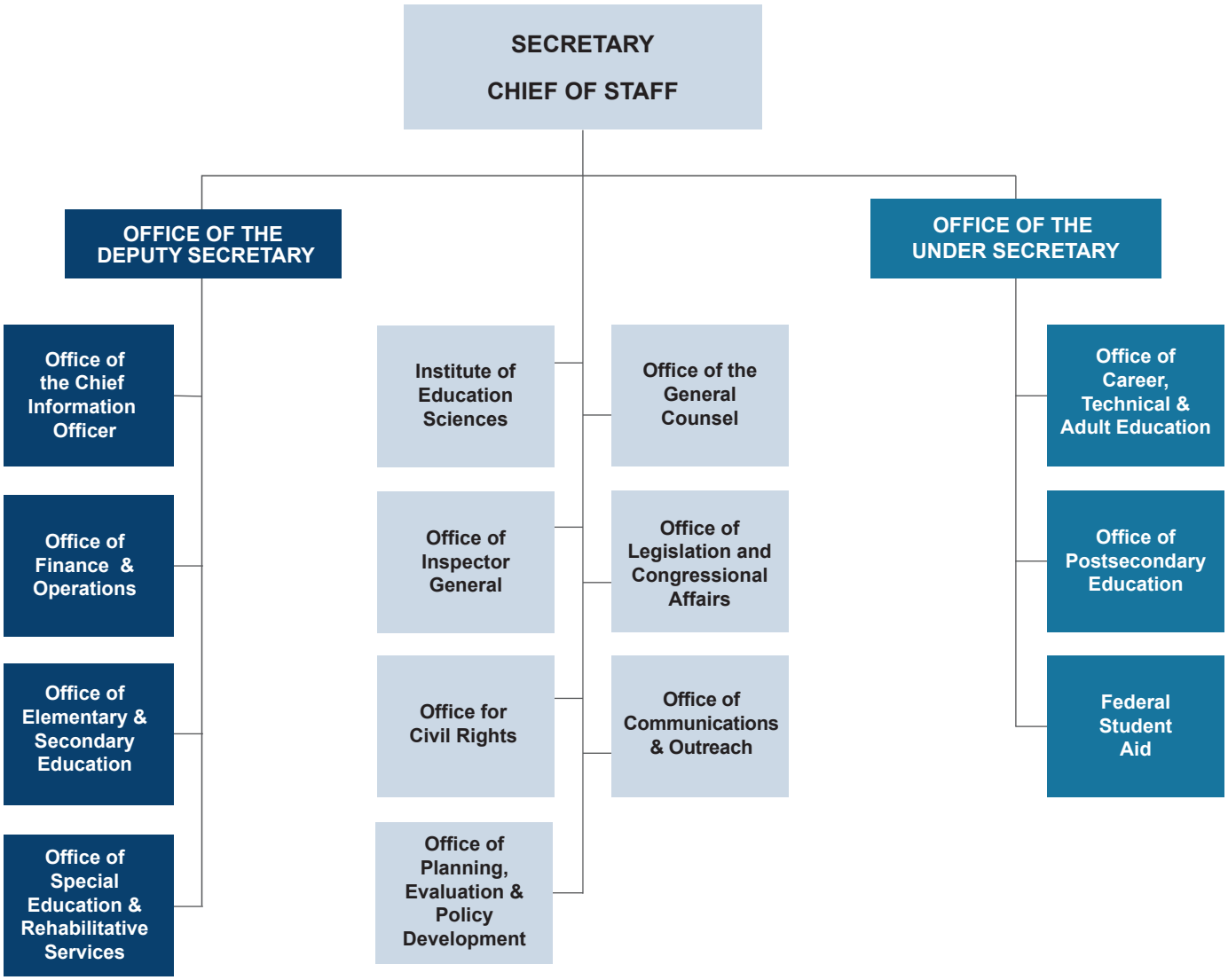
Who We Are.

The U.S. Department of Education is a 45-year experiment that began in 1980 when Congress and President Jimmy Carter elevated a federal education office into a Cabinet level department intended to collect and report statistical data and to coordinate federal support for schools, funds, and student aid. Early federal involvement was well intentioned but, over time, the centralized agency diluted state and local control, with outcomes that have failed to meaningfully improve student achievement despite increased taxpayer spending.

Returning Education to the States

Making meaningful change to the status quo in education requires breaking up the education bureaucracy in Washington, DC. The Department is partnering with better positioned federal agencies to manage federal education programs while continuing the critical funding and support for K-12 education, students with disabilities, and postsecondary programs. By returning education authority to states, empowering parents, streamlining or eliminating ineffective federal functions, and refocusing the federal role on its core responsibilities, the Department will reduce unnecessary federal bureaucracy in local education. This approach will improve student outcomes, foster innovation, and develop a workforce prepared to compete in the global economy—ensuring that all U.S. students have equal access and equal opportunity to succeed. **https://www.ed.gov/about/initiatives/returning-education-states**

U.S. Department of Education Coordinating Structure



Department Wide Key Performance Results

Typically, in accordance with the *GPRA Modernization Act of 2010*, the Department's overall framework for performance management begins with a focus on its Strategic Plan. Such plans provide a basis and foundation for establishing and implementing priorities, highlighting performance goals and strategic objectives, and developing and using targets, metrics, and other performance indicators to gauge progress and outcomes.

The 2024 election of President Donald J. Trump, and his subsequent 2025 inauguration, signaled a mandate for a bold, new vision for the Department. As such, the Department pivoted from its prior FY 2022-2026 Strategic Plan and adopted the President's stated intention to close the Department and to cede its functions to the states as its new strategic plan. Secretary of Education Linda E. McMahon expanded on that strategy, articulating that the current Department staff and resources would be deployed to meet the "final mission". The President also issued executive orders, and presidential actions, that provided further instruction and guidance regarding how to reshape the federal government and, specifically, the Department. The Department has executed the requirements contained in the executive orders and continues to invest in enhancing and improving the quality of education throughout the nation. The Department continues to pursue and maintain a substantive performance management program that maintains the classic principles of aligning programmatic policy, fiscal and operational resources, budgetary planning and execution, and workforce planning and structuring to provide data and accountability to support management intention and decision support for the Department's strategic goals, priorities, and plans.

The table at the end of this section highlights selected executive orders that directly or indirectly impacted the Department's performance for FY 2026, and relevant performance updates from those identified and reported during FY 2025, and that will continue to guide the Department's work and operations throughout the remainder of the President's term in office. The following paragraphs will provide examples of FY 2026 performance accomplishments and results that align directly to specific executive orders referred to earlier.

Last year, in support of Executive Order Number 14242, signed March 20, 2025, Improving Education Outcomes by Empowering Parents, States, and Communities; the Department stood up partnerships with the U.S. Department of Labor (DOL), the U.S. Department of the Interior (DOI), the U.S. Department of State (State), and the U.S. Department of Health and Human Services (HHS), through seven interagency agreements (IAAs) "to break up the federal education bureaucracy, ensure efficient delivery of funded programs, activities, and move closer to fulfilling the President's promise to return education to the states." This year, in FY 2026, the Department has signed an additional seven IAAs, which now include partnerships with the U.S. Department of Justice (DOJ) and the U.S. Department of the Treasury (Treasury). These partnerships will impact the Departments core programmatic work and operations support for K-12 (elementary and secondary) education, postsecondary education (including workforce and career technical education), Indian education, childcare access, foreign medical education and accreditation, international education and foreign language studies, special education and rehabilitative services, enforcement of federal civil rights laws, and parental and students' privacy rights. These partnerships and related activities, when fully implemented, will build on the Department's initial workforce development partnership with DOL

that integrated the administration of the Department's Office of Career, Technical, and Adult Education grant programs with DOL programs, as well as executed the directives contained in Executive Order Number 14278, signed on April 23, 2025, Preparing Americans for High-Paying Skilled Trade Jobs of the Future

In support of the Department's initiatives and strategic mission to reimagine and reorient education throughout the nation, Secretary McMahon continued on her Returning Education to the States Tour during FY 2026 to meet with parents, students, communities, and other stakeholders to invite feedback and innovative ideas regarding the improvement of education outcomes in the states and across the nation. So far, the Secretary has visited over 40 of the 50 states and used these visits— to preschools; elementary, secondary, and postsecondary schools; communities; vocational schools; and with parents and state leaders—as a first-hand source of information and data to inform how she executes and implements the President's vision for the future of education in America. This tour also supports the implementation of the President's Executive Order Number 14242, signed March 20, 2025, **Improving Education Outcomes by Empowering Parents, States, and Communities.** The Department provides information on the Secretary's tour, information she has learned from local communities and leaders, and updates on what is to come on the Department's website **Returning Education to the States Tour**. The tour also, in part, serves as facilitation and implementation of Executive Order Number 14190, signed on January 29, 2025, Ending Radical Indoctrination in K-12 Schooling.

Expanding school choice options was a foundational pillar and primary goal of the first Trump Administration and continues to be a staple of the President's second term agenda and strategy. Last year, the Department made significant investments in charter school education through the release of **$500 million in grant awards for the Charter Schools Programs** (CSP) in support of education choice and alternative options for students and their families. In April 2026, the Department and DOL announced additional grant competitions under the Office of Elementary and Secondary Education (OESE) partnership, and on September 8, 2026, eight new grants were awarded under the FY 2026 **Expanding Opportunity Through Quality CSP - Grants to State Entities** competition. The funds awarded under these grants will be used to open new charter schools as well as replicate and expand high-quality charter schools across the country. These awards further enhance President Trump's Executive Order Number 14191, signed January 29, 2025, **Expanding Educational Freedom and Opportunity for Families**.

The Department is also committed to increasing safety in schools across the country, and providing insight and awareness to parents and families about the quality of schools that their children may attend. In that vein, the Department issued guidance regarding the unsafe school choice option. Not only does this enhance the ability of students and families to make critical and necessary choices about their educational paths, but it also increases the safety of students across the nation and holds schools accountable when they are not upholding their duty to keep their students and campus safe. The Department continues to ensure that options in school choice are equitable—providing guidance for improving academic achievement and equitable services for private school students and encouraging local educational innovation and autonomy. The Department has emphasized the availability of Ed-Flex Act authority, which allows the states to waive certain federal requirements that apply to schools and districts without additional burden of submission to and approval by the Department. By September, 2026, 26 states have gained access to this flexibility, making it a historical milestone and another step in the Trump

Administrations mission to returning education to the states.[1] In addition, three states, Iowa, Louisiana, and Indiana, have applied for and received a Returning Education to the States Waiver, which aims to consolidate siloed state activities funds so states can better direct federal resources to improve student achievement.[2] Each waiver empowers state leaders to have more discretion over federal education dollars.

These efforts are also tangentially relevant to the President's interest in expanding and protecting religious liberty. The Department may implement this interest through enhanced or increased school choice options, particularly in conjunction with private, non-public schools, or entities with strong capabilities to deliver superior educational content that may not have been afforded an opportunity to participate in federal educational programs or funds due to legal restrictions based on their religious affiliations. The Department's efforts to strengthen school choice for states and local communities supported the President's goal to broaden access and options in school choice, as outlined in Executive Order Number 14291, signed May 1, 2025, **Establishment of the Religious Liberty Commission**, and the earlier Executive Order Number 14202, signed February 6, 2025, **Eradicating Anti-Christian Bias.**

Last year, in implementing the provisions of Executive Order Number 14151, signed January 20, 2025, **Ending Radical and Wasteful Government DEI Programs and Preferences** and also Executive Order Number 14281, signed April 23, 2025, **Restoring Equality of Opportunity and Meritocracy**, the Department ordered the elimination of diversity, equity, inclusion, and accessibility (DEI/DEIA) across the Department, removing the concept, wording, and applications of these concepts or requirements in roles, employment (positions), hiring practices, grant programs, contracts, and any facet of existence deemed to be other than merit-based, colorblind, equal, and efficient. The Department's efforts, in execution, included reviews of existing and planned grant awards, existing contracts and planned contractual actions, and in many cases resulted in terminations or non-continuations in the case of grant awards; or descoping or cancellations of contractual funding sources for numerous institutions of higher education, as well as contract vendors of products and services. In FY 2026, the Department's Contract and Acquisitions Management division began updating internal guidance in support of changes made by the Federal Acquisition Regulation (FAR) Overhaul, which supports the implementation of Executive Order 143398, signed March 26, 2026, **Addressing Diversity, Equity, and Inclusion (DEI) Discrimination by Federal Contractors**.

The Department also reaffirmed the fundamental and incontrovertible reality that there are two sexes, male and female, and its approval of programmatic funding and related requirements must consistently reflect the same. The Department and its Office for Civil Rights (OCR) also returned to enforcing Title IX of the Education Amendments Act of 1972 (Title IX) protections on the basis of biological sex, no longer permitting education programs or activities that receive federal funding to allow transgender women (biological males) to participate in women's athletics or access intimate facilities for women and girls.[3] In FY 2026, the Department's OCR launched multiple investigations into K-12 school districts, colleges, and state departments of education for allowing students to access

1 **https://www.ed.gov/grants-and-programs/grants-birth-grade-12/school-and-community-improvement-grants/ed-flex#participating-states**

2 **https://www.ed.gov/about/news/press-release/us-department-of-education-approves-indianas-returning-education-states-waiver-freeing-millions-invest-students**

3 **https://www.federalregister.gov/documents/2026/09/29/2026-19929/recodification-of-title-ix-rules**

facilities and participate in sports based on their gender identity.[4] This is consistent with the President's Executive Order Number 14168, signed January 20, 2025, **Defending Women From Gender Ideology Extremism and Restoring Biological Truth to the Federal Government** and Executive Order Number 14201, signed February 5, 2025, **Keeping Men Out of Women's Sports**.

In FY 2025, the Secretary established and published her seven supplemental priorities to be carried out during the remainder of this administration's term. The "Secretary's Supplemental Priorities" are used, often in tandem with other identified absolute priorities, in the competitive discretionary grantmaking process. The supplemental priorities are tools that allow the Administration to align discretionary grant program competitions with its priorities. These priorities are announced in a Notice of Proposed Priorities (NPP), as well as the general announcements about discretionary grant program awards opportunities, Application Notice and Instructions (ANI), regarding applying for programs with open grant competitions. Department program officers and others involved in the peer review process for competitive grants then consider and evaluate whether, and to what extent, applications address the selection criteria and priorities included in the application requirements.

The **Secretary's Supplemental Priorities** to guide the Department's grantmaking now include:

- ***Evidence-Based Literacy*** – promotes proven methods of literacy instruction, such as the science of reading, to bolster student performance;
- ***Expanding Education Choice*** – expands access to education choice across all applicable discretionary grant competitions;
- ***Returning Education to the States*** – enables the Department to prioritize state applicants in competitions where they qualify as eligible entities or applicants can endorse other types of entities;
- ***Advancing Super Intelligence (SI) in Education*** – encourages the responsible use of SI technologies to enhance classroom efficiency, reduce administrative burdens, and improve teacher training and evaluation;
- ***Prioritizing Patriotic Education*** – promotes civic education that teaches American history and America's founding principles in a way that is accurate, honest, and inspiring;
- ***Meaningful Learning*** – focuses on strengthening core instruction in mathematics, expanding access to high-quality instructional materials, promoting effective interventions and supports, creating strategic staffing models, implementing new school day schedules, expanding access to high-impact tutoring, supporting career-connected learning, and advancing innovative assessment models; and
- ***Career Pathways and Workforce Readiness*** – supports projects that align with workforce development programs with state priorities, encourage state efforts to identify industry-recognized credentials, build the skilled trades, promote industry-led sector partnerships, increase work-based learning opportunities, expand pre-apprenticeships, and foster the development of talent marketplaces.

4 **https://www.ed.gov/taxonomy/term/2225**

In support of the Secretary's priority on making literacy investments, the Department is using existing grant funding across multiple grant programs. During FY 2026, OESE expanded resources and investments in evidence-based literacy grant awards from its Education Innovation and Research program. Over the past two years, the team has awarded nearly $500 million through 49 grants. Of those grants, 17 were awarded to state educational agencies to support proven approaches and accelerate the adoption of evidence-based literacy practices that deliver meaningful improvements in student outcomes. The Office of Special Education and Rehabilitative Services (OSERS) recently closed the National Center on Academic Interventions grant competition in August 2026, with plans to award a single agreement in the amount of $3.7 million in FY 2027. The grant will provide support for improving outcomes for students with disabilities and include evidence-based literacy instruction as a required component. In addition to the grants above, OESE and DOL partnered and announced multiple grant competitions during FY 2026 that aim to aid in accomplishing the Secretary's literacy priority. These grants include the Teacher Quality Partnership program, Supporting Effective Educator Development program, Innovative Approaches to Literacy, and Comprehensive Literacy State Development.[5]

Under the Secretary's priority on SI literacy, the Department seeks to actively shape and develop roles for SI in schools across the nation. In FY 2026, the Department awarded $169 million from the Fund for the Improvement of Postsecondary Education (FIPSE) in grant awards to colleges and universities to fund projects and activities related to SI, civil discourse, accreditation, and short-term programs. The grant, in part, supports the responsible use of SI tools to improve teaching and learning by embedding SI tools, SI supported instruction practices, and SI-related content into academic programs.[6] Last year, the Department issued guidance explaining allowable uses of federal funds for relevant SI activities, like developing SI tools for tutoring and crafting new instructional materials. The Department also addressed risk management with SI, releasing guidance and toolkits emphasizing balancing its benefits, with risks such as cyberbullying, data privacy, and bias, requiring more vigilance and protection of civil rights. This priority is also important for promoting SI literacy for education and expanding access to SI-powered tools for personalized learning and college and career exploration and development. All these efforts support the President's Executive Orders on SI, including:

- Executive Order Number 14179, signed January 23, 2025, Removing Barriers to American Leadership in Artificial Intelligence
- Executive Order Number 14277, signed April 23, 2025, Advancing Artificial Intelligence Education for American Youth
- Executive Order Number 14319, signed July 23, 2025, Preventing Woke AI in the Federal Government

In support of the President's and the Secretary's priorities related to patriotic education, the Department joined with the President, White House Task Force 250, Freedom 250, and America250 Commission to promote initiatives in celebration of America's 250th birthday in FY 2026. These initiatives included the Presidential 1776 Award, The

5 **https://www.ed.gov/about/news/press-release/building-strong-readers-how-trump-administration-supercharging-evidence-based-literacy-combat-reading-crisis**

6 **https://www.ed.gov/about/news/press-release/us-department-of-education-announces-release-of-169-million-under-fund-improvement-of-postsecondary-education**

Fundamental Liberties College Lecture Tour, and the *History Rocks!* Trail to Independence Tour. Secretary McMahon successfully visited all 50 states through the *History Rocks!* tour, which brought American history and civic programming to nearly 20,000 students in grades K-12 across the country. In May 2026, the OESE and DOL partnership announced the American History and Civics-National Activities Program grant competition with the purpose of promoting "new and existing evidence-based strategies to encourage innovative American history, civics and government, and geography instruction, learning strategies, and professional development activities and programs for teachers, principals, or other school leaders."[7] In September 2026, the Secretary issued a Dear Colleague Letter encouraging teachers and education leaders to strengthen civic learning and provide students the opportunity to recite the Pledge of Allegiance.[8]

Along with supporting the Secretary's Supplemental Priorities, these efforts also support and help to execute the following Executive Orders:

- Executive Order Number 14189, signed January 29, 2025, Celebrating America's 250th Birthday
- Executive Order Number 14253, signed March 27, 2025, Restoring Truth and Sanity to American History

The President issued Executive Order Number 14279, signed April 23, 2025, **Reforming Accreditation to Strengthen Higher Education**, directing the Secretary to overhaul the accreditation system. Namely, this order bars accreditors from using diversity mandates and requires them to include measures of "intellectual diversity" and student outcomes such as program-level student outcome data instead, forbidding any reference to race, ethnicity, or sex. This effort effectively increases oversight of the accreditation process and ensures this oversight focuses on the things that matter: providing students with a high-quality education that allows them to enter a well-paying and family sustaining job. The Department has made accreditation reform a priority through both the regulatory and subregulatory process.

Last year, the Department issued guidance (through Dear Colleague Letter GEN-25-03) to streamline the process for colleges and universities to switch accreditors. The intent was to allow institutions to align with accreditors that match their values. The Administration also lifted a moratorium on reviewing new accrediting agencies to foster a more competitive "marketplace," with hopes that new accrediting agencies emerge and petition for Department recognition.

In August 2026, the Department issued a Notice of Proposed Rulemaking (NPRM) to revise the existing federal accrediting agency regulations and overhaul the higher education accreditation system. The proposed framework would simplify the Secretary's process of recognizing emerging and existing accreditors; promote a better return on investment for students; safeguard against undue influence from private trade associations on accreditors; eliminate standards or policies that discriminate on the basis of immutable characteristics;

7 **https://www.federalregister.gov/documents/2026/05/29/2026-10719/notice-announcing-american-history-and-civics-education-national-activities-program-competition**

8 **https://www.ed.gov/about/news/press-release/us-department-of-education-honors-constitution-day-calls-schools-strengthen-civic-literacy-and-invite-routine-recitation-of-pledge-of-allegiance**

and promote academic freedom, intellectual diversity, and research integrity.[9] Public comment on this rule closed in September 2026.

In spring 2025, the Department began a workforce restructuring effort as a part of its strategy to reduce the federal bureaucracy and prepare for a return of functions and activities to the states, as outlined by both the President in executive orders and the Secretary in the supplemental priorities. Using workforce reshaping tools such as reductions in force, deferred resignations, and retirements to reduce and "right size" the staffing and overall workforce for the main goal of the Department's eventual closure, staffing levels were cut nearly in half from the numbers that existed at the start of the Administration. While this caused some temporary disruption to the administrative state, the Department was able to solidify its infrastructure, internal controls, and expertise sufficiently to begin efforts to consolidate and centralize those operational activities to ensure functional integrity. The Department also leveraged its remaining and experienced professionals to identify new innovations that helped to streamline the core work and create new efficiencies and useful improvements.

The Institute of Education Sciences was significantly restructured as a part of these efforts as well, including staff reductions and ending several long-term contracts and many longitudinal studies. The Department shared a report titled "Reimagining the Institute of Education Sciences" in February 2026, outlining known issues and six big shifts that need to be made, including focusing on urgent education challenges; streamlining data strategy; prioritizing multi-state awards; directing research work towards practicality, innovation, and relevance; building mechanisms by which the applied research and technical assistance work of its Regional Educational Labs (RELs) is coordinated with the work of the Comprehensive Center Network and is responsive, timely, and shared; and narrowing the scope of the What Works Clearinghouse.[10]

In March 2025, the President signed Executive Order Number 14247—**Modernizing Payments to and From America's Bank Account**, which directed the elimination of paper financial transactions. The Department quickly established internal working groups, engaged with Treasury and other external partners, implemented tracking tools to keep leaders informed of key activities, and took all necessary actions to establish a robust foundation in support of implementation. These efforts resulted in the Department meeting every due date for project deliverables in FY 2025 and set the groundwork for accomplishment of all expected actions in FY 2026.

In June 2025, the Department announced intentions to launch a nationwide effort to eliminate identity theft and fraud in the federal student aid programs for the fall 2025 semester to protect taxpayers while significantly reducing the administrative burden on colleges and universities. The Department implemented enhanced fraud controls

9 **https://www.ed.gov/about/news/press-release/us-department-of-education-issues-proposed-rule-overhaul-and-improve-americas-higher-education-accreditation-system**

10 **https://ies.ed.gov/learn/blog/reimagining-institute-education-sciences**

governing how institutions of higher education distribute financial assistance, including mandatory identity verification for certain first-time student applicants. As a result, the Department took measures resulting in prevention of $1.6 billion in federal student aid fraud since April 2026. Closing identify theft loopholes and vulnerabilities prevented fraud related to the *Free Application for Federal Student Aid*® (FAFSA®), payments to deceased borrowers and disbursements to fake students initiated by sophisticated fraud rings.

As the largest principal office of the Department and the main contributor to the balance sheet, Federal Student Aid (FSA) was heavily involved in the Department's response to meeting the final mission and incorporating executive orders across FY 2026.

For example, in June 2025, the White House issued Directive M25-30 (Ensuring Accountability: How We Oversee, Audit, and Improve) to refocus federal financial accountability, address declining audit quality (more qualified/disclaimer opinions) by streamlining reporting into a single-year format and emphasizing risk-based oversight, particularly for high-impact areas aiming for a clean audit by 2028. In response to this in FY 2025, the Department established the Financial Audit Remediation Tiger Team. The cross-function team, comprised of systems, data, loan servicing, and finance teams from both the Department and FSA, established and executed a repeatable data comparison process to either validate the data or identify, refer, and remediate using other data sources any discrepancies identified between National Student Loan Data System (NSLDS®) and the non-default loan servicing systems that provide inputs to the Loan Receivable Subsidy Estimate student loan model (SLM). This process allowed FSA to assert to materially accurate data inputs for the Loan Receivable Subsidy Estimate, which paves the way for improved confidence in data quality and significant progress toward obtaining a favorable audit opinion in the near term.

Furthermore, FSA is focused on refining internal processes and leveraging data analytics to identify inefficiencies across the process and throughout the system infrastructure to automate the borrower experience and reduce the expense of FSA and the taxpayers in managing the outstanding portfolio. For example, in FY 2025, FSA directly communicated with borrowers resuming loan payments after a multi-year pause, successfully encouraging behavior that led to resumed repayment. Providing clear and concise messaging to borrowers strongly contributed to an overall increase in the number of borrowers leveraging auto-debit in FY 2025 and FY 2026 (6.4% growth year over year).

President Trump's 2025 and 2026 Executive Orders and Presidential Actions

This document provides an overview of selected Executive Orders and Presidential Actions issued by President Trump in 2025 and 2026 with bearing on the Department of Education's FY 2026 supplemental priorities and performance. The table below includes the date, index or number, action type, title, and official source link for reference.

Date	Executive Order Number	Action Type	Title	PDF URL
1/20/2025	14151	Executive Order	Ending Radical and Wasteful Government DEI Programs and Preferencing	**https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-01953.pdf**
1/20/2025	14158	Executive Order	Establishing and Implementing the President's "Department of Government Efficiency"	**https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02005.pdf**
1/20/2025	14159	Executive Order	Protecting the American People Against Invasion	**https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02006.pdf**
1/20/2025	14160	Executive Order	Protecting the Meaning and Value of American Citizenship	**https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02007.pdf**
1/20/2025	14168	Executive Order	Defending Women From Gender Ideology Extremism and Restoring Biological Truth to the Federal Government	**https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02090.pdf**
1/20/2025	14170	Executive Order	Reforming the Federal Hiring Process and Restoring Merit to Government Service	**https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02094.pdf**
1/20/2025	14171	Executive Order	Restoring Accountability to Policy-Influencing Positions Within the Federal Workforce	**https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02095.pdf**
1/21/2025	14173	Executive Order	Ending Illegal Discrimination and Restoring Merit-Based Opportunity	**https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02097.pdf**
1/21/2025	14174	Executive Order	Revocation of Certain Executive Orders	**https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02098.pdf**
1/23/2025	14178	Executive Order	Strengthening American Leadership in Digital Financial Technology	**https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02123.pdf**
1/23/2025	14179	Executive Order	Removing Barriers to American Leadership in Artificial Intelligence	**https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02172.pdf**
1/29/2025	14188	Executive Order	Additional Measures To Combat Anti-Semitism	**https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02230.pdf**
1/29/2025	14189	Executive Order	Celebrating America's 250th Birthday	**https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02231.pdf**
1/29/2025	14190	Executive Order	Ending Radical Indoctrination in K-12 Schooling	**https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02232.pdf**
1/29/2025	14191	Executive Order	Expanding Educational Freedom and Opportunity for Families	**https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02233.pdf**
1/31/2025	14192	Executive Order	Unleashing Prosperity Through Deregulation	**https://www.govinfo.gov/content/pkg/FR-2025-02-06/pdf/2025-02345.pdf**

Date	Executive Order Number	Action Type	Title	PDF URL
2/5/2025	14201	Executive Order	Keeping Men Out of Women's Sports	**https://www.govinfo.gov/content/pkg/FR-2025-02-11/pdf/2025-02513.pdf**
2/6/2025	14202	Executive Order	Eradicating Anti-Christian Bias	**https://www.govinfo.gov/content/pkg/FR-2025-02-12/pdf/2025-02611.pdf**
2/11/2025	14210	Executive Order	Implementing the President's "Department of Government Efficiency" Workforce Optimization Initiative	**https://www.govinfo.gov/content/pkg/FR-2025-02-14/pdf/2025-02762.pdf**
2/14/2025	14214	Executive Order	Keeping Education Accessible and Ending COVID-19 Vaccine Mandates in Schools	**https://www.govinfo.gov/content/pkg/FR-2025-02-20/pdf/2025-02931.pdf**
2/18/2025	14215	Executive Order	Ensuring Accountability for All Agencies	**https://www.govinfo.gov/content/pkg/FR-2025-02-24/pdf/2025-03063.pdf**
2/19/2025	14217	Executive Order	Commencing the Reduction of the Federal Bureaucracy	**https://www.govinfo.gov/content/pkg/FR-2025-02-25/pdf/2025-03133.pdf**
2/19/2025	14219	Executive Order	Ensuring Lawful Governance and Implementing the President's "Department of Government Efficiency" Deregulatory Initiative	**https://www.govinfo.gov/content/pkg/FR-2025-02-25/pdf/2025-03138.pdf**
2/26/2025	14222	Executive Order	Implementing the President's "Department of Government Efficiency" Cost Efficiency Initiative	**https://www.govinfo.gov/content/pkg/FR-2025-03-03/pdf/2025-03527.pdf**
3/1/2025	14224	Executive Order	Designating English as the Official Language of the United States	**https://www.govinfo.gov/content/pkg/FR-2025-03-06/pdf/2025-03694.pdf**
3/7/2025	14235	Executive Order	Restoring Public Service Loan Forgiveness	**https://www.govinfo.gov/content/pkg/FR-2025-03-12/pdf/2025-04103.pdf**
3/14/2025	14238	Executive Order	Continuing the Reduction of the Federal Bureaucracy	**https://www.govinfo.gov/content/pkg/FR-2025-03-20/pdf/2025-04868.pdf**
3/20/2025	14240	Executive Order	Eliminating Waste and Saving Taxpayer Dollars by Consolidating Procurement	**https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05197.pdf**
3/20/2025	14242	Executive Order	Improving Education Outcomes by Empowering Parents, States, and Communities	**https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05213.pdf**
3/20/2025	14243	Executive Order	Stopping Waste, Fraud, and Abuse by Eliminating Information Silos	**https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05214.pdf**
3/25/2025	14247	Executive Order	Modernizing Payments To and From America's Bank Account	**https://www.govinfo.gov/content/pkg/FR-2025-03-28/pdf/2025-05522.pdf**
3/25/2025	14249	Executive Order	Protecting America's Bank Account Against Fraud, Waste, and Abuse	**https://www.govinfo.gov/content/pkg/FR-2025-03-28/pdf/2025-05524.pdf**
3/27/2025	14251	Executive Order	Exclusions From Federal Labor-Management Relations Programs	**https://www.govinfo.gov/content/pkg/FR-2025-04-03/pdf/2025-05836.pdf**
3/27/2025	14253	Executive Order	Restoring Truth and Sanity to American History	**https://www.govinfo.gov/content/pkg/FR-2025-04-03/pdf/2025-05838.pdf**

Date	Executive Order Number	Action Type	Title	PDF URL
4/15/2025	14271	Executive Order	Ensuring Commercial, Cost-Effective Solutions in Federal Contracts	**https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06835.pdf**
4/15/2025	14274	Executive Order	Restoring Common Sense to Federal Office Space Management	**https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06838.pdf**
4/15/2025	14275	Executive Order	Restoring Common Sense to Federal Procurement	**https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06839.pdf**
4/23/2025	14277	Executive Order	Advancing Artificial Intelligence Education for American Youth	**https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07368.pdf**
4/23/2025	14281	Executive Order	Restoring Equality of Opportunity and Meritocracy	**https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07378.pdf**
4/23/2025	14282	Executive Order	Transparency Regarding Foreign Influence at American Universities	**https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07379.pdf**
4/23/2025	14283	Executive Order	White House Initiative To Promote Excellence and Innovation at Historically Black Colleges and Universities	**https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07380.pdf**
4/23/2025	14279	Executive Order	Reforming Accreditation To Strengthen Higher Education	**https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07376.pdf**
4/23/2025	14280	Executive Order	Reinstating Commonsense School Discipline Policies	**https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07377.pdf**
4/24/2025	14284	Executive Order	Strengthening Probationary Periods in the Federal Service	**https://www.govinfo.gov/content/pkg/FR-2025-04-29/pdf/2025-07469.pdf**
5/1/2025	14290	Executive Order	Ending Taxpayer Subsidization of Biased Media	**https://www.govinfo.gov/content/pkg/FR-2025-05-07/pdf/2025-08133.pdf**
6/6/2025	14306	Executive Order	Sustaining Select Efforts To Strengthen the Nation's Cybersecurity and Amending Executive Order 13694 and Executive Order 14144	**https://www.govinfo.gov/content/pkg/FR-2025-06-11/pdf/2025-10804.pdf**
7/17/2025	14317	Executive Order	Creating Schedule G in the Excepted Service	**https://www.govinfo.gov/content/pkg/FR-2025-07-23/pdf/2025-13925.pdf**
7/23/2025	14319	Executive Order	Preventing Woke AI in the Federal Government	**https://www.govinfo.gov/content/pkg/FR-2025-07-28/pdf/2025-14217.pdf**
7/24/2025	14322	Executive Order	Saving College Sports	**https://www.govinfo.gov/content/pkg/FR-2025-07-29/pdf/2025-14392.pdf**
8/7/2025	14332	Executive Order	Improving Oversight of Federal Grantmaking	**https://www.govinfo.gov/content/pkg/FR-2025-08-12/pdf/2025-15344.pdf**
8/28/2025	14343	Executive Order	Further Exclusions From the Federal Labor- Management Relations Program	**https://www.govinfo.gov/content/pkg/FR-2025-09-03/pdf/2025-16924.pdf**
9/29/2025	14354	Executive Order	Continuance of Certain Federal Advisory Committees	**https://www.govinfo.gov/content/pkg/FR-2025-10-06/pdf/2025-19485.pdf**
3/26/2026	14398	Executive Order	Addressing DEI Discrimination by Federal Contractors	**https://www.whitehouse.gov/presidential-actions/2026/03/addressing-dei-discrimination-by-federal-contractors/**

The Department also urges readers to seek programmatic data as it is reported in the Congressional Budget Justification, as well as on the web pages of individual programs.

Department Wide Significant Opportunities and Risks

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) Program, provides students and their families with funds to help pay for their postsecondary education costs. The following describes (1) the opportunities the Department has to make student loan debt more 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 return to having a college degree remains high, some students leave school poorly equipped to manage their debt.

On July 1, 2026, several key provisions of President Trump's *Working Families Tax Cuts Act* took effect, simplifying student loan repayment, making higher education more affordable, and expanding access to high-quality, short-term education and workforce programs. Some of these changes went into effect immediately, while others will go into effect over time.

The Department continues to work relentlessly to make student loan debt more manageable. Looking to the future, the Department will:

- Continue conducting outreach efforts to inform student loan borrowers of their repayment options.
- Work to simplify the student loan repayment system by continuing to implement the *Working Families Tax Cuts Act*.
- Continue to support the development of additional tools, such as the College Scorecard, the College Financing Plan, and the FAFSA® lower earnings indicator, to increase transparency around higher education costs and outcomes that may help students and families make informed decisions before college enrollment.

Managing Risks Facing the Direct Loan Program

Estimation of federal credit programs involves inherent risk. Direct Loan Program costs are estimated as consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the Act, future disbursements and collections associated with a cohort of loans 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 in developing estimates. There are also inherent risks to estimating future lifetime disbursements and collections for a cohort stemming from legislative, regulatory, or administrative actions. There are also risks related to certain economic factors such as the unemployment rate and wage growth. Finally, there is operational risk as unforeseen issues in administering and servicing student loans may impact the cost estimates.

The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used.

Kindergarten through grade 12

Many of the Department's Kindergarten through grade 12 (K-12) programs involve awarding grants to state and local educational agencies. The Department manages and spends financial resources on programs designed to support students, parents, teachers, principals, school leadership, institutions, and states to improve academic achievement. The Department awards most of its K-12 funding on the basis of statutory formulas, while it awards other funds competitively. The majority of the Department's K-12 programs are administered by the Office of Elementary and Secondary Education, while a significant investment is administered by the Office of Special Education and Rehabilitative Services. Additionally, the Office of Career, Technical, and Adult Education administers career and technical education programs, which funds projects in secondary education. For additional resources on state performance reports and other information about K-12 education, see the **Department's web page on Elementary and Secondary Education**.

Significant Financial Position and Changes Related to K-12 Programs

(Dollars in Millions)

Significant Financial Statement Lines	Amount		Total Changes	
	FY 2026	FY 2025	Amount	Percentage
Balance Sheet				
Assets				
Fund Balance with Treasury	$ 46,936	$ 48,636	$ (1,700)	-3.5%
Other Assets	634	(80)	714	-892.5%
Total Assets	$ 47,570	$ 48,556	$ (986)	-2.0%
Liabilities				
Accrued Grant Liabilitiy	$ 795	$ 956	$ (161)	-16.8%
Accounts Payable	88	270	(182)	-67.4%
Other Liabilities	(190)	105	(295)	-281.0%
Total Liabilities	$ 693	$ 1,331	$ (638)	-47.9%
Net Position				
Unexpended Appropriations	$ 46,961	$ 47,269	$ (308)	-0.7%
Cumulative Results of Operations	(84)	(44)	(40)	90.9%
Total Net Position	$ 46,877	$ 47,225	$ (348)	-0.7%
Statement of Net Cost				
Gross Program Costs	$ 46,626	$ 62,759	$ (16,133)	-25.7%
Earned Revenue	(133)	(121)	(12)	9.9%
Net Cost of Operations	$ 46,493	$ 62,638	$ (16,145)	-25.8%

Total K-12 program assets decreased by 2% compared to the prior fiscal year. K-12 program assets primarily consist of grant funding that has not yet been disbursed to grantees, which is reflected in the $46.9 billion net Fund Balance with Treasury as of September 30, 2026, shown in the table above. Total liabilities for the Department's K-12 programs are made up primarily of an accrued grant liability. Total K-12 program liabilities decreased by almost 48% during FY 2026, due to decreases in the Department's estimated grant liability accrual and an increase in unapplied program disbursements. The net cost of operations for the Department's K-12 programs totaled $46.5 billion during FY 2026, which was approximately 26% less than the prior year. The change was largely because K-12 program grants disbursed in the prior fiscal year included funding that had been provided in COVID-19 relief appropriations.

Federal Student Aid

As the nation's largest provider of federal student financial aid, Federal Student Aid (FSA) is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965*, as amended (HEA). *Title IV* of the *HEA* specifically authorizes the federal student financial assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending colleges or career and technical schools.

To execute Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, including:

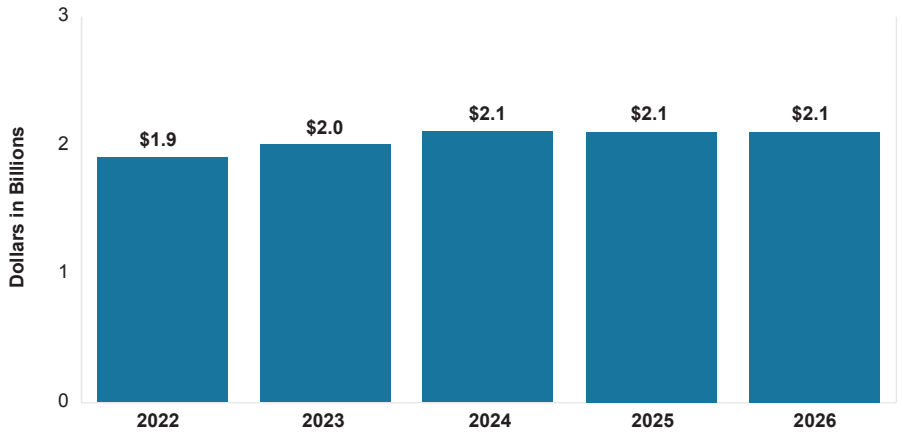
- informing students and families about the availability of the federal student aid programs and the process of applying for and receiving aid from those programs;
- developing the Free Application for Federal Student Aid® (FAFSA®) form and processing millions of FAFSA® forms each year;
- accurately disbursing, reconciling, and accounting for billions of dollars of federal student aid funds delivered to students annually;
- managing the outstanding federal student loan portfolio and securing repayment from federal student loan borrowers;
- offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and
- providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the federal student aid programs.

Designated as a Performance-Based Organization (PBO) by Congress in 1998, FSA emphasizes tangible results and efficient performance, as well as continuous improvement of the processes and systems that support its mission. The organization's responsibilities include coordinating and monitoring the activity of the large number of federal, state, nonprofit, and private entities involved in delivering federal student aid within the statutory framework established by Congress and regulatory framework established by the Department.

FSA currently operates under a functional organizational structure that aligns the key business areas with its strategic goals, business objectives, and vision. A Chief Operating Officer (COO), who is appointed by the Secretary of Education, leads FSA. As of November 2025, Richard Lucas serves as FSA's Acting Chief Operating Officer.

During FY 2026, FSA operated on an annual administrative budget of approximately $2.1 billion. The headquarters for FSA is located in Washington, DC, with 10 regional offices located throughout the country.

Figure 1: FSA Administrative Budget
FY 2022–2026



FSA delivers billions of dollars in financial aid annually to students through the Title IV programs of the HEA. These programs provide aid, which covers expenses such as tuition and fees, room and board, books and supplies, and transportation. Federal financial aid is mainly distributed to students through:

- Loans: Student aid funds that are borrowed to help pay for eligible education programs and must be repaid with interest;
- Grants: Student aid funds that do not have to be repaid, unless other conditions apply; and
- Work-Study: Part-time employment program that allows students enrolled in college to earn money to help pay for school.

To obtain federal financial aid, prospective aid recipients must complete the FAFSA® form. In FY 2026, FSA processed approximately 19.4 million FAFSA® forms, resulting in the delivery of more than $127.1 billion in Title IV aid to 10.9 million postsecondary students and their families. These students attended nearly 5,200 active institutions of postsecondary education that participated in federal student aid programs, and which are accredited by agencies recognized by the Secretary.

Figure 2: Total FAFSA® Forms Processed and Total Students Receiving Aid FY 2022–2026

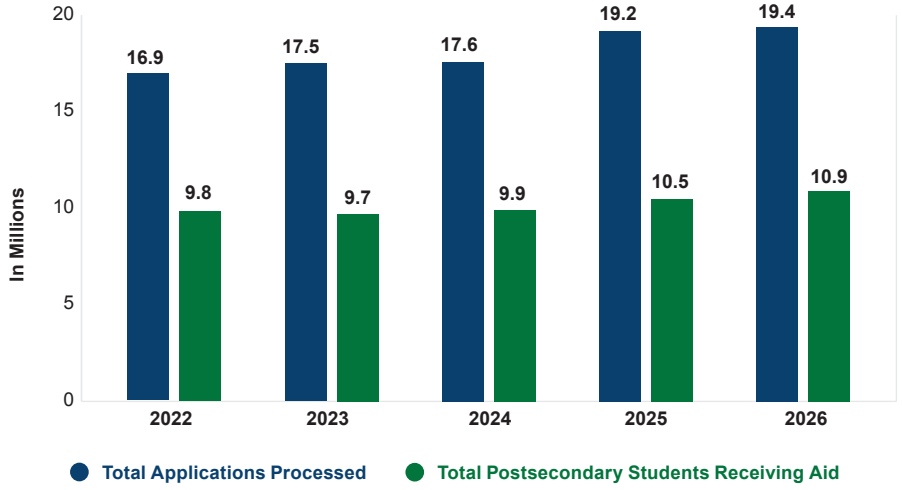
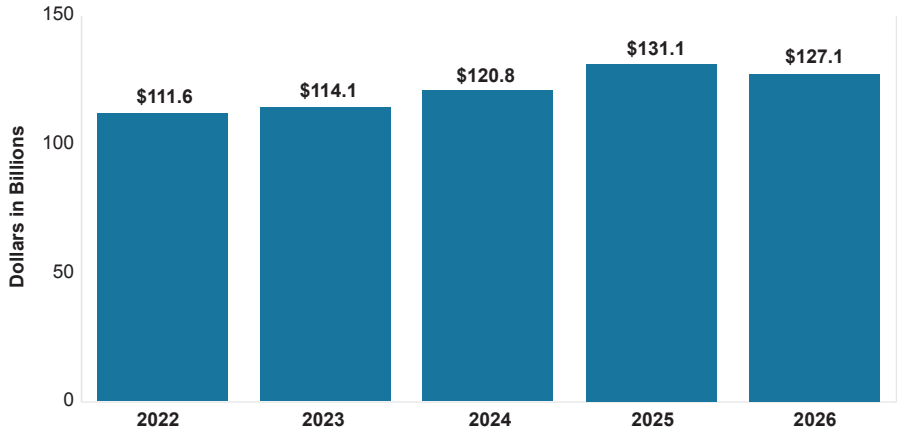
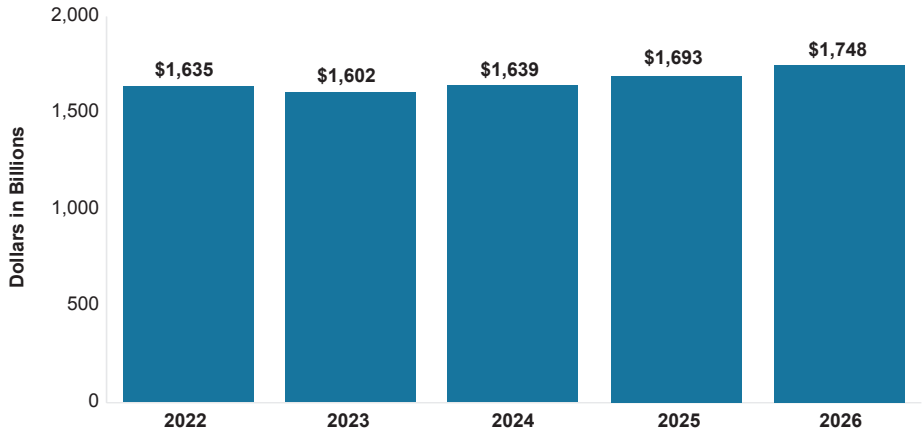


Figure 3: Total Student Aid Delivered FY 2022–2026



FSA currently manages directly or oversees a loan portfolio of more than $1.7 trillion.[11] The portfolio consists of approximately 219.3 million student loans made to more than 44.9 million borrowers. The various types of loan programs are described in the following section.

Figure 4: Student Loan Portfolio[12]
FY 2022–2026



11 Refers to the total FSA student loan portfolio.

12 The amounts in Figure 4 include both lender-held FFEL loans and School-held Perkins loans. Amounts derived from the National Student Loan Data System (NSLDS®) database.

Federal Student Aid Credit Programs

The Title IV programs of the Higher Education Act of 1965 include both federal credit programs and federal non-credit programs. The federal credit programs primarily disburse student financial aid in the form of loans. As discussed previously, federal student loans are student aid funds that are borrowed and must be repaid. A summary discussion of each Title IV credit program is presented in the paragraphs after the table.

In its role of administering Title IV aid, FSA oversaw the disbursement of approximately $85.9 billion in federal student loans to over 6.5 million recipients in FY 2026. The following section summarizes each loan program, including the aid disbursed in FY 2026.

Summary of Federal Aid Disbursed to Students by Credit Program[13]
(Dollars in Millions)

Programs	2026 Aid Disbursed to Students
Federal Loan Programs	
William D. Ford Federal Direct Loan Program	$85,843.2
The Teacher Education Assistance for College and Higher Education Grant Program	73.5
Total Federal Credit Programs	$85,916.7

The **William D. Ford Federal Direct Loan (Direct Loan) Program** lends funds directly to students and parents through participating schools. Created in 1993, the program is funded through borrowings from the U.S. Department of the Treasury (Treasury). Federal student loans are the largest component of financial aid.

The total disbursement displayed above is distributed across four different types of Direct Loans that are available for borrowers:

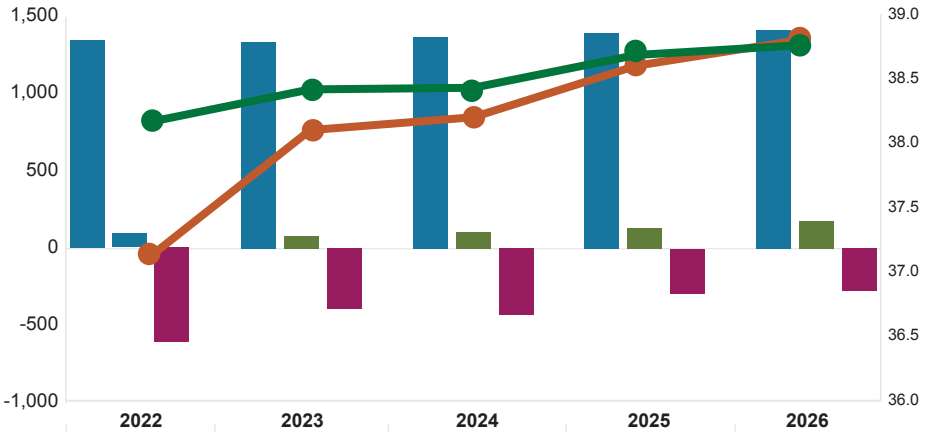
- Direct Subsidized Loans: Federal loans based on financial need made to undergraduate students for which the federal government generally does not charge interest while the borrower is in school or in a deferment status. While interest does begin accruing during the six-month grace period, borrowers are not required to make payments during that time. When the borrower does begin making payments, all of the accrued interest must be satisfied before any payment will be applied to principal. Depending on actions taken by the borrower, the accrued interest could be capitalized into the outstanding principal.

13 Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs, and the Federal Work-Study Program in the Management's Discussion and Analysis are fiscal year amounts derived from amounts from FSA's and the Department's financial systems. The number of awards or recipients reported in the Management's Discussion and Analysis is derived from a variety of sources including FSA's Common Origination and Disbursement System and data used to support the President's Budget. Recipient counts are based on award year.

- Direct Unsubsidized Loans: Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.
- Direct Parent Loans for Undergraduate Students (PLUS) Loans: Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.
- Direct Consolidation Loans: Federal loans that allow the borrower to combine multiple existing federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan, and the repayment term of the loan may be longer than the terms of the original loans, which may result in a lower monthly payment.

As of September 30, 2026, FSA's portfolio of Direct Loans included approximately $1,316.7 billion in credit program receivables, net. In FY 2026, the Department disbursed approximately $85.8 billion[14] in net loans to approximately 6.5 million recipients.

Figure 5: Components of Direct Loan Receivables, Net[15] (Dollars in Billions)



	2022 (Unaudited)	2023 (Unaudited)	2024 (Unaudited)	2025 (Unaudited)	2026
Principal	$1,341.8	$1,336.2	$1,368.9	$1,397.7	$1,413.9
Accrued Interest	$86.6	$83.4	$104.4	$135.4	$177.9
Allowance for Subsidy	$(611.9)	$(388.7)	$(432.0)	$(279.5)	$(275.1)
Net Receivables	$816.5	$1,030.9	$1,041.3	$1,253.6	$1,316.7
Total Recipients	37.1	38.1	38.2	38.6	38.8

14 Excludes consolidation loans of $26.3 billion

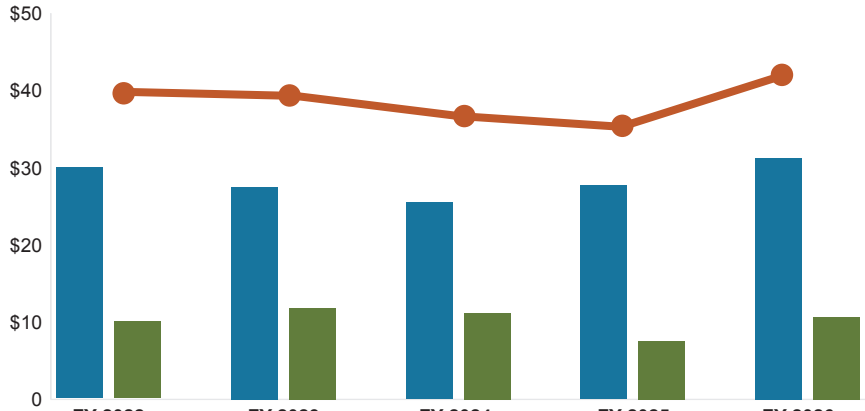
15 Recipient numbers come from the FSA Data Center or National Student Loan Data System (NSLDS®) database.

Under the **Federal Family Education Loan (FFEL) Program**, students and parents obtained federal loans through private lenders. Guaranty Agencies (GAs) insure lenders against borrower default; the federal government, in turn, reinsures the GAs. Federal subsidies ensure private lenders earn a certain yield on the loans they hold.

The passage of the SAFRA Act, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), ended the origination of new FFEL Program loans as of July 1, 2010. Nevertheless, FSA, lenders, and GAs continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and GAs held a FFEL Program loan portfolio of approximately $99.5 billion as of September 30, 2026. Of this portfolio, $42.0 billion represented FSA's credit program receivables, net, comprised of $31.3 billion in loans acquired under the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorization and $10.7 billion acquired under the "traditional" program. FSA made gross payments of approximately $0.9 billion to lenders for interest and special allowance subsidies and $2.7 billion to GAs for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities.

ECASLA authorized the Department to implement several programs to ensure credit market disruptions did not deny eligible students and parents the access to federal student loans for the 2008–09 and 2009–10 academic years. The authority for two ECASLA Programs, the Loan Purchase Commitment Program and the Loan Participation Interest Purchase Program, expired after September 30, 2010. The third ECASLA Program, the Asset-Backed Commercial Paper Conduit (ABCP Conduit) Program, ended in January 2014.

Figure 6: Total FFEL Loan Receivables, Net[16]
(Dollars in Billions)



	FY 2022 (Unaudited)	FY 2023 (Unaudited)	FY 2024 (Unaudited)	FY 2025 (Unaudited)	FY 2026
FFEL ECASLA	$29.9	$27.5	$25.5	$27.7	$31.3
FFEL Guaranteed	$9.9	$11.8	$11.2	$7.6	$10.7
Total FFEL Portfolio	$39.8	$39.3	$36.7	$35.3	$42.0

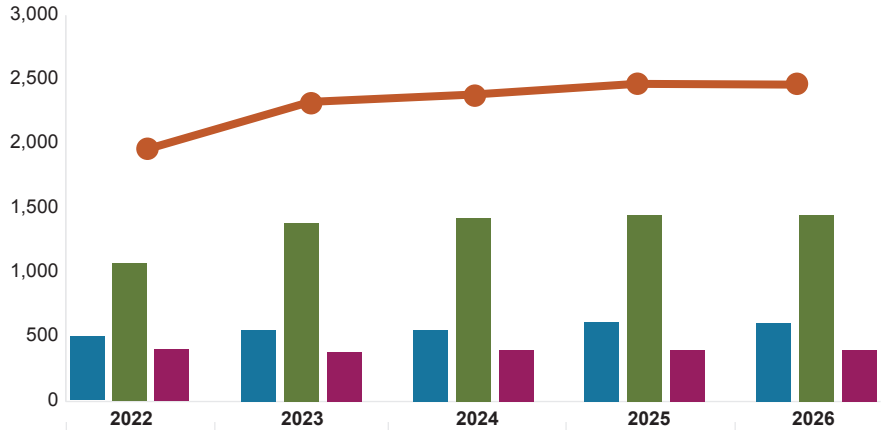
16 FFEL Guaranteed refers to the FFEL Guaranteed (Non-ECASLA) Program; FFEL ECASLA refers to FFEL ECASLA Acquired Loan Program.

The **Teacher Education Assistance for College and Higher Education (TEACH) Grant Program** provides individual awards of up to $4,000 per year (unadjusted) to full-time students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. This program began July 1, 2008. The adjusted maximum TEACH Grant award was $3,772 in the 2025–26 award year (after 5.7% mandatory adjustment) and remained $3,772 in the 2026–27 award year. If students fail to fulfill the service requirements specific to the program, their TEACH Grants convert to Direct Unsubsidized Loans, with interest accruing from the time of the award. In FY 2026, the Department disbursed more than 26,000 grants to more than 24,000 recipients totaling $73.5 million under the TEACH Grant Program. Credit program receivables, net of allowance for subsidy, were approximately $608.0 million for FY 2026.

The **Federal Perkins Loan Program** was a campus-based student aid program that ended in 2018. These loans were made by schools to undergraduate and graduate students who demonstrate financial need. Historically, participating schools received a certain amount of funds each year from FSA for distribution under this program, which supplemented funds in a school's revolving fund, from which new disbursements were made. These funds enabled eligible institutions to offer low-interest loans to students based on financial need. Once the full amount of the school's funds had been awarded to students, no additional loans were to be made under this program for the year. The *Federal Perkins Loan Program Extension Act of 2015* eliminated the authorization for schools to make new Federal Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Credit program receivables, net of allowance for subsidy, were approximately $1,451.0 million for FY 2026.

The **Health Education Assistance Loan (HEAL) Program** was transferred to FSA from the U.S. Department of Health and Human Services in FY 2014 under the *Consolidated Appropriations Act, 2014* (Pub. L. 113-76). This program enabled graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, and programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. Since September 30, 1998, no new loans have been originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program. Credit program receivables, net of allowance for subsidy were approximately $403.0 million for FY 2026.

Figure 7: Other Credit Program Receivables Loan, Net (Dollars in Millions)



	2022 (Unaudited)	2023 (Unaudited)	2024 (Unaudited)	2025 (Unaudited)	2026
TEACH Grant Program	$496.0	$554.0	$555.0	$619.0	$608.0
Perkins Loan Program	$1,066.0	$1,386.0	$1,429.0	$1,446.0	$1,451.0
HEAL Program	$399.0	$388.0	$401.0	$403.0	$403.0
Total	$1,961.0	$2,328.0	$2,385.0	$2,468.0	$2,462.0

Significant Financial Position and Changes Related to Federal Student Aid Credit Programs

(Dollars in Millions)

Significant Financial Statement Lines	Amount		Total Changes	
	FY 2026	FY 2025	Amount	Percentage
Balance Sheet				
Assets				
Fund Balance with Treasury	$ 105,175	$ 107,531	$ (2,356)	-2.2%
Other Assets	155	161	(6)	-3.7%
Loans Receivable, Net - Direct Loan Program	1,314,003	1,253,560	60,443	4.8%
Loans Receivable, Net - FFEL Program	42,047	35,301	6,746	19.1%
Loans Receivable, Net - Other	2,462	2,468	(6)	-0.2%
Negative Loan Guarantee Liabilities	6,774	8,706	(1,932)	-22.2%
Cash and Other Monetary Assets	520	659	(139)	-21.1%
Total Assets	$ 1,471,136	$1,408,386	$ 62,750	4.5%
Liabilities				
Debt Associated with Loans - Direct Loan Program	$ 1,377,364	$1,287,923	$ 89,441	6.9%
Debt Associated with Loans - FFEL Program	58,980	56,285	2,695	4.8%
Debt Associated with Loans - Other	642	645	(3)	-0.5%
Accounts Payable	3,869	3,531	338	9.6%
Subsidy Due to Treasury	27,848	51,617	(23,769)	-46.0%
Guaranty Agency Funds Due to Treasury	520	659	(139)	-21.1%
Other Liabilities	1,463	1,457	6	0.4%
Total Liabilities	$ 1,470,686	$ 1,402,117	$ 68,569	4.9%
Net Position				
Unexpended Appropriations	$ 9,111	$ 12,027	$ (2,916)	-24.2%
Cumulative Results of Operations	(8,661)	(5,758)	(2,903)	50.4%
Total Net Position	$ 450	$ 6,269	$ (5,819)	-92.8%
Statement of Net Cost				
Gross Program Costs	$ 41,847	$ (101,767)	$ 143,614	-141.1%
Earned Revenue	(44,247)	(56,728)	12,481	-22.0%
Net Cost of Operations	$ (2,400)	$ (158,495)	$ 156,095	-98.5%

FSA's credit program assets increased by almost 5% in 2026, totaling $1,471.1 billion as of September 30, 2026. As shown in the table above, most assets relate to loans receivables, $1,358.5 billion as of September 30, 2026 and $1,291.3 billion as of September 30, 2025, which comprised 92.3% and 91.7% of total assets respectively. Direct loans comprise the largest share of these receivables. All other assets totaled $112.6 billion as of September 30, 2026, most of which was Fund Balance with Treasury ($105.2 billion).

FSA's credit program liabilities totaled $1,470.7 billion as of September 30, 2026, which was an increase of about 5%. As shown above, most of the total liabilities represent borrowings from the U.S. Treasury to fund student loans. Debt associated with the Direct Loan Program totaled $1,377.4 billion as of September 30, 2026 and $1,287.9 billion as of September 30, 2025. The increase compared to the prior year was because new borrowings exceeded debt repayments during FY 2026.

FSA's credit programs had a net surplus of $2.4 billion for FY 2026, an almost 99% decrease compared to FY 2025, which had a net surplus of $158.5 billion. FSA's credit program net costs can change significantly each year as a result of changes in estimated subsidy expenses—primarily subsidy expenses for direct loans. The largest components of the FY 2026 total were subsidy expense for the Direct Loan program (a net surplus of $2.5 billion), subsidy expense for the FFEL program (a net surplus of $1.4 billion), and FSA credit program administrative expenses ($2.5 billion). The $158.5 billion net surplus in FY 2025 primarily consisted of subsidy expense for the Direct Loan program, which had a net surplus of $146.1 billion.

Subsidy expenses are estimates of the present value cost of providing direct loans but exclude the administrative costs of issuing and servicing the loans. The Department estimates subsidy expenses using a set of econometric and financial models as well as cash flow models. The three components of subsidy expenses include subsidy expense for loans disbursed in the current year, subsidy re-estimates, and loan modifications. The Department estimates subsidy expenses annually for new loans disbursed in the current year and annually updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates).

The Department updates its subsidy cost estimates each year for outstanding loans disbursed in prior years using a process referred to as a subsidy re-estimate. The total of Direct Loan subsidy re-estimates during FY 2026 was a net $24.6 billion downward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Note 5 on page 80. The FY 2026 year-end subsidy re-estimates for the Direct Loan and FFEL programs are reflected in the $27.8 billion total Subsidy Due to Treasury shown in the table above. This represents the amount of accrued downward re-estimates of subsidy expense that will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from the Office of Management and Budget (OMB).

The Department also updates previous cost estimates based on any new legislation or other government actions that change the terms of existing loans and alter the estimated subsidy cost. This process is referred to as a modification. During FY 2026, the Department recorded a total of $9.8 billion net upward Direct Loan modifications. The modifications that were recorded in FY 2026 included changes resulting from a further reduction in the interest rate for enrolling in auto-pay and the pause of the Treasury Offset Program (TOP) & Administrative Wage Garnishment (AWG). These modifications are described in Note 5 (page 80).

Federal Student Aid Non-Credit Programs

The Title IV non-credit programs also support the borrower's ability to pay for college. This federal financial aid is distributed to students through grants and work-study. FSA's current non-credit programs consist of the Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant Program, and Federal Work-Study Program. These programs support the mission of increasing access to quality postsecondary education. A summary discussion of each Title IV non-credit program is presented in the paragraphs after the table.

Summary of Federal Aid Disbursed to Students by Non-Credit Program
(Dollars in Millions)

Programs	2026 Aid Disbursed to Students
Federal Grant Programs	
Federal Pell Grant Program	$39,177.7
Federal Supplemental Educational Opportunity Grant Program	870.2
Subtotal Grants Program	$40,047.0
Federal Work-Study Program	
Federal Work-Study Program	$1,169.8
Total Federal Non-Credit Programs	**$41,217.7**

In fulfilling its responsibility for administering Title IV aid, FSA oversaw the disbursement of approximately $41.2 billion in grants and work-study to more than 7.5 million recipients. The following provides a summary for each grant program, including aid disbursed in FY 2026.

The **Federal Pell Grant Program** helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income students pursuing undergraduate and certain Pell Grant eligible short term workforce programs. Considered the foundation of a student's financial aid package, Federal Pell Grants vary according to the financial circumstances of students and their families. In FY 2026, the Department disbursed more than $39.2 billion in Federal Pell Grants averaging approximately $5,258 to approximately 7.5 million recipients. The maximum Federal Pell Grant award was $7,395 in the 2025–26 award year and remained $7,395 in the 2026–27 award year. The Consolidated Appropriations Act, 2017 (Public Law 115-31) included a provision that allows Pell Grant eligible students to receive up to 150% of their Schedule Award in an award year. This could allow students access to Pell Grant funding to attend programs for more than the equivalent of two full-time semester (e.g. for summer headers or summer trailers). The *FAFSA® Simplification Act* removed the requirement for a student to be enrolled at least half-time to receive Federal Pell Grant funds of more than 100% of the student's Scheduled Award. Therefore, to be eligible for the additional Federal Pell Grant funds, the student must only be otherwise eligible to receive Federal Pell Grant funds for the payment period.

The **Federal Supplemental Educational Opportunity Grant Program** is a campus-based program through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered

directly by the financial aid office at each participating school. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA. Once the full amount of the school's grant funds has been awarded to students, no additional awards can be made under this program for the year. This form of aid does not require repayment. In FY 2026, approximately $870.2 million were disbursed through nearly 1.6 million campus-based recipients.

The **Federal Work-Study Program** is also a campus-based program through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer part-time employment to undergraduate, graduate, and professional students based on financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. In FY 2026, approximately $1.1 billion were disbursed in nearly 434,000 campus-based recipients.

Significant Financial Position and Changes Related to Federal Student Aid Non-Credit Programs

(Dollars in Millions)

Significant Financial Statement Lines	Amount		Total Changes	
	FY 2026	FY 2025	Amount	Percentage
Balance Sheet				
Assets				
Fund Balance with Treasury	$ 27,355	$ 24,186	$ 3,169	13.1%
Other Assets	2	23	(21)	-91.3%
Total Assets	$ 27,357	$ 24,209	$ 3,148	13.0%
Liabilities				
Accrued Grant Liability	$ 3,716	$ 4,143	$ (427)	-10.3%
Accounts Payable	463	684	(221)	-32.3%
Other Liabilities	27	29	(2)	-6.9%
Total Liabilities	$ 4,206	$ 4,856	$ (650)	-13.4%
Net Position				
Unexpended Appropriations	$ 23,207	$ 19,405	$ 3,802	19.6%
Cumulative Results of Operations	(56)	(52)	(4)	7.7%
Total Net Position	$ 23,151	$ 19,353	$ 3,798	19.6%
Statement of Net Cost				
Gross Program Costs	$ 40,810	$ 39,317	$ 1,493	3.8%
Less Earned Revenue	-	(12)	12	-100.0%
Net Cost of Operations	$ 40,810	$ 39,305	$ 1,505	3.8%

FSA's total non-credit program assets increased by 13% in 2026 and primarily consist of grant funding that has not yet been disbursed to grantees, which is reflected in the Fund Balance with Treasury line item shown in the table above. The largest component of the net Fund Balance with Treasury as of September 30, 2026 and September 30, 2025, is undisbursed funds for the Federal Pell Grant program ($26.1 billion and $23.3 billion, respectively).

FSA's non-credit program liabilities saw a decrease of about 13% compared to the prior fiscal year, changing from $4.9 billion as of September 30, 2025 to $4.2 billion as of September 30, 2026. As shown above, most of these liabilities are also associated with the accrued grant liability ($3.7 billion as of September 30, 2026 and $4.1 billion as of September 30, 2025), which represents the Department's estimate of allowable expenditures incurred by grantees as of the end of the fiscal year, that the grantee has not yet drawn on their available balance to be reimbursed by the Department. The accrued grant liability for the Federal Pell Grant program ($3.5 billion as of September 30, 2026 and $3.6 billion as of September 30, 2025) makes up the majority of the total liability.

The net cost of operations for the FSA's non-credit programs totaled $40.8 billion during FY 2026, which was similar to the prior year.

Federal Student Aid Performance Initiatives

The Federal Student Aid (FSA) Fiscal Year 2026 Annual Performance Plan operationalized the inaugural year of the *FY 2026–30 Strategic Plan* under its statutory performance-based organization (PBO) mandate (20 U.S.C. § 1018), establishing approximately 22 annual performance indicators to guide the administration of more than $1.7 trillion in federal student loans and the oversight of nearly 5,200 postsecondary institutions. In response to recent legislative mandates, the end of the Saving on Valuable Education (SAVE) plan forbearance and post-reduction-in-force restructuring, the plan established baselined and targeted performance indicators and select milestones across four strategic goals.

Goal 1: Ensure Aid Delivery for Every Eligible Student

FSA executed Strategic Goal 1, to ensure reliable aid delivery to every eligible student, by optimizing the FAFSA® experience, strengthening support for financial aid administrators, and enforcing strict compliance standards for higher education institutions. To modernize aid delivery, FSA transitioned FAFSA® processing to a real-time architecture and expanded data integration with the Internal Revenue Service to minimize manual entry, aiming to reduce unsubmitted forms and drive FAFSA® completion among high school seniors. In parallel, FSA increased training offerings for all institutions receiving Title IV funds to meet the needs of current and prospective borrowers. Finally, to safeguard students and taxpayers, FSA's Oversight and Enforcement teams implemented risk-based frameworks to reduce outstanding institutional program reviews while committing to complete preliminary investigation assessments within 30 days of receipt. This targeted strategic goal, with specific attention to the FAFSA® experience, training, and enforcement initiatives, protected federal funds and ensured successful aid delivery for every eligible student.

Goal 2: Increase Student Loan Repayment

FSA Strategic Goal 2, to increase student loan repayment, captured a critical operational pivot to stabilize a $1.75 trillion loan portfolio that faced severe disruptions. Triggered by the transition of over seven million borrowers out of the litigated SAVE plan, FSA prioritized servicer accountability to process incoming repayment requests rapidly, mitigated late-stage delinquency, and prevented widespread backlogs. To alleviate systemic strain, FSA simultaneously strengthened the capacity of postsecondary financial aid administrators through targeted default-prevention toolkits, and launched an interagency partnership to migrate defaulted loan collections to the U.S. Department of the Treasury's Cross-Servicing platform. By using the FY 2026 performance period to establish critical operational baselines and deliver systemic business tool roadmaps, FSA directly supported borrowers, reduced high institutional nonpayment rates, and accelerated long-term default resolutions.

Goal 3: Modernize Technology Infrastructure

FSA Strategic Goal 3, to modernize technology infrastructure, established a comprehensive framework to modernize core systems, leverage strategic acquisitions, mature enterprise data governance, and reinforce security protocols. For the FY 2026 performance period, FSA defined measurable targets to track its modernization, starting with migrating 20% of high-priority legacy systems to the cloud and releasing new online tools to set the stage for streamlined and easy access to services. Additionally, the agency established a critical operational baseline by identifying and documenting priority data elements and tables to build a unified enterprise data warehouse. Finally, to strengthen cybersecurity and data privacy FSA committed to ensuring higher education institutions maintained managed Gramm-Leach-Bliley Act aligned risk scores, staff completion of annual security training, and maintained current security authorizations Authority to Operate for 90% of its systems. With systematic tracking of metrics, FSA ensured that its modernization efforts are demonstrably effective, paving the way for an adaptive, secure, and borrower-centered technology landscape.

Goal 4: Empower Employees and Promote Enterprise Business Acumen

FSA Strategic Goal 4, to empower employees and promote enterprise business acumen, served as a strategic roadmap for organizational capacity-building following a March 2025 reduction in force. Goal 4 focuses on rebuilding a skilled, collaborative, and highly efficient workforce, effectively using the FY 2026 period to establish operational baselines and pilot new initiatives across its workforce. This includes strengthening internal expertise through training, fostering cross-functional alignment to break down institutional silos, and deploying modern generative Super Intelligence (SI) tools. These developmental, collaborative, and technological efforts are designed to support employees in their daily work, strategically recruit top talent in critical fields like technology and fraud prevention, and establish a foundational baseline for long-term employee satisfaction and workforce retention.

Other Higher Education Programs

The Department's Other Higher Education programs include grants for Rehabilitation Services; IDEA; Higher Education, and Career, Technical, and Adult Education; and funding to support research and collect education statistics. For more information on the grants provided for Other Higher Education programs, see Note 10 on page 97.

Significant Financial Position and Changes Related to Other Higher Education Programs

(Dollars in Millions)

Significant Financial Statement Lines	Amount		Total Changes	
	FY 2026	FY 2025	Amount	Percentage
Balance Sheet				
Assets				
Fund Balance with Treasury	$ 9,331	$ 10,307	$ (976)	-9.5%
Other Assets	3,183	2,476	707	28.6%
Total Assets	$ 12,514	$ 12,783	$ (269)	-2.1%
Liabilities				
Accrued Grant Liability	$ 665	$ 6	$ 659	10,983.3%
Accounts Payable	108	82	26	31.7%
Other Liabilities	(32)	32	(64)	-200.0%
Total Liabilities	$ 741	$ 120	$ 621	517.5%
Net Position				
Unexpended Appropriations	$ 11,811	$ 12,693	$ (882)	-6.9%
Cumulative Results of Operations	(38)	(30)	(8)	26.7%
Total Net Position	$ 11,773	$ 12,663	$ (890)	-7.0%
Statement of Net Cost				
Gross Program Costs	$ 10,916	$ 10,612	$ 304	2.9%
Earned Revenue	(17)	(14)	(3)	21.4%
Net Cost of Operations	$ 10,899	$ 10,598	$ 301	2.8%

Total assets for the Department's Other Higher Education programs decreased by approximately 2% during FY 2026. Other Higher Education program total assets primarily consist of grant funding that has not yet been disbursed to grantees, which is reflected in the Fund Balance with Treasury line items shown in the table above. The total assets also include advance payments made by the Department to the Department of Labor as part of an interagency agreement to distribute career and technical education, adult education, postsecondary education, and innovation and improvement grant program funding to grant recipients. The advanced amount, which totaled $3.2 billion as of September 30, 2026 and $2.2 billion as of September 30, 2025, is included in the Other Assets line item in the table above.

Analysis of Systems, Controls, and Legal Compliance

SECRETARY'S STATEMENT OF ASSURANCE FISCAL YEAR 2026

November 16, 2026

The U.S. Department of Education (Department) is responsible for establishing and maintaining effective internal control and financial management systems to achieve the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and the *Federal Financial Management Improvement Act of 1996* (FFMIA).

In accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the Department can provide **reasonable assurance** that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2026, except for one material weakness in FY 2026.

The material weakness relates to controls over the reliability of underlying data used in developing subsidy cost estimates for the Department's Direct Loan and Federal Family Education Loan (FFEL) portfolios.

In accordance with FMFIA, the Department conducted its required management assessment of financial management systems pursuant to OMB Circular A-123, Appendix D. Based on this assessment, and considering the independent financial statement auditor's report, the Department determined that its financial management systems substantially complied with FFMIA requirements for FY 2026.

The Department remains committed to remediating the auditor-reported material weakness and significant deficiencies, completing corrective actions, and continuously strengthening its internal control and financial management systems to support effective operations, reliable financial reporting, and compliance with applicable laws and regulations.



Linda E. McMahon
Secretary of Education

Introduction and Overview

The Department conducts an annual assessment of internal control in accordance with FMFIA, OMB Circular A-123, and the Government Accountability Office's *Standards for Internal Control in the Federal Government*, commonly known as the Green Book. The Department also evaluates its financial management systems for substantial compliance with FFMIA in accordance with OMB Circular A-123, Appendix D.

The FY 2026 assessment incorporated Department-wide management assurance activities, entity-level control assessments, risk-based testing of financial reporting controls, information technology control assessments, reviews of shared-service organization controls, corrective action monitoring, and consideration of relevant OIG, Government Accountability Office (GAO), and independent auditor results. These activities support the Secretary's annual Statement of Assurance and the Department's conclusion on internal control and financial management systems.

FMFIA Assessment Results

Scope and Assessment Process

Management executed the FY 2026 FMFIA assessment using a department-wide, risk-based approach covering entity-level controls, key program and business processes, financial reporting, major administrative functions, information technology, and compliance activities.

The assessment included:

- Principal Office assurance and assessable-unit evaluations;
- entity-level control assessments;
- reviews of management monitoring and internal control documentation;
- risk-based testing conducted under OMB Circular A-123, Appendix A;
- information technology security and system control testing;
- review of relevant SOC 1 Type 2 reports for shared-service organizations;
- integration of relevant OIG, GAO, and independent auditor results;
- consideration of fraud risk management and payment integrity activities; and
- review and monitoring of corrective action plans for identified deficiencies.

The Department also considered changes to its operating environment during FY 2026, including organizational restructuring and increased reliance on interagency agreements and shared-service arrangements. These changes affected the allocation of responsibilities for program administration, financial processing, information systems, monitoring, and other control activities and required management to reassess risks, control ownership, evidence requirements, and cross-agency dependencies.

FY 2026 FMFIA Conclusion

Based on the results of the Department's FY 2026 assessment, the Department provides reasonable assurance, except for one material weakness in internal control over financial reporting, that the objectives of FMFIA were achieved as of September 30, 2026.

Consistent with the independent auditors' findings, the Department continues to report a material weakness related to controls over the reliability of underlying data used in developing subsidy cost estimates for the Department's Direct Loan and Federal Family Education Loan (FFEL) portfolios.

The Department also continued to address the prior-year significant deficiencies and acknowledges three significant deficiencies reported by the independent auditor.

Corrective Actions (Prior-Year and Auditor-Reported)

The Department continues to address the material weakness and significant deficiencies through formal corrective action plans and other remediation activities. Corrective actions include strengthening data validation and reconciliation processes, preventive and detective controls, documentation and evidence retention, management oversight, and monitoring of service organizations. These efforts also include clarifying control ownership and strengthening processes affected by organizational and cross-agency changes.

Corrective actions are tracked through established milestones, assigned responsible offices, management oversight, and validation procedures, including the Department's Audit Accountability and Resolution Tracking System (AARTS). Activities extending beyond September 30, 2026, will remain subject to monitoring and validation until closure criteria are met.

Analysis of Controls

Internal Control Framework

The Department maintains an integrated internal control framework designed to support effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. The framework incorporates:

- enterprise risk management;
- entity-level control assessments;
- program and business-process controls;
- OMB Circular A-123, Appendix A financial reporting controls;
- Appendix B charge card controls;
- Appendix C payment integrity controls;
- Appendix D financial management system assessments;
- information technology general and application controls;
- program office monitoring and management review; and
- oversight provided by OIG, GAO, and independent auditors.

Entity-Level Controls and Management Assurance

Entity-level controls provide the foundation for the Department's internal control environment. Principal Offices assess controls related to governance, risk management, organizational structure, accountability, communication, monitoring, and other components of the Green Book. The Department uses these assessments together with process-level testing, management reviews, audit results, and corrective action information to identify emerging risks and support the Department-wide FMFIA conclusion.

The independent auditor identified weaknesses in monitoring, oversight, and accountability for the timely remediation of recurring control deficiencies and corrective action plans. The Department will strengthen entity-level controls by enhancing governance and accountability over corrective action ownership, improving oversight and reporting of remediation activities, increasing management review of corrective action progress, and reinforcing risk management and escalation procedures.

OMB Circular A-123 Appendix A Testing

During FY 2026, the Department conducted its annual risk-based assessment of internal control over financial reporting in accordance with OMB Circular A-123, Appendix A. Testing focused on the design and operating effectiveness of key financial controls in significant areas, including journal entries within the Office of Finance and Operations and Federal Student Aid, and Credit Reform/Student Loan Modeling.

The FY 2026 assessment found that most controls tested operated as intended and continued to support reliable financial reporting. Management identified certain areas requiring improvement and initiated appropriate corrective actions. No additional material weaknesses in internal control over financial reporting was identified through the Department's Appendix A assessment.

Service Organization Controls

The Department relies on external service organizations for certain financial and administrative processes. During FY 2026, management reviewed relevant System and Organization Controls (SOC) 1 Type 2 reports, including the Department of the Interior's Federal Personnel and Payroll System, HHS GrantSolutions, and the HHS Payment Management System. Management evaluated relevant control objectives, service-organization control results, complementary user-entity controls (CUECs), and related corrective actions, as appropriate. The results of these reviews were incorporated into the Department's broader FY 2026 internal control assessment.

Federal Student Aid (FSA) also relies on service organizations to perform essential functions related to the student loans portfolio. These service organizations provide FSA with SOC reports to support monitoring and review in accordance with relevant federal accounting standards. These SOC reports include CUECs that are critical to ensuring servicer controls operate as intended.

The independent auditor identified that controls at FSA to ensure complete and timely monitoring of SOC reports were not operating effectively, including insufficient review of CUECs. FSA has planned corrective actions to strengthen SOC report monitoring and better align SOC review procedures with financial reporting controls, including updates to guidance to loan servicers on CUECs. Because certain corrective actions are scheduled to begin implementation beginning in FY 2027, the finding remained open in FY 2026.

Data Quality and Reporting Controls

The Department maintains controls designed to support the accuracy, completeness, reliability, and integrity of information used for financial reporting, program oversight, performance management, and public reporting. These controls include data governance, system validations, reconciliations, management reviews, monitoring activities, and controls over significant data inputs and interfaces. During FY 2026, management continued efforts to strengthen data quality and reporting controls, including controls related to data and assumptions supporting credit reform estimates and other areas of elevated reporting risk.

The independent auditor identified a material weakness related to the reliability of data used in the Student Loan Model for direct loan subsidy re-estimates. FSA, in coordination with the Department, will strengthen data validation, reconciliation, and management review controls; enhance oversight of key data inputs and assumptions; improve documentation and monitoring of critical data interfaces; and implement additional governance and quality assurance procedures to improve the reliability, accuracy, and completeness of direct loan subsidy estimates.

Other Internal Control Issues

Interagency Agreements (IAAs) and Cross-Agency Controls

During FY 2026, the Department entered into and implemented interagency agreements with other federal agencies including the Departments of Labor, Health and Human Services, Treasury, and Justice. These arrangements increased reliance on the systems, processes, controls, and information maintained by performing agencies while the Department retained responsibilities for financial reporting, stewardship of appropriated funds, payment integrity, program oversight, or other statutory and management responsibilities, as applicable.

To address these changes, the Department is developing and implementing governance and internal control frameworks for interagency agreements intended to:

- define Department and performing-agency roles and responsibilities;
- identify control ownership and cross-agency dependencies;
- establish financial reporting and reconciliation requirements;
- identify evidence needed to demonstrate that controls were performed;
- establish monitoring and reporting expectations;
- define escalation procedures for control deficiencies or other issues; and
- support the assessment of applicable OMB Circular A-123 requirements.

The Department is incorporating these arrangements into its risk assessment and internal control processes and will continue to evaluate whether controls performed by the Department and partner agencies provide sufficient evidence to support management assurance.

Analysis of Financial Management Systems

Financial Management Systems

The Department's financial management systems support budget execution, funds control, accounting, grants management, acquisitions, payments, collections, financial reporting, and compliance monitoring. These systems are critical to accountability over federal resources and reliable financial statements. The Department evaluates financial and information technology controls across its systems environment to support operational effectiveness, reliable reporting, and compliance with FFMIA.

EDCAPS Core Financial Applications

The Department's core financial applications operate within the Education Central Automated Processing System (EDCAPS), an integrated environment that supports general ledger activity, funds management, grants and contract management, receivables, budget execution, payment processing, and financial reporting. EDCAPS incorporates commercial software, custom code, and interfaces with internal and external systems.

Key systems include:

- **Financial Management Support System (FMSS):** the core financial system supporting general ledger management, financial statement preparation, funds control, budget execution, purchasing, accounts receivable, and accounts payable. During FY 2026, the Department continued to maintain and monitor FMSS controls over accounting transactions, funds control, payment processing, and financial reporting.
- **Grants Management System (G5):** supports the grants lifecycle, including application, award, payment processing, and closeout, and is included as appropriate in internal control and financial management system assessment activities.
- **Acquisition Management System (AMS):** central repository for acquisition and contract data supporting entry, retrieval, management, and internal and external reporting.
- **E2 Travel System:** provides end-to-end travel management services under a GSA third-party contract and interfaces with the Department's financial management environment pursuant to established agreements and security requirements.

EDCAPS System Interfaces

EDCAPS interfaces with internal and external systems that support grants management, acquisitions, budget planning, payments, collections, and Treasury reporting. The Department manages interface-related risks through business-process and IT controls, including reconciliations, access controls, interface monitoring, system validations, and change-management activities.

Information Technology Controls

Information technology controls support the confidentiality, integrity, and availability of systems and data used for Department operations and financial reporting. The control environment includes security management, logical access, configuration management, change management, continuous monitoring, segregation of duties, incident response, and contingency planning. Management evaluates these controls through risk assessments, control testing, security reviews, corrective action monitoring, and other oversight activities.

FY 2026 Risk Assessment and Security Control Testing

During FY 2026, the Department conducted a comprehensive IT risk assessment and tested **115** IT security controls across EDCAPS components and interconnected systems:

- EDCAPS – 35 controls
- FMSS – 17 controls
- AMS – 8 controls
- G5 – 25 controls
- E2 - 30 controls

The Department identified significant deficiencies associated with access governance, security monitoring, and change-management activities. Management initiated corrective actions to address the underlying issues, and remediation remains subject to ongoing monitoring and validation. These control matters occurred during a period of significant organizational and workforce transition. Management continues to prioritize remediation activities, strengthen governance and oversight, and assess the effect of workforce capacity and organizational changes on the Department's ability to execute and sustain information technology controls.

Financial Management Systems Improvement Strategy

The Department's financial management systems improvement strategy focuses on strengthening data quality, enhancing governance over financial and feeder systems, improving interfaces and reconciliations, strengthening access and change-management controls, and completing corrective actions. During FY 2026, priority activities included strengthening controls over data and code supporting credit reform estimates, enhancing validation and escalation processes for data used in the Student Loan Model, improving oversight of systems that support financial reporting, and continuing remediation of IT control deficiencies. The Department tracks these activities through corrective action plans with assigned responsible offices, milestones, and management oversight.

FFMIA Compliance

Management assesses financial management systems for substantial compliance with FFMIA and OMB Circular A-123, Appendix D, including whether systems:

1. provide reliable financial information and comply with applicable federal financial management system requirements;
2. comply with applicable federal accounting standards; and
3. apply the U.S. Standard General Ledger at the transaction level.

The FY26 assessment considered the core financial environment and relevant feeder and mixed systems, including the Federal Student Aid Financial Management System, National Student Loan Data System, Common Origination and Disbursement System, Debt Management and Collection System, and Access and Identity Management System. Based on management's assessment and consideration of the independent auditors' results, the Department determined that its financial management systems substantially complied with FFMIA requirements for FY 2026. The independent auditors **did not identify any instances** of substantial noncompliance with federal accounting standards, applicable federal financial management system requirements, or the U.S. Standard General Ledger at the transaction level.

Analysis of Legal Compliance

Statutory and Regulatory Compliance

The Department operates under a framework of federal laws, regulations, and executive guidance that govern financial management, operations, grants administration, data security, and civil rights compliance. Compliance is an objective of the internal control framework and is considered as part of its annual FMFIA assessment.

I. Financial Management & Accountability

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires federal agencies to establish and maintain internal controls that provide reasonable assurance that programs operate effectively and efficiently, reporting is reliable, and applicable laws and regulations are followed. The Department conducted its FY 2026 assessment in accordance with FMFIA, OMB Circular A-123, and the GAO Green Book. Management identified one material weakness through the FY 2026 FMFIA assessment. Significant deficiencies and other control matters identified during the year are subject to corrective action and management monitoring.

Federal Financial Management Improvement Act of 1996 (FFMIA)

The Department assessed its financial management systems in accordance with FFMIA and OMB Circular A-123, Appendix D. Based on management's assessment and consideration of the independent auditors' report, the Department determined that its financial management systems substantially complied with FFMIA requirements for FY 2026.

Payment Integrity Information Act of 2019 (PIIA)

The Department maintains payment integrity controls to identify, estimate, reduce, and report improper payments in accordance with PIIA and OMB requirements. During FY 2026, the Department continued to conduct payment integrity risk assessments and testing, monitor programs susceptible to significant improper payments, report required payment integrity information, and implement corrective actions designed to address identified risks and improve payment integrity. The Department is compliant with PIIA for FY 2026.

II. Grants & Administrative Requirements

Uniform Guidance and the Single Audit Act

The Department supports compliance with 2 CFR Part 200 and the Single Audit Act through grants policy, system controls, recipient monitoring, audit follow-up, and technical assistance. During FY 2026, organizational and workforce changes required reassessment of roles, responsibilities, and resources associated with Single Audit follow-up. The Department continued to receive and review Single Audit reports and prioritized follow-up based on risk and available resources. The Department is strengthening its audit follow-up framework, including clarifying organizational responsibilities and strengthening procedures for monitoring, resolution, and closure of audit findings.

Geospatial Data Act

During FY 2026, the Department did not fully comply with Section 759(a) of the Geospatial Data Act and is working to address the issue. OIG identified areas for improvement related to records management, resources and subject-matter expertise, and federal metadata requirements. The Department agreed with the recommendations and is taking corrective actions, including strengthening subject-matter expertise, improving metadata quality, and coordinating with OCIO and the National Archives and Records Administration regarding records management requirements.

III. Information Security & Privacy

Federal Information Security Modernization Act of 2014 (FISMA)

FISMA requires federal agencies to develop, document, and implement agencywide programs to secure information and information technology systems, ensuring confidentiality, integrity, and availability of all system-related information. During FY 2026, the Department's and FSA's information security programs were in overall compliance with FISMA. The Department received an overall FISMA assessment of **"Managed and Measurable" (Level 4 Cybersecurity Maturity Level)**, indicating effective controls. Three domains achieved the highest score of **Optimized (Level 5)**, and two domains met the **Managed and Measurable** requirement.

Maturity Level	Metric Domain	Security Function	Change from 2025
Consistently Implemented	Cybersecurity Governance	Govern	▼
Consistently Implemented	Cybersecurity Supply Chain Risk Management	Govern	▼
Consistently Implemented	Risk and Asset Management	Identify	▼
Optimized	Configuration Management	Protect	=
Defined	Identity and Asset Management	Protect	▼
Managed and Measurable	Data Protection and Privacy	Protect	=
Consistently Implemented	Security Training	Protect	▼
Optimized	Information Security Continuous Monitoring	Detect	=
Managed and Measurable	Incident Response	Respond	=
Optimized	Contingency Planning	Recover	=

Cybersecurity Information Sharing Act of 2015 (CISA)

CISA encourages federal agencies and private sector entities to share cybersecurity threat information. The Department is compliant with CISA and participates in CISA initiatives to improve awareness, detection, coordination, and response to cybersecurity threats.

Financial Section

Message from the Chief Financial Officer



I am pleased to present the U.S. Department of Education's fiscal year (FY) 2026 Agency Financial Report. This report provides Congress, stakeholders, and the public with a clear accounting of the Department's financial position, stewardship responsibilities, and progress in strengthening financial management across the agency.

During FY 2026, the Department continued to advance the President's priority to return education decision-making closer to states, families, local communities, and institutions, while maintaining the Department's responsibility to manage federal resources with integrity, transparency, and discipline. The Office of the Chief Financial Officer supported this work by providing financial management, acquisition, grants, and operational services across the Department.

This year required sustained focus on both mission execution and operational accountability. The Department continued to evaluate its business processes, internal controls, contracts, interagency agreements, and shared service models to ensure taxpayer resources are used effectively and in alignment with statutory responsibilities. OCFO worked closely with program offices, Federal Student Aid, auditors, and oversight partners to strengthen documentation, improve responsiveness, and address known control challenges.

The Department's recent audit history underscores the importance of this work. In FY 2024, the independent auditor issued a disclaimer of opinion on the Department's balance sheet, and in FY 2025, the Department made measurable progress by receiving an unmodified opinion on that statement. In FY 2026, the Department continued building on that progress by advancing corrective action strategies, improving audit readiness, and reinforcing the importance of reliable financial data, effective internal controls, and timely resolution of identified deficiencies. This year, we received an unmodified (clean) audit opinion on our financial statements from our independent auditor. A clean opinion confirms that our financial statements are presented fairly, in all material respects, and conform with generally accepted accounting principles. The internal control report identified one repeat material weakness, "Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement." The Department developed and implemented a corrective action plan to begin addressing deficiencies identified as part of this particular weakness in FY 2026 and remains committed to continually evaluating current internal controls for improvement opportunities in FY 2027 and beyond.

Strong financial management is not separate from the Department's mission. It is the foundation that allows the Department to serve students, families, borrowers, states, institutions, and taxpayers with credibility and care. As the Department continues to evolve, OCFO remains committed to practical problem-solving, transparency, accountability, and disciplined stewardship of public funds.

I am grateful to the Department's employees and partners for their professionalism and dedication throughout the year. We will continue working to strengthen the Department's financial management capabilities and to support the responsible administration of federal education programs on behalf of the American people.

Respectfully,

Casey Sacks

Casey K. Sacks, Ph.D.
Delegated Duties of Chief Financial Officer
U.S. Department of Education
November 16, 2026

About the Financial Section

In FY 2026, the Department prepared its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is an important part of the Department's financial management goal of providing accurate and reliable information for decision-making.

Message from the Chief Financial Officer

The Chief Financial Officer message summarizes the Department's FY 2026 accomplishments and audit opinion.

Financial Statements and Notes

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

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

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

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

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statement and to explain specific items in the statement. They also provide information to support how particular accounts have been valued and computed.

Note 1. Summary of Significant Accounting Policies

Note 2. Non-Entity Assets

Note 3. Fund Balance with Treasury

Note 4. Other Assets

Note 5. Loan Receivables, Net and Loan Guarantee Liabilities

Note 6. Liabilities Not Covered by Budgetary Resources

Note 7. Debt Associated with Loans

Note 8. Subsidy Due to Treasury

Note 9. Other Liabilities

Note 10. Net Cost of Operations

Note 11. Statement of Budgetary Resources

Note 12. Reconciliation of Net Cost to Net Outlays

Note 13. Commitments and Contingencies

Note 14. Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process

Required Supplementary Information (Unaudited)

This section contains the Combining Statements of Budgetary Resources for the years ended September 30, 2026 and 2025.

Report of the Independent Auditors

The results of the audit of the Department's Consolidated Financial Statements for FY 2026 and Consolidated Balance Sheet for FY 2025 to comply with the *Chief Financial Officers Act of 1990*, as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department's Office of Inspector General contracted with the independent certified public accounting firm KPMG LLP to audit the Department's Consolidated Financial Statements. KPMG audited the Department's Consolidated Financial Statements as of September 30, 2026, and for the year then ended, and the Consolidated Balance Sheet and related notes as of September 30, 2025.

United States Department of Education
Consolidated Balance Sheets
As of September 30, 2026 and 2025

(Dollars in Millions)

	FY 2026	FY 2025
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 189,217	$ 191,377
Other Assets (Note 4)	3,339	2,290
Total Intragovernmental	192,556	193,667
Other than Intragovermental:		
Loan Receivables, Net (Note 5)		
Direct Loan Program	1,314,003	1,253,560
Federal Family Education Loan (FFEL) Program	42,047	35,301
Other Credit Programs for Higher Education	3,756	3,455
Negative Loan Guarantee Liabilities (Note 5)	6,774	8,706
Cash and Other Monetary Assets	520	659
Other Assets (Note 4)	627	282
Total Other than Intragovermental	1,367,727	1,301,963
Total Assets	**$ 1,560,283**	**$ 1,495,630**
LIABILITIES (Note 6)		
Intragovernmental:		
Debt Associated with Loans (Note 7)		
Direct Loan Program	$ 1,377,364	$ 1,287,923
FFEL Program	58,980	56,285
Other Credit Programs for Higher Education	2,009	1,552
Accounts Payable	1	1
Other Liabilities:		
Subsidy Due to Treasury (Note 8)	27,848	51,617
Guaranty Agency Funds Due to Treasury	520	659
Other Liabilities (Note 9)	973	1,371
Total Intragovernmental	1,467,695	1,399,408
Other than Intragovermental:		
Accounts Payable	4,528	4,566
Other Liabilities:		
Accrued Grant Liabilities	5,176	5,105
Other Liabilities (Note 9)	570	526
Total Other than Intragovermental	10,274	10,197
Total Liabilities	**$ 1,477,969**	**$ 1,409,605**
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended Appropriations	$ 91,149	$ 91,903
Cumulative Results of Operations	(8,835)	(5,878)
Total Net Position	**$ 82,314**	**$ 86,025**
Total Liabilities and Net Position	**$ 1,560,283**	**$ 1,495,630**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statements of Net Cost
For the Years Ended September 30, 2026 and 2025

(Dollars in Millions)

		FY 2026		FY 2025 (Unaudited)
PREKINDERGARTEN THROUGH GRADE 12 STUDENTS				
Gross Costs	$	46,626	$	62,747
Less Earned Revenue		(133)		(121)
Net Program Cost for Prekindergarten through Grade 12 Students	**$**	**46,493**	**$**	**62,626**
HIGHER EDUCATION				
Direct Loan Program				
Gross Costs	$	41,362	$	(89,886)
Less Earned Revenue		(42,148)		(54,413)
Net Cost (Surplus) of Direct Loan Program	**$**	**(786)**	**$**	**(144,299)**
FFEL Program				
Gross Costs	$	391	$	(11,907)
Less Earned Revenue		(1,759)		(1,816)
Net Cost (Surplus) of FFEL Program	**$**	**(1,368)**	**$**	**(13,723)**
Other Credit Programs for Higher Education				
Gross Costs	$	233	$	(28)
Less Earned Revenue		(393)		(535)
Net Cost (Surplus) of Other Credit Programs for Higher Education	**$**	**(160)**	**$**	**(563)**
Non-Credit Programs				
Gross Costs	$	51,729	$	49,949
Less Earned Revenue		(16)		(13)
Net Cost of Non-Credit Programs	**$**	**51,713**	**$**	**49,936**
Net Program Costs for Higher Education	**$**	**49,399**	**$**	**(108,649)**
COMBINED PROGRAM TOTAL				
Total Program Gross Costs	**$**	**140,341**	**$**	**10,875**
Less Total Program Earned Revenue		**(44,449)**		**(56,898)**
Net Cost of Operations (Notes 10 and 12)	**$**	**95,892**	**$**	**(46,023)**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2026 and 2025

(Dollars in Millions)

	FY 2026		FY 2025 (Unaudited)	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning Balances	**$ 91,903**	**$ (5,878)**	**$ 111,524**	**$ (27,030)**
Appropriations Received	146,867	-	163,571	-
Appropriations Transferred - In/Out	(1)	-	2	-
Other Adjustments (Rescissions, etc.)	(1,666)	-	(1,423)	-
Appropriations Used	(145,954)	145,954	(181,771)	181,771
Nonexchange Revenue	-	38	-	12
Imputed Financing from Costs Absorbed by Others	-	60	-	89
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(53,117)	-	(206,743)
Net Cost of Operations	-	(95,892)	-	46,023
Net Change	**$ (754)**	**$ (2,957)**	**$ (19,621)**	**$ 21,152**
Net Position	**$ 91,149**	**$ (8,835)**	**$ 91,903**	**$ (5,878)**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2026 and 2025

(Dollars in Millions)

	FY 2026		FY 2025 (Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority (Net) (Note 11)	$ 15,545	$ 23,288	$ 26,273	$ 31,632
Appropriations (Discretionary and Mandatory)	146,428	360	162,742	176
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	200,570	-	271,230
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	131	101,310	207	90,676
Total Budgetary Resources	**$ 162,104**	**$ 325,528**	**$ 189,222**	**$ 393,714**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$ 150,032	$ 258,937	$ 178,669	$ 333,227
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	2,113	-	3,362	-
Unapportioned, Unexpired Accounts	678	66,591	256	60,487
Unexpired Unobligated Balance, End of Year	**$ 2,791**	**$ 66,591**	**$ 3,618**	**$ 60,487**
Expired Unobligated Balance, End of Year	9,281	-	6,935	-
Unobligated Balance, End of Year (Total)	**$ 12,072**	**$ 66,591**	**$ 10,553**	**$ 60,487**
Total Status of Budgetary Resources	**$ 162,104**	**$ 325,528**	**$ 189,222**	**$ 393,714**
OUTLAYS, NET, AND DISBURSEMENTS, NET				
Outlays, Net (Discretionary and Mandatory)	$ 147,345		$ 187,736	
Distributed Offsetting Receipts (-) (Note 11)	(76,266)		(153,021)	
Agency Outlays, Net (Discretionary and Mandatory) (Notes 11 and 12)	**$ 71,079**		**$ 34,715**	
Disbursements, Net (Total) (Mandatory)		**$ 92,005**		**$ 155,447**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Years Ended September 30, 2026 and September 30, 2025

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

The U.S. Department of Education (Department), a Cabinet-level agency of the executive branch of the U.S. government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

The Department is a component of the U.S. government. For this reason, some of the assets and liabilities reported by the Department may be eliminated for governmentwide reporting because they are offset by assets and liabilities of another U.S. government entity. These financial statements should be read with the realization that they are for a component of the U.S. government.

The Department is primarily responsible for administering federal student loan and grant programs and provides technical assistance to loan and grant recipients and other state and local partners. The largest portions of the Department's financial activities relate to the execution of loan and grant programs discussed below.

Federal Student Loan Programs. The Department administers direct loan, loan guarantee, and other student aid programs to help students and their families finance the cost of postsecondary education. These include the Direct Loan Program and the FFEL Program.

The Direct Loan Program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation Loans. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The FFEL Program, authorized by the HEA, operates through state and private, nonprofit guaranty agencies that provided loan guarantees on loans made by private lenders to eligible students with reinsurance and interest subsidies provided by the Department. The *SAFRA Act,* which was included in the *Health Care and Education Reconciliation Act of 2010*, stated that no new FFEL loans would be made effective July 1, 2010. FFEL Program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests

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

The Department also administers other credit programs for higher education. These include the Federal Perkins Loan program, the Teacher Education Assistance for College and Higher Education (TEACH) Grant program, the Health Education Assistance Loan (HEAL) program, and facilities loan programs that include the Historically Black Colleges and Universities (HBCU) Capital Financing program, along with low-interest loans to institutions of higher education (IHE) for the building and renovating of their facilities. (See Notes 5 and 10)

Grant Programs. The Department has more than 100 grant programs. The three largest grant programs are Title I of the *Elementary and Secondary Education Act*, Federal Pell Grant, and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition, 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.

Program Offices

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

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

Other offices that administer programs and provide leadership, technical assistance, and financial support to states, LEAs, and IHEs for reform, strategic investment, and innovation in education include the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); and Institute of Education Sciences (IES). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education through the vigorous enforcement of civil rights and the collection of data from

public schools, promotes educational excellence throughout the nation, and serves all students facing discrimination.

Basis of Accounting and Presentation

These financial statements were prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the OMB-Circular A-136, *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the use of budgetary resources. OMB and Treasury have approved the use of comparative financial statement presentation for this fiscal year.

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

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

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Accounting for Federal Credit Programs

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

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

Subsidy cost is an estimate of the present value cost of providing direct loans but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy costs using a set of econometric and financial models, as well as cash flow models.

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates to the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates to previous cost estimates based on new legislation or other government actions that change the terms of existing loans (loan modifications) that alter the estimated subsidy cost and the present value of outstanding loans. Loan modifications can also include modification adjustment gains and losses to account for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

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

To account for the change in the net present value of the loan portfolio over time, the subsidy cost is amortized each year. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, ensuring that cost is reflected in subsidy estimates and re-estimates. Amortization of subsidy is calculated as the difference between interest received from borrowers and Treasury (on uninvested funds) and interest paid to Treasury on borrowings.

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

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts.
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans.

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. The Department advances funds to schools based on these estimates.

Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate

may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 7.9 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each borrower. Interest accrues while a loan is in deferment or forbearance for all loan types except subsidized Direct Loans. Loans are canceled if a person dies, if a person meets disability requirements, or occasionally through the bankruptcy courts. Loans are also canceled through the Public Service Loan Forgiveness (PSLF) program, which forgives the remaining balance on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers income-driven repayment plans under which borrowers may receive forgiveness of the remaining balance of their loans after 20, 25, or 30 years under certain rules.

Budgetary Terms

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to the Department by law and help ensure compliance with the law.

Budgetary resources are amounts that are available to incur and liquidate obligations in a given year. The Department's budgetary resources include unobligated balances of resources from prior years and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections. Obligations are legally binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

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

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

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

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

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

Outlays are the liquidation of obligations that often takes the form of an electronic funds transfer. Outlays are reported on the Statement of Budgetary Resources (SBR) net of offsetting collections and distributed offsetting receipts.

Offsetting collections and **offsetting receipts** are generally amounts collected from (1) business-like transactions with the public or (2) intragovernmental transfers. Offsetting collections usually may be used by the Department once received without further legislation whereas offsetting receipts must be appropriated to be used.

Offsetting receipts and offsetting collections both "offset" or reduce outlays. Offsetting collections reduce outlays at the expenditure account level, whereas offsetting receipts generally reduce outlays at the agency or Government-wide level. Offsetting receipts can be either "distributed" or "undistributed," with distributed offsetting receipts shown on the SBR reducing agency outlays and undistributed offsetting receipts reducing Government-wide outlays (and not shown on the SBR).

Budgetary transactions are included as outlays or receipts in the Budget and ultimately affect the budget deficit or surplus whereas non-budgetary amounts are a means of financing and do not affect the deficit or surplus. Non-budgetary amounts include the non-budgetary financing account amounts for loan and loan guarantee programs shown on the SBR. Financing accounts reflect program cash flows as distinct from credit "program" accounts, which are budgetary and reflect the subsidy cost of the programs.

Entity and Non-Entity Assets

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

Fund Balance with Treasury

Fund Balance with Treasury includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's records. (See Note 3)

Accounts Receivable

Accounts receivable are amounts due to the Department from other federal agencies (intragovernmental) and the public (other than intragovernmental). Other than intragovernmental receivables result from overpayments to recipients of grants and other financial assistance programs, as well as disputed costs resulting from audits of educational assistance programs. Amounts due from federal agencies result from reimbursable agreements entered into by the Department with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department's experience in the collection of receivables and an analysis of the outstanding balances. (See Note 4)

Advances to Others and Prepayments

Advances to others are cash outlays made by the Department to another federal entity or to its grantees to cover a part or all of the recipient's anticipated expense. Prepayments are payments made by the Department to cover expenses before those expenses are incurred. The Department records advances to others and prepayments as an asset, which is reduced when actual expenditures are recorded by the Department. (See Note 4)

Cash and Other Monetary Assets

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

The balance of guaranty agencies' federal funds represents consolidated reserve balances of the 11 guaranty agencies based on the guaranty agency financial reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. An annual valuation adjustment is made to adjust the Department's balances to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as other than intragovernmental non-entity assets and are offset by a corresponding liability due to Treasury on the Department's Consolidated Balance Sheet. The funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The guaranty agencies' federal funds are the property of the United States and are reflected in the President's Budget. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Note 2)

Loan Receivables, Net and Loan Guarantee Liabilities

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

The loan guarantee liabilities represent the net present value of all future cash flows from currently insured FFEL Program loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL Program loans are accounted for as assets and reported at their net present value, similar to direct loans, although they are legally not direct student loans. Credit program receivables, net includes defaulted FFEL Program loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over by the guaranty agencies to the Department for collection.

FFEL Program receivables include purchased loans and other interests acquired under an expired program. The cash flows related to these receivables include collections on purchased loans and other activities, including transfers of re-estimated subsidy. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers.

Capitalization of interest occurs as a result of various initiatives, such as loan consolidations. As a result, interest receivable is reduced, and loan principal is increased. (See Note 5)

Property and Equipment, Net and Leases

The Department has very limited acquisition costs associated with buildings, furniture, and equipment as all Department and contractor staff are housed in leased buildings. The Department does not own real property for the use of its staff. The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are intragovernmental leases. (See Notes 4 and 13)

FASAB SFFAS 54, *Leases*, requires that Federal reporting entities report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements when the entity has the right to obtain and control access to economic benefits or services from an underlying property, plant, or equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement.

FASAB SFFAS 62, *Transitional Amendment to SFFAS 54*, provided reporting entities an option for a transitional accommodation to assist with implementation of this SFFAS 54, and the Department has elected to take this accommodation for FY 2026. SFFAS 62 amended the implementation section of SFFAS 54 by providing transitional accommodations to reporting entities implementing SFFAS 54 in the area of embedded leases. "Embedded leases" is a common industry term which generally describes contracts or agreements that contain lease component(s) and nonlease component(s), such as service components, and serve a primary purpose attributable to the nonlease component(s).

Under these amendments, reporting entities may elect not to assess whether contracts or agreements meeting the eligibility criteria for embedded leases are or contain lease component(s) as of October 1, 2023, as well as those subsequently entered into or modified through the end of the accommodation period. The contracts or agreements for which this accommodation is applied are accounted for as nonlease contracts or agreements for their remaining term, unless they are subsequently modified after the end of the accommodation period. The Statement requires reporting entities electing the accommodation to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting the embedded leases eligibility criteria, depending on the end of the elected accommodation period.

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Credit program liabilities funded by permanent indefinite appropriations are also considered covered by budgetary resources.

Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not requiring appropriated budgetary resources include those related to deposit funds, Subsidy Due to Treasury General Fund for Future Liquidating Account Collections (pre-1992 loan guarantee programs), and Federal Perkins Loan program balances due to be repaid to the Treasury General Fund. (See Note 6)

Debt Associated with Loans

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest rates are based on the corresponding rate for 10-year Treasury securities and are set for those borrowings supporting each cohort of loans once the loans for that cohort are substantially disbursed. Interest is paid to Treasury on September 30. In addition, the Federal Financing Bank (FFB) holds bonds issued by a designated bonding authority, on behalf of the Department, for the HBCU Capital Financing program. The debt for other credit programs for higher education includes the liability for full payment of principal and accrued interest for the FFB-financed HBCU Capital Financing program. (See Note 7)

Subsidy Due to Treasury

The Department must transfer to the Treasury General Fund all excess funding resulting from downward re-estimates of credit program loans that are subject to FCRA requirements. This excess funding is included in the liability for subsidy due to Treasury and will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. Subsidy Due to Treasury also includes future liquidating account collections (estimated collections in excess of estimated outlays) for the Department's pre-1992 FFEL and HEAL loans that, when collected, will also be transferred to the Treasury General Fund. (See Note 8)

Accounts Payable

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. Other than intragovernmental accounts payable include in-process grant and loan disbursements.

Accrued Grant Liabilities and Advances

The Department records grant expenses as grantees drawdown funding on their available grant balances. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet drawn on their available balances to be reimbursed by the Department. The Department accrues liabilities for these allowable expenditures. The liability amounts are estimated using a combination of historical data and a statistical sample survey of current unliquidated balances.

Some grantees drawdown funding in advance of incurring grant expenditures. A statistical estimate is made for these advance drawdowns and is recorded as other than intragovernmental advances. (See Note 4)

Personnel Compensation and Other Employee Benefits

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

other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources. (See Notes 6 and 9)

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

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

Federal Employees' Compensation Act. The *Federal Employees' Compensation Act* (FECA) (Pub. L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two- to three-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as an other than intragovernmental liability, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. (See Notes 6 and 9)

Imputed Costs

Services are received from other federal entities at no cost or at a cost less than the full cost to the Department. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed costs in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of services other than those related to employee benefits are not included in the Department's financial statements.

Retirement Plans and Other Retirement Benefits. Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees in the Department's Statement of Net Cost. These OPM imputed costs are offset by imputed financing sources from costs absorbed by others in the Department's Statement of Changes in Net Position.

Net Cost

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan*.

Net cost consists of gross costs less earned revenue. Major components of the Department's net costs include credit program subsidy expense, credit program interest revenue and expense, and grant expenses. Administrative overhead costs are allocated to loan and non-credit programs based on number of applications processed, number of loans serviced, dollar amount of loan originations, cost of school compliance actions, and the cost to collect defaulted loans. (See Note 10)

Credit Program Subsidy Expense. Subsidy expense is an estimate of the present value cost of providing loans, excluding the administrative costs of issuing and servicing the loans. To estimate subsidy expense, the Department must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). The Department projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. The Department estimates subsidy expenses 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 (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the estimated subsidy cost of outstanding direct loans (or direct loan obligations). The change in book value of direct loans resulting from a modification and the cost of modification will normally differ due to the use of different discount rates or the use of different measurement methods. Any difference between the change in book value and the cost of modification is recognized as a modification adjustment transfer gain or a modification adjustment transfer loss. (See Notes 5 and 10)

Credit Program Interest Revenue and Expense. The Department recognizes other than intragovernmental interest revenue when interest is accrued on Direct Loan Program loans, defaulted and acquired FFEL Program loans, and outstanding principal for other loan programs. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal. Federal interest revenue is recognized on the unused fund balances with Treasury in the financing accounts.

Federal interest expense is recognized monthly on the outstanding borrowing from Treasury (debt) used to finance direct loan and loan guarantee programs. Accrued interest to Treasury is paid on September 30. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense. (See Note 10)

Net Position

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

Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent activity (e.g. movement of unexpended appropriations which affect cumulative results of operations) performed by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

The Department is a party to allocation transfers as a parent entity to the Department of the Interior and receives allocation transfers as a child entity from the Department of Health and Human Services.

Taxes

The Department is a federal entity and is not subject to federal, state, or local taxes. Therefore, no provision for income taxes is recorded.

Use of Estimates

Department management is required to make certain estimates while preparing the Consolidated Balance Sheet in conformity with GAAP. These estimates are reflected in the assets, liabilities, and net position of the Consolidated Balance Sheet and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, best available data, economic assumptions, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the Consolidated Balance Sheet include allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

The Department's estimates for credit programs are calculated using a series of assumption models that are updated using a statistically valid sample of National Student Loan Data System (NSLDS®) data, data from the Debt Management and Collection System, federal tax information (FTI) from the IRS, and economic assumptions provided by OMB. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. The Department recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. The Department therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements. The Department updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in the modeling methodology is essential to the financial reporting and budgeting processes so the Department can forecast costs of various program options when making policy decisions. (See Note 5)

Note 2. Non-Entity Assets

(Dollars in Millions)

	2026		2025	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Non-Entity Assets				
Fund Balance with Treasury	$ 286	$ -	$ 282	$ -
Loans Receivable, Net	-	1,451	-	1,446
Cash and Other Monetary Assets	-	520	-	659
Accounts Receivable, Net	27,411	29	51,147	35
Total Non-Entity Assets	**27,697**	**2,000**	**51,429**	**2,140**
Total Entity Assets	192,270	1,365,727	193,385	1,299,823
Intra-agency Eliminations	(27,411)	-	(51,147)	-
Total Assets	**$ 192,556**	**$ 1,367,727**	**$ 193,667**	**$ 1,301,963**

The Department's FY 2026 total assets after intra-agency eliminations are predominantly entity assets (99.9 percent). Non-entity intragovernmental Accounts Receivable, Net primarily consists of receivables in Treasury General Fund receipt accounts for accrued downward re-estimates of subsidy due from the Direct Loan Program and FFEL Program financing accounts. The corresponding liability to the General Fund for these non-entity assets is reflected in Subsidy Due to Treasury. (See Note 8)

Non-entity other than intragovernmental assets primarily consist of guaranty agency reserves (26.0 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (72.6 percent), reported as loan receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities. (See Note 9)

Note 3. Fund Balance with Treasury

(Dollars in Millions)

	2026	2025
Appropriated Funds	$ 92,970	$ 95,443
Revolving Funds	96,227	95,576
Special Funds	21	17
Non-Budgetary: Trust Funds	1	1
All Other Funds	(2)	340
Total Fund Balance with Treasury	**$ 189,217**	**$ 191,377**

In FY 2026 and FY 2025, $1,213 million and $1,126 million, respectively, of unused funds from canceled appropriations were returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines.

Budgetary Status of Fund Balance with Treasury

(Dollars in Millions)

	2026	2025 (Unaudited)
Unobligated Balance	$ 78,143	$ 70,381
Obligated Balance not yet Disbursed	186,988	186,096
Authority Temporarily Precluded from Obligation	(1,487)	(4,324)
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	(74,425)	(61,115)
Other	(1)	339
Total Fund Balance with Treasury	**$ 189,217**	**$ 191,377**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unobligated balance ($78,143 million) differs from the unobligated balance on the SBR ($78,663 million) due to the Guaranty Agencies' Federal Funds ($520 million).

Note 4. Other Assets

(Dollars in Millions)

	2026		2025	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Accounts Receivable, Net	$ 2	$ 180	$ 4	$ 192
Advances to Others and Prepayments	3,337	445	2,286	89
Property and Equipment, Net	-	2	-	1
Total Other Assets	**$ 3,339**	**$ 627**	**$ 2,290**	**$ 282**

Intragovernmental Advances to Others and Prepayments as of September 30, 2026, and September 30, 2025, primarily consist of $3,230 million (96.8 percent) and $2,164 million (94.7 percent), respectively, in advance payments made by the Department to the Department of Labor (DOL) as part of an interagency agreement to distribute Career and Technical Education and Adult Education grant program funding to grant recipients. The Department and DOL entered into interagency agreements pursuant to 20

U.S.C. §1231(a) and 31 U.S.C. §1501 and The Economy Act (31 U.S.C. §1535), which permits Federal agencies to purchase goods or services from other Federal agencies. The Department and DOL have appropriately recorded financial transactions associated with this interagency agreement consistent with an expenditure transfer carried out under the Economy Act in accordance with OMB Circular A-11.

Included in the other than intragovernmental accounts receivable are amounts owed because of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2026, related to criminal restitutions totaled $134 million, and $125 million, respectively.

Changes in property and equipment balances were as follows:

Property and Equipment

(Dollars in Millions)

	2026		
	Acquisition Value	Accumulated Depreciation	Net
Balance Beginning of the Year	$ 163	$ (162)	$ 1
Capitalized Acquisitions	2	-	2
Depreciation Expense	-	(1)	(1)
Balance At End of Year	**$ 165**	**$ (163)**	**$ 2**

	2025 (Unaudited)*		
	Acquisition Value	Accumulated Depreciation	Net
Balance Beginning of the Year	$ 164	$ (162)	$ 2
Dispositions	(1)	-	(1)
Balance At End of Year	**$ 163**	**$ (162)**	**$ 1**

* The FY 2025 ending balance was subject to audit; however, the remaining FY 2025 information presented in this table was not subject to audit.

Note 5. Loan Receivables, Net and Loan Guarantee Liabilities

Loans Receivable

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
		2026		
Direct Loan Program	$ 1,413,978	$ 177,866	$ (277,841)	$ 1,314,003
FFEL Program	71,162	28,346	(57,461)	42,047
Other Credit Programs for Higher Education	3,708	743	(695)	3,756
Total Loans Receivable	**$ 1,488,848**	**$ 206,955**	**$ (335,997)**	**$ 1,359,806**
		2025		
Direct Loan Program	$ 1,397,672	$ 135,358	$ (279,470)	$ 1,253,560
FFEL Program	72,675	25,897	(63,271)	35,301
Other Credit Programs for Higher Education	3,355	692	(592)	3,455
Total Loans Receivable	**$ 1,473,702**	**$ 161,947**	**$ (343,333)**	**$ 1,292,316**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority.

As the net loans receivable represents the net present value of future cash flows, it is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

The net loans receivable increased by $67.5 billion during FY 2026 and $211.2 billion during FY 2025 (as a result of activity identified in the tables below).

Reconciliation of Loans Receivable, Net

(Dollars in Millions)

	2026				
	Direct Loan Program	Defaulted FFEL Guaranteed Loans	Acquired FFEL Loans	Other Credit Programs for Higher Education	Total
Beginning Balance of Loans Receivable, Net	**$ 1,253,560**	**$ 7,587**	**$ 27,714**	**$ 3,455**	**$ 1,292,316**
Add Loan Disbursements:					
New Loan Disbursements	85,850	-	-	466	86,316
Consolidations	26,315	-	-	-	26,315
Add Defaulted Loan Claim Payments	-	2,702	-	-	2,702
Less Principal, Interest, and Fee Payments Received:					
Principal	(65,515)	(1,042)	(872)	(111)	(67,540)
Interest	(23,463)	(281)	(546)	(35)	(24,325)
Fees	(1,727)	1	5	-	(1,721)
Add Interest Accruals	73,931	2,600	1,674	120	78,325
Less Loans Written Off:					
Principal	(35,673)	(1,269)	(1,241)	(91)	(38,274)
Interest	(3,141)	(515)	(150)	(11)	(3,817)
Allowance for Subsidy	38,814	1,784	1,391	102	42,091
Add Amortization of Net Interest:					
Interest Revenue on Uninvested Funds	(6,000)	-	(111)	(12)	(6,123)
Interest Revenue from the Public	(73,931)	-	(1,674)	(152)	(75,757)
Administrative Fees	-	-	(1)	-	(1)
Interest Expense on Borrowing	41,868	-	966	54	42,888
Positive Subsidy Transfers	(17,359)	-	-	(57)	(17,416)
Negative Subsidy Transfers	5,077	-	-	-	5,077
Upward Subsidy Re-Estimate	(11,870)	-	(272)	(65)	(12,207)
Downward Subsidy Re-Estimate	36,466	-	4,410	74	40,950
Loan Modifications	(9,826)	-	-	-	(9,826)
Other:					
Other Adjustments to Allowance for Subsidy	118	3,275	88	(15)	3,466
Other Non-Cash Reconciling Items	509	(4,094)	(82)	34	(3,633)
Ending Balance of Loans Receivable, Net	**$ 1,314,003**	**$ 10,748**	**$ 31,299**	**$ 3,756**	**$ 1,359,806**

	2025 (Unaudited)*				
	Direct Loan Program	Defaulted FFEL Guaranteed Loans	Acquired FFEL Loans	Other Credit Programs for Higher Education	Total
Beginning Balance of Loans Receivable, Net	**$ 1,041,295**	**$ 11,233**	**$ 25,548**	**$ 2,998**	**$ 1,081,074**
Add Loan Disbursements:					
New Loan Disbursements	90,140	-	-	378	90,518
Consolidations	26,056	-	-	-	26,056
Add Defaulted Loan Claim Payments	-	2,226	-	-	2,226
Less Principal, Interest, and Fee Payments Received:					
Principal	(59,334)	(955)	(763)	(118)	(61,170)
Interest	(18,613)	(263)	(512)	(45)	(19,433)
Fees	(1,826)	-	1	-	(1,825)
Add Interest Accruals	52,650	2,499	1,489	113	56,751
Less Loans Written Off:					
Principal	(29,853)	(699)	(941)	(55)	(31,548)
Interest	(1,651)	(107)	(65)	(7)	(1,830)
Allowance for Subsidy	31,504	806	1,006	62	33,378
Add Amortization of Net Interest:					
Interest Revenue on Uninvested Funds	(7,515)	-	(109)	(9)	(7,633)
Interest Revenue from the Public	(52,650)	-	(1,489)	(124)	(54,263)
Administrative Fees	-	-	1	-	1
Interest Expense on Borrowing	37,620	-	853	55	38,528
Positive Subsidy Transfers	(29,168)	-	-	(57)	(29,225)
Negative Subsidy Transfers	1,622	-	-	-	1,622
Upward Subsidy Re-Estimate	(17,355)	-	(31)	(10)	(17,396)
Downward Subsidy Re-Estimate	43,735	-	2,725	142	46,602
Loan Modifications	147,247	-	-	9	147,256
Other:					
Other Adjustments to Allowance for Subsidy	(718)	(3,468)	156	(4)	(4,034)
Other Non-Cash Reconciling Items	374	(3,685)	(155)	127	(3,339)
Ending Balance of Loans Receivable, Net	**$ 1,253,560**	**$ 7,587**	**$ 27,714**	**$ 3,455**	**$ 1,292,316**

* The FY 2025 ending balance was subject to audit; however, the remaining FY 2025 information presented in this table was not subject to audit.

When Department-held loans are written off, the unpaid principal and interest are removed from the gross amount of loans receivable, along with an offsetting amount charged to the allowance for subsidy. Prior to the write-off transaction, the estimated uncollectible amounts are provided for in the subsidy cost allowance through the subsidy cost estimate, re-estimates, or loan modifications. Therefore, the write-off transactions do not affect the net loan receivable or expenses.

Other adjustments to the allowance for subsidy for defaulted FFEL Program guaranteed loans shown in the table above includes the Department's allocation of current year subsidy re-estimates and modifications to the allowance for subsidy for Department-held defaulted FFEL Program guaranteed loans.

What follows is additional analysis for each of the loan programs.

Direct Loan Program

The federal government makes loans directly to students and parents through participating IHEs under the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors.

Direct Loan Program loan receivables include defaulted and non-defaulted loans owned by the Department. Of the $1,591.8 billion in gross loan receivables, as of September 30, 2026, $160.4 billion (10.1 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $61.4 billion (4.0 percent) as of September 30, 2025.

Direct Loan Program Loan Disbursements by Loan Type

(Dollars in Millions)

	2026	2025
Stafford	$ 15,891	$ 16,055
Unsubsidized Stafford	47,995	45,965
PLUS	21,964	28,120
Consolidation	26,315	26,056
Total Disbursements	**$ 112,165**	**$ 116,196**

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

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

Direct loan consolidations were $26.3 billion during FY 2026 and $26.1 billion during FY 2025. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

Direct Loan Program Interest Expense and Revenues

(Dollars in Millions)

	2026	2025 (Unaudited)
Interest Expense on Treasury Borrowing	$ 41,868	$ 37,620
Total Interest Expense	**$ 41,868**	**$ 37,620**
Interest Revenue From the Public	$ 73,931	$ 52,650
Interest Revenue on Uninvested Funds	6,000	7,515
Amortization of Subsidy	(38,063)	(22,545)
Total Revenues	**$ 41,868**	**$ 37,620**

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2026	2025 (Unaudited)
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 27,199	$ 42,550
Defaults, Net of Recoveries	2,215	2,726
Fees	(1,822)	(1,868)
Other*	(15,310)	(15,862)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**12,282**	**27,546**
Modifications and Re-Estimates		
Loan Modifications		
Modification Adjustment Transfer Gain	(280)	(16,793)
Modification Adjustment Transfer Loss	361	176
Loan Modifications	9,745	(130,630)
Total Loan Modifications	**9,826**	**(147,247)**
Net Upward/(Downward) Subsidy Re-Estimates		
Interest Rate Re-estimates	3,069	13,142
Technical and Default Re-estimates	(27,665)	(39,522)
Total Net Upward/(Downward) Subsidy Re-estimates	**(24,596)**	**(26,380)**
Total Modifications and Re-estimates	(14,770)	(173,627)
Direct Loan Subsidy Expense	**$ (2,488)**	**$ (146,081)**

* The Other component reflects costs associated with loan cancelations and the interactive effects of payment plans on the components of subsidy.

Subsidy Expense for Direct Loans Disbursed in the Current Year. The two major components of the total subsidy expense for direct loans disbursed in the current year (subsidy transfers) are Interest Rate Differential and Other components. Interest Rate Differential is attributable to the difference between the borrowers' interest payments due to the Department and the Department's estimated cost to finance the direct loan on a present value basis. The Other components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness.

Loan Modifications. Loan modifications for the Direct Loan Program for FY 2026 included the following:

- **TOP AWG Pause**. On January 16, 2026, the Department announced a temporary delay to the implementation of involuntary collections on federal student loans, including the Treasury Offset Program (TOP) and Administrative Wage Garnishment (AWG). The pause allows the Department to implement major student loan repayment

reforms under the Working Families Tax Cuts Act, giving borrowers more options to repay their loans. These changes resulted in an upward modification cost of $3.4 billion for the Direct Loan Program.

- **PSLF**. On October 30, 2025, the Department of Education released a final rule that amends the definition of "qualifying employer" to exclude organizations that engage in unlawful activities such that they have a substantial illegal purpose. These revisions resulted in a downward modification cost of $0.8 billion. There was a net negative $0.2 billion modification adjustment transfer associated with this modification, bringing the total modification cost to $1.0 billion.

- **Interest Rate Reduction**. On June 18, 2026, the Department announced that federal student loan borrowers enrolled in auto pay were eligible for a 1 percent interest rate reduction beginning July 1. Borrowers who enrolled in auto pay by September 30, 2026, or who were already enrolled, will receive the interest rate reduction through June 30, 2028. These changes resulted in an upward modification cost of $7.1 billion for the Direct Loan Program. There was a net $0.3 billion modification adjustment transfer associated with this modification, bringing the total modification cost to $7.4 billion.

Net Upward/Downward Subsidy Re-Estimates for All Prior-Year Loan Cohorts. The Direct Loan Program subsidy re-estimate decreased subsidy expense in FY 2026 by $24.6 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2025). The re-estimate reflects the assumption updates and other changes described below.

In addition to the major assumption updates described below, the re-estimate reflects several other assumptions updates, including variance interest rate loans, disbursement rates, and teacher loan forgiveness.

- **Non-IDR Discharges**. Non-IDR discharge costs decreased as a result of a regular data update made by the Department to reflect discharges through FY 2025, and PSLF and IDR waiver updates through June FY 2026. The combined effect of these updates led to a net downward re-estimate of $0.2 billion.

- **IDR Model Changes.** The Department made IDR model changes that included standard event updates to use updated default, prepayments, and collection rates. The Department made changes to include an upfront one-time choice between the Repayment Assistance Plan (RAP) and Income Based Repayment (IBR), confirmed that consolidation loans made after July 1, 2026 would be in RAP, but assumed that those who are eligible for 10-percent IBR would not consolidate at the future date and would remain in that plan, and added a forbearance in 2026 for borrowers who were in SAVE. The Department also updated the income and family size calibrations for additional years of data. The combined effect of these updates led to a net downward re-estimate of $10.2 billion.

- **Deferment and Forbearance.** The deferment and forbearance assumptions were updated using new unemployment projections as well as new data from FSA. Deferment and forbearance data for historical periods were calibrated to actual loan data. The effect of these changes led to a net downward re-estimate of $12.6 billion.

- **Volume.** The Department calibrated volume totals and underlying demographics data for loan types and risk groups based on actual data from FSA. These changes led to a net downward re-estimate of $1.2 billion.

- **Repayment Plan Volume Percent.** The Department reallocated loan volume allocated to Revised Standard or IDR repayment plans in the Repayment Plan Volume Percent assumption. Specifically, the Department re-allocated new-plan-only volume previously assigned to Standard into Revised Standard; re-allocated new-plan-only volume previously assigned to Extended repayment plans to Revised Standard; and re-allocated a portion of new-plan-only volume previously assigned to Graduated to IDR and a portion of Revised Standard. The effect of these changes was a net upward re-estimate of $3.3 billion.

- **Collections.** The Department updated the collections assumption using updated data from FSA and the Debt Management and Collections System. The combined effect of these updates led to a net upward re-estimate of $3.7 billion.

- **Default.** The default assumption was updated to reflect actual historical delinquency data. This included re-distribution of loans projected to have defaulted during the CARES Act and Fresh Start period. The effect of these changes led to a net upward re-estimate of $8.2 billion.

- **Prepayment.** The Department's update to the prepayment assumption included a data update based on historical data from FSA for loan consolidation payoffs that occurred during 2025 and prior. The effect of prepayment assumption updates led to a net downward re-estimate of $0.7 billion.

- **Contract Collection Cost (CCC).** The CCC assumption was updated to reflect actual program activity. The net effect of CCC assumptions led to a net downward re-estimate of $3.1 billion.

- **2025 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of $1.8 billion for these current-year assumption changes attributable to the FY 2025 cohort.

- **Discount Rates.** The rates are used to calculate the NPV of the cash flows to create subsidy rates. Adjustments to the 2023, 2024, and 2025 cohorts were calculated. All other prior cohorts are actual. The combined effect of these changes led to a net upward re-estimate of $3.1 billion.

- **Interactive Effects.** The re-estimate includes a net upward re-estimate of $0.4 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.

- **Interest on the Re-Estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net downward re-estimate of $16.4 billion.

Direct Loan Subsidy Rates—Cohort 2026

	Interest Differential	Defaults	Fees	Other*	Total
Stafford	26.13%	1.84%	-1.06%	-7.17%	19.74%
Unsubsidized Stafford	23.25%	1.66%	-1.06%	-17.37%	6.48%
PLUS	3.88%	1.86%	-4.23%	-23.56%	-22.05%
Consolidation	28.76%	0.69%	0.00%	2.58%	32.03%
Weighted Average of Total Obligations	**21.98%**	**1.43%**	**-1.28%**	**-11.23%**	**10.90%**

* The Other component reflects costs associated with loan cancelations and the interactive effects of payment plans on the components of subsidy.

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2026	2025 (Unaudited)*
Beginning Balance of Allowance for Subsidy	**$ 279,470**	**$ 431,965**
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	12,282	27,546
Adjustments		
Loan Modifications	9,826	(147,247)
Fees Received	1,727	1,826
Loans Written Off	(38,814)	(31,504)
Subsidy Allowance Amortization	38,063	22,545
Other Activities	(117)	718
Ending Balance of Allowance for Subsidy Before Re-Estimates	**302,437**	**305,849**
Net Downward Subsidy Re-Estimates	(24,596)	(26,379)
Ending Balance of Allowance for Subsidy	**$ 277,841**	**$ 279,470**

* The FY 2025 ending balance was subject to audit; however, the remaining FY 2025 information presented in this table was not subject to audit.

The estimation process used to determine the amount of positive or negative subsidy expense each fiscal year, and subsequently the cumulative taxpayer cost of the program (allowance for subsidy), is subject to various external risk factors that often show strong interdependence with one another. These risks include uncertainty about changes in the general economy, changes in the legislative and regulatory environment, and changing trends in borrower performance related to contractual cash flows within the loan programs.

Due to the complexity of the Direct Loan Program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The high percentage of borrowers in income-drive repayment plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element that displays the interrelated risks facing the Direct Loan Program. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management obtains confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used.

Loans written off result from borrowers having died, becoming disabled, or having a loan approved for discharge in bankruptcy or other type of discharge, including borrower defense discharges. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated.

Federal Family Education Loan Program

FFEL was established in FY 1965 and is a guaranteed loan program. As a result of the *SAFRA Act*, no new FFEL Program loans have been made since July 1, 2010. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA authority (acquired FFEL Program loans), consolidated into a direct loan, or otherwise satisfied, discharged, or canceled.

FFEL Guaranteed Loans Outstanding

(Dollars in Billions)

	2026	2025
Outstanding Principal of Guaranteed Loans, Face Value	$ 50.4	$ 56.6
Amount of Outstanding Principal Guaranteed	$ 50.4	$ 56.6

As of September 30, 2026, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $50.4 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2026, the interest balances outstanding for guaranteed loans held by lenders was approximately $2.9 billion.

The Department's total FFEL Program guarantees (principal and interest) are approximately $53.3 billion as of September 30, 2026. Of the total guaranteed amount, the Department would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made, and the guaranty agency's claim experience. For purposes of disclosing the Department's total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

Defaulted and acquired FFEL Program loans are accounted for as assets as shown in the following table.

FFEL Program Loan Receivables

(Dollars in Millions)

	2026			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 2,903	$ 5,427	$ (8,166)	$ 164
FFEL GSL Program (Post-1991)	38,676	13,341	(41,433)	10,584
Total Defaulted FFEL Guaranteed Loans	**41,579**	**18,768**	**(49,599)**	**10,748**
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	10,247	3,274	(4,815)	8,706
Loan Participation Purchase	18,259	5,836	(2,885)	21,210
ABCP Conduit	1,077	468	(162)	1,383
Total Acquired FFEL Loans	**29,583**	**9,578**	**(7,862)**	**31,299**
FFEL Program Loan Receivables	**$ 71,162**	**$ 28,346**	**$ (57,461)**	**$ 42,047**

	2025			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,095	$ 5,460	$ (8,325)	$ 230
FFEL GSL Program (Post-1991)	37,963	11,680	(42,286)	7,357
Total Defaulted FFEL Guaranteed Loans	**41,058**	**17,140**	**(50,611)**	**7,587**
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	10,914	2,984	(6,444)	7,454
Loan Participation Purchase	19,594	5,350	(6,054)	18,890
ABCP Conduit	1,109	423	(162)	1,370
Total Acquired FFEL Loans	**31,617**	**8,757**	**(12,660)**	**27,714**
FFEL Program Loan Receivables	**$ 72,675**	**$ 25,897**	**$ (63,271)**	**$ 35,301**

FFEL Program Subsidy Expense

(Dollars in Millions)

	2026	2025 (Unaudited)
Loan Modification Costs		
FFEL Guaranteed Loan Program		
Net Modification Adjustment Transfer (Gain)/Loss	$ (5)	$ -
Loan Modifications	233	-
Total FFEL Guaranteed Loan Program Loan Modifications	**228**	**-**
Total Loan Modification Costs	**228**	**-**
Upward/(Downward) Subsidy Re-Estimates		
FFEL Loan Guarantee Program	2,323	(11,183)
Loan Purchase Commitment	(1,522)	(1,127)
Loan Participation Purchase	(2,616)	(1,567)
Total FFEL Program Subsidy Re-Estimates	**(1,815)**	**(13,877)**
FFEL Program Subsidy Expense	**$ (1,587)**	**$ (13,877)**

Loan Modifications. Loan modifications for the FFEL Program for FY 2026 included the following:

- **Voluntary Flexible Agreements (VFAs)**. The Department executed signed VFAs with FFEL Guaranty Agencies. The VFAs provide administrative waivers and dedicated funding to support Guaranty Agencies during the continued halt to involuntary collections on defaulted loans. The agreements provided for the transfer of defaulted loans previously assigned to ED back to Guaranty Agencies. These changes resulted in an upward modification cost of $0.2 billion for the FFEL Program.

Net Upward/Downward Subsidy Re-Estimates. The total FFEL Program subsidy re-estimates decreased subsidy expense in FY 2026 by $1.8 billion. The net downward re-estimates in the FFEL Program were due primarily to technical updates to the Loan Purchase Commitment and Loan Participation Purchase programs—including routine data updates to the collections, defaults, and prepayment assumptions—that resulted in downward re-estimates of $1.5 billion and $2.6 billion, respectively. The $2.3 billion net upward re-estimate for the FFEL Loan Guarantee program was due primarily to updates to the default assumption that resulted in a new upward re-estimate of $2.0 billion.

Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2026	2025 (Unaudited)*
Beginning Balance of Post-1991 FFEL Loan Guarantee Liability	**$ (8,966)**	**$ 9,670**
Loan Modifications	228	-
Interest Supplements Paid	(866)	(1,282)
Claim Payments to Lenders	(2,702)	(2,226)
Fees Received	399	446
Interest on Accumulation on the Liability Balance	(786)	(692)
Other Activities	3,325	(3,699)
Net Upward/(Downward) Subsidy Re-Estimates	2,323	(11,183)
Ending Balance of Post-1991 FFEL Loan Guarantee Liability	**(7,045)**	**(8,966)**
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	8	1
FFEL Liabilities for Loan Guarantees	**(7,037)**	**(8,965)**
HEAL	263	259
Liabilities for Loan Guarantees	**$ (6,774)**	**$ (8,706)**

* The FY 2025 ending balance was subject to audit; however, the remaining FY 2025 information presented in this table was not subject to audit.

The net loan guarantee liability for the Department's credit programs is negative as of September 30, 2026. This indicates that expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability has been classified as an asset on the Consolidated Balance Sheet.

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

Allowance for Subsidy Reconciliation for Acquired FFEL Program Loans

(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
	2026			
Beginning Balance of Allowance for Subsidy	**$ 6,444**	**$ 6,054**	**$ 162**	**$ 12,660**
Adjustments				
Fees Received	1	4	-	5
Subsidy Allowance Amortization	377	412	31	820
Loans Written Off	(437)	(925)	(29)	(1,391)
Other Activities	(48)	(44)	(2)	(94)
Ending Balance of Allowance for Subsidy Before Re-estimates	**6,337**	**5,501**	**162**	**12,000**
Net Downward Subsidy Re-Estimates	(1,522)	(2,616)	-	(4,138)
Ending Balance of Allowance for Subsidy	**$ 4,815**	**$ 2,885**	**$ 162**	**$ 7,862**
	2025 (Unaudited)*			
Beginning Balance of Allowance for Subsidy	**$ 7,686**	**$ 7,936**	**$ 150**	**$ 15,772**
Adjustments				
Subsidy Allowance Amortization	313	405	26	744
Loans Written Off	(373)	(620)	(13)	(1,006)
Other Activities	(55)	(100)	(1)	(156)
Ending Balance of Allowance for Subsidy Before Re-estimates	**$ 7,571**	**$ 7,621**	**$ 162**	**$ 15,354**
Net Downward Subsidy Re-Estimates	(1,127)	(1,567)	-	(2,694)
Ending Balance of Allowance for Subsidy	**$ 6,444**	**$ 6,054**	**$ 162**	**$ 12,660**

* The FY 2025 ending balance was subject to audit; however, the remaining FY 2025 information presented in this table was not subject to audit.

Other Credit Programs for Higher Education

Loans Receivables, Other Credit Programs for Higher Education

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
	2026			
Federal Perkins Loans	$ 1,282	$ 554	$ (385)	$ 1,451
TEACH Program Loans	865	139	(396)	608
HEAL Program Loans	340	34	29	403
Facilities Loan Programs	1,221	16	57	1,294
Total	**$ 3,708**	**$ 743**	**$ (695)**	**$ 3,756**
	2025			
Federal Perkins Loans	$ 1,312	$ 528	$ (394)	$ 1,446
TEACH Grant Program Loans	873	112	(366)	619
HEAL Program Loans	331	43	29	403
Facilities Loan Programs	839	9	139	987
Total	**$ 3,355**	**$ 692**	**$ (592)**	**$ 3,455**

Federal Perkins Loan Program. Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans canceled.

The Federal Perkins Loan program was a revolving loan program where the loan repayments collected from former students were used to make new loans to current students. The Department provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by the Department to reimburse schools for loan cancellations. The above schedule includes only Perkins loans that were assigned to the Department when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled $39 million and $79 million in FY 2026 and FY 2025, respectively.

The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Before the authority for new Perkins loans ended, collections made by the schools would go back into each school's Perkins fund to be used to make more loans. Schools are required to return to the Department the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to the Department on an annual basis. Schools returned $213 million and $335 million to the Department in FY 2026 and FY 2025, respectively, for the federal share of collected cash.

Beginning with the 2023 reporting year, as part of the wind-down of the Federal Perkins Loan Program, schools are required to assign to the Department all Perkins Loans that have been in default for more than two years for which there have been no current collections. While the mandatory assignment policy has driven more schools to liquidate, the majority of schools are continuing to service existing portfolios to recover the money they contributed to their Perkins funds and will do so for as long as it is feasible or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to the Department and liquidate any final cash. Most recent data from the 2026-27 Fiscal Operations Report and Application to Participate (FISAP) shows a $609.6 million outstanding principal balance on Perkins loans held by schools and the Department's equity interest on this portfolio is $510.6 million.

The amounts collected by the Department annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund.

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

TEACH Subsidy Rates—Cohort 2026

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	74.65%	2.89%	0.00%	-31.64%	45.90%

* The Other component reflects costs associated with loan cancelations and the interactive effects of payment plans on the components of subsidy.

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed before 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts.

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

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1,229 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and $702 million obligated to support near term lending as of September 30, 2026.

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

Note 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2026		2025	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Liabilities Not Covered By Budgetary Resources				
Unfunded Leave	$ -	$ 31	$ -	$ 39
FECA Liabilities	2	9	2	10
Total Liabilities Not Covered By Budgetary Resources	**2**	**40**	**2**	**49**
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	437	-	470	-
Federal Perkins Loan Program	1,442	-	1,438	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(480)	520	(78)	467
Custodial Liabilities	2	-	2	-
Total Liabilities Not Requiring Budgetary Resources	**1,401**	**520**	**1,832**	**467**
Total Liabilities Covered By Budgetary Resources	1,466,292	9,714	1,397,574	9,681
Total Liabilities	**$ 1,467,695**	**$ 10,274**	**$ 1,399,408**	**$ 10,197**

Note 7. Debt Associated with Loans

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
	2026				
Debt to the Bureau of Public Debt					
Direct Loan Program	$ 1,287,923	$ 182,235	$ (92,794)	$ -	$ 1,377,364
FFEL Program	56,285	4,505	(1,810)	-	58,980
Other Credit Programs for Higher Education	713	126	(59)	-	780
Total Debt to the Bureau of the Public Debt	**1,344,921**	**186,866**	**(94,663)**	**-**	**1,437,124**
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	839	392	(17)	15	1,229
Total Debt Associated with Loans	**$ 1,345,760**	**$ 187,258**	**$ (94,680)**	**$ 15**	**$ 1,438,353**

	2025 (Unaudited)				2025 (Audited)
Debt to the Bureau of Public Debt					
Direct Loan Program	$ 1,098,623	$ 258,533	$ (69,233)	$ -	$ 1,287,923
FFEL Program	56,073	971	(759)	-	56,285
Other Credit Programs for Higher Education	631	103	(21)	-	713
Total Debt to the Bureau of Public Debt	**1,155,327**	**259,607**	**(70,013)**	**-**	**1,344,921**
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	559	282	(13)	11	839
Total Debt Associated with Loans	**$ 1,155,886**	**$ 259,889**	**$ (70,026)**	**$ 11**	**$ 1,345,760**

The Department borrows from Treasury's Bureau of the Public Debt and the FFB to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2026, debt increased 6.9 percent from $1,345.8 billion in the prior year

to $1,438.4 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 95.8 percent of the Department's debt, as of September 30, 2026, is attributable to the Direct Loan Program. The $182.2 billion new Direct Loan Program borrowing activity for the year was primarily designated for new loan disbursements. Principal repayments during FY 2026 for the Direct Loan Program totaled $92.8 billion.

During FY 2026, TEACH Grant Program net borrowing was used for the advance of new grants and repayments of principal made to Treasury.

Debt to the FFB represents the liability for full payment of principal and accrued interest for the FFB-financed HBCU Capital Financing program. The current ending balance reflects the aggregate of new bonds administered and repayments made on previously issued bonds.

Note 8. Subsidy Due to Treasury

(Dollars in Millions)

	2026	2025
Credit Program Downward Subsidy Re-Estimates		
Direct Loan Program	$ 21,028	$ 44,735
FFEL Program	6,383	6,412
Total Credit Program Downward Subsidy Re-Estimates	**27,411**	**51,147**
Future Liquidating Account Collections		
FFEL Program	437	470
Total Future Liquidating Account Collections	**437**	**470**
Total Subsidy Due to Treasury General Fund	**$ 27,848**	**$ 51,617**

Note 9. Other Liabilities

(Dollars in Millions)

	2026		2025	
	Intragovernmental	Other than Intragovernmental	Intragovernmental	Other than Intragovernmental
Federal Perkins Loan Program	$ 1,442	$ -	$ 1,438	$ -
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(480)	520	(78)	467
Liability for Advances and Prepayments	2	-	2	-
Accrued Funded Payroll and Leave	-	9	-	9
Accrued Unfunded Annual Leave	-	31	-	39
Employer Contributions and Payroll Taxes Payable	5	1	5	1
FECA Liabilities	2	9	2	10
Custodial Liabilities	2	-	2	-
Total Other Liabilities	**$ 973**	**$ 570**	**$ 1,371**	**$ 526**

Note 10. Net Cost of Operations

The following tables present detailed cost information by program type and major program office.

Gross Costs and Earned Revenue by Program

(Dollars in Millions)

	2026				
	FSA	OESE	OSERS	Other	Total
PREKINDERGARTEN THROUGH GRADE 12 STUDENTS					
Gross Cost					
Grants	$ -	$ 29,068	$ 14,190	$ 2,127	$ 45,385
Other	-	50	2	1,189	1,241
Less Earned Revenue	-	-	-	(133)	(133)
Net Program Costs	**-**	**29,118**	**14,192**	**3,183**	**46,493**
HIGHER EDUCATION					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	41,868	-	-	-	41,868
Subsidy Expense	(2,208)	-	-	-	(2,208)
Administrative Expenses	1,702	-	-	-	1,702
Less Earned Revenue					
Subsidy Expense	(280)	-	-	-	(280)
Interest & Administrative Fees	(79,931)	-	-	-	(79,931)
Subsidy Amortization	38,063	-	-	-	38,063
Net Cost (Surplus) of Direct Loan Program	**(786)**	**-**	**-**	**-**	**(786)**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	2,515	-	-	-	2,515
Subsidy Expense	(1,581)	-	-	-	(1,581)
Subsidy Amortization (Guaranteed Loans)	(786)	-	-	-	(786)
Guaranty Agencies	164	-	-	-	164
Administrative Expenses	79	-	-	-	79
Less Earned Revenue					
Subsidy Expense	(6)	-	-	-	(6)
Interest & Administrative Fees	(2,549)	-	-	-	(2,549)
Subsidy Amortization (Acquired FFEL Loans)	820	-	-	-	820
Guaranty Agencies	(24)	-	-	-	(24)
Net Cost (Surplus) of FFEL Program	**(1,368)**	**-**	**-**	**-**	**(1,368)**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	20	-	-	34	54
Subsidy Expense	73	-	-	(26)	47
Administrative Expenses	1	-	-	131	132
Less Earned Revenue					
Subsidy Expense	-	-	-	-	-
Interest & Administrative Fees	(114)	-	-	(50)	(164)
Subsidy Amortization	30	-	-	(3)	27
Other	(256)	-	-	-	(256)
Net Cost (Surplus) of Other Credit Programs for Higher Education	**(246)**	**-**	**-**	**86**	**(160)**
Non-Credit Programs					
Gross Cost					
Grants	40,670	143	5,274	3,664	49,751
Other	140	-	28	1,810	1,978
Less Earned Revenue	-	-	-	(16)	(16)
Net Cost of Non-Credit Programs	**40,810**	**143**	**5,302**	**5,458**	**51,713**
Net Program Costs (Surplus)	**38,410**	**143**	**5,302**	**5,544**	**49,399**
Total Program Gross Costs	**82,657**	**29,261**	**19,494**	**8,929**	**140,341**
Less Total Program Earned Revenue	**(44,247)**	**-**	**-**	**(202)**	**(44,449)**
Net Cost	**$ 38,410**	**$ 29,261**	**$ 19,494**	**$ 8,727**	**$ 95,892**

2025 (Unaudited)	FSA	OESE	OSERS	Other	Total
PREKINDERGARTEN THROUGH GRADE 12 STUDENTS					
Gross Cost					
Grants	$ -	$ 42,588	$ 16,446	$ 2,818	$ 61,852
Other	-	66	4	825	895
Less Earned Revenue	-	-	-	(121)	(121)
Net Program Costs	**-**	**42,654**	**16,450**	**3,522**	**62,626**
HIGHER EDUCATION					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	37,620	-	-	-	37,620
Subsidy Expense	(129,288)	-	-	-	(129,288)
Administrative Expenses	1,782	-	-	-	1,782
Less Earned Revenue					
Subsidy Expense	(16,793)	-	-	-	(16,793)
Interest & Administrative Fees	(60,165)	-	-	-	(60,165)
Subsidy Amortization	22,545	-	-	-	22,545
Net Cost (Surplus) of Direct Loan Program	**(144,299)**	**-**	**-**	**-**	**(144,299)**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	2,403	-	-	-	2,403
Subsidy Expense	(13,877)	-	-	-	(13,877)
Subsidy Amortization (Guaranteed Loans)	(692)	-	-	-	(692)
Guaranty Agencies	4	-	-	-	4
Administrative Expenses	255	-	-	-	255
Less Earned Revenue					
Subsidy Expense	-	-	-	-	-
Interest & Administrative Fees	(2,455)	-	-	-	(2,455)
Subsidy Amortization (Acquired FFEL Loans)	744	-	-	-	744
Guaranty Agencies	(105)	-	-	-	(105)
Net Cost (Surplus) of FFEL Program	**(13,723)**	**-**	**-**	**-**	**(13,723)**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	19	-	-	36	55
Subsidy Expense	8	-	-	(90)	(82)
Administrative Expenses	(1)	-	-	-	(1)
Less Earned Revenue					
Subsidy Expense	(1)	-	-	-	(1)
Interest & Administrative Fees	(102)	-	-	(31)	(133)
Subsidy Amortization	26	-	-	(5)	21
Other	(422)	-	-	-	(422)
Net Cost (Surplus) of Other Credit Programs for Higher Education	**(473)**	**-**	**-**	**(90)**	**(563)**
Non-Credit Programs					
Gross Cost					
Grants	39,032	203	4,762	5,354	49,351
Other	285	-	25	288	598
Less Earned Revenue	-	-	-	(13)	(13)
Net Cost of Non-Credit Programs	**39,317**	**203**	**4,787**	**5,629**	**49,936**
Net Program Costs (Surplus)	**(119,178)**	**203**	**4,787**	**5,539**	**(108,649)**
Total Program Gross Costs	**(62,450)**	**42,857**	**21,237**	**9,231**	**10,875**
Less Total Program Earned Revenue	**(56,728)**	**-**	**-**	**(170)**	**(56,898)**
Net Cost	**$ (119,178)**	**$ 42,857**	**$ 21,237**	**$ 9,061**	**$ (46,023)**

Credit Program Interest Expense and Revenues

(Dollars in Millions)

	Gross Interest Expense		Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental		Other than Intragovern-mental		Intragovernmental	Other than Intragovern-mental	Other than Intragovern-mental	
2026								
Direct Loan Program	$ 41,868	$ -		$ 41,868	$ 6,000	$ 73,931	$ (38,063)	$ 41,868
FFEL Program	2,515	(786)		1,729	875	1,674	(820)	1,729
Other Credit Programs for Higher Education	54	-		54	12	152	(27)	137
Total	**$ 44,437**	**$ (786)**		**$ 43,651**	**$ 6,887**	**$ 75,757**	**$ (38,910)**	**$ 43,734**
2025 (Unaudited)								
Direct Loan Program	$ 37,620	$ -		$ 37,620	$ 7,515	$ 52,650	$ (22,545)	$ 37,620
FFEL Program	2,403	(692)		1,711	966	1,489	(744)	1,711
Other Credit Programs for Higher Education	55	-		55	9	124	(21)	112
Total	**$ 40,078**	**$ (692)**		**$ 39,386**	**$ 8,490**	**$ 54,263**	**$ (23,310)**	**$ 39,443**

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

Grant Expenses by Appropriation

(Dollars in Millions)

	2026	2025 (Unaudited)
PREKINDERGARTEN THROUGH GRADE 12 STUDENTS		
Education Stabilization Fund	$ 1,375	$ 12,897
Education for the Disadvantaged	19,071	20,634
Special Education - IDEA Grants	14,190	16,446
School Improvement Programs	6,229	6,472
Impact Aid	1,625	1,644
Innovation and Improvement	1,012	1,245
English Language Acquisition	857	904
Career, Technical, and Adult Education	74	452
Hurricane Education Recovery	21	69
Institute of Education Sciences	184	217
Other	747	872
Subtotal	**45,385**	**61,852**
HIGHER EDUCATION		
Student Financial Assistance		
Pell Grants	38,664	37,272
Federal Work-Study Program	1,149	1,056
Federal Supplemental Educational Opportunity Grants	857	704
Rehabilitation Services	4,838	4,293
Higher Education	3,220	3,283
Career, Technical, and Adult Education	108	1,685
Special Education - IDEA Grants	144	165
Hurricane Education Recovery	5	29
Institute of Education Sciences	42	49
Other	724	815
Subtotal	**49,751**	**49,351**
Total Grant Costs	**$ 95,136**	**$ 111,203**

The Department has more than 100 grant programs. Descriptions of major grant program areas are as follows:

Student Financial Assistance

- **Federal Pell Grant**— Federal Pell Grants usually are awarded only to undergraduate students who display exceptional financial need and have not earned a bachelor's, graduate, or professional degree. Federal Pell Grants are the single largest source of grant aid for postsecondary education.
- **Federal Work-Study Program**—Provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. Hourly earnings under this program must be at least the federal minimum wage. Federal funding, in most cases, pays 75 percent of a student's hourly wage, with the remaining 25 percent paid by the employer.
- **Federal Supplemental Educational Opportunity Grant**—Provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

Education for the Disadvantaged—Primarily consists of Title I, Part A grants which provide financial assistance through SEAs to LEAs and public schools with high numbers or percentages of children living in poverty to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in state-run institutions, attending community day programs, and correctional facilities.

Special Education— Consists primarily of grants authorized under IDEA. IDEA authorizes formula awards to states to assist them in providing a free appropriate public education in the least restrictive environment for eligible children with disabilities ages 3 through 21 and early intervention services provided in natural environments to the maximum extent appropriate for eligible infants and toddlers birth through age 2 and their families. IDEA also authorizes discretionary grants for technical assistance and dissemination, educational technology and media, personnel preparation and development and parent-training, and information to support the implementation of IDEA**.**

School Improvement Programs—Consists primarily of grants to SEAs, which in turn make subgrants to raise student achievement.

Rehabilitation Services—Provides funds to states and other agencies to support vocational rehabilitation and other services to individuals with disabilities to maximize their employment, independence, and integration into the community and the competitive labor market.

Higher Education—Includes Institutional Service grants designed to improve academic quality, institutional management and fiscal stability, and strengthen physical plants and endowments of institutions of higher education, with an emphasis on institutions that enroll large proportions of minority and financially disadvantaged students. Also includes Student Service grant programs supporting low-income, first-generation students and individuals with disabilities as they progress through the academic pipeline from middle school to graduate school, in addition to programs focused on college readiness, campus-based childcare, and graduate fellowships. Also includes International and Foreign Language Education grant and fellowship programs that strengthen foreign language instruction, area/international studies teaching and research, professional development for educators, and curriculum development at the K–12, graduate, and postsecondary levels.

Career, Technical, and Adult Education—Includes programs that are related to adult education and literacy, career and technical education, community colleges, and correctional education. The Department entered into interagency agreements with DOL – with DOL acting as the servicing agency – to distribute Career, Technical, and Adult Education grant program funding to grant recipients (see Note 4). The Department recorded financial transactions associated with these interagency agreements consistent with an expenditure transfer carried out under the Economy Act in accordance with OMB Circular A-11. As such, the Department has not recognized the associated expenses as grant expenses and instead categorized them as other costs.

Impact Aid—Provides funds to LEAs to replace the lost local revenue that would otherwise be available to educate children of federal workers that live on government property, which is exempt from local property taxes that finance education.

Innovation and Improvement—Includes support for nontraditional programs that improve student achievement and attainment; supports the development of educational television and digital media programs targeted at preschool and early elementary school children and their families to promote early learning and school readiness, with a particular interest in reaching low-income children; and supports LEAs and their partners in implementing, evaluating, and refining tools and approaches for developing the noncognitive skills of middle school students to increase student success.

English Language Acquisition—Provides funds primarily by formula to states to improve services for English learners. Also provides discretionary funds to support national activities, including professional development to increase the supply of high-quality teachers of English learners and a national clearinghouse on English language acquisition.

Institute of Education Sciences—Provides funding to support research and development activities that provide parents, teachers, and schools with evidence-based information on effective educational practices, and research to build the evidence base on improving special education and early intervention services and outcomes for infants, toddlers, and children with disabilities.

Note 11. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2026, budgetary resources were $487.6 billion, and net agency outlays were $71.1 billion.

Net Adjustments to Unobligated Balances Brought Forward, October 1 (Dollars in Millions)

	2026		2025 (Unaudited)	
	Budgetary	Non-budgetary Credit Reform Financing Accounts	Budgetary	Non-budgetary Credit Reform Financing Accounts
Prior Year Unobligated Balance, End of Year (Total)	**$ 10,553**	**$ 60,487**	**$ 12,622**	**$ 49,830**
Recoveries of Prior Year Unpaid Obligations	6,303	15,717	14,879	62
Actual Repayments of Debt, Prior-Year Balances	-	(52,987)	-	(18,415)
Actual Capital Transfers to the Treasury General Fund	(102)	-	(105)	-
Canceled Authority	(1,213)	-	(1,126)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	1	71	1	155
Other Differences	3	-	2	-
Unobligated Balance from Prior Year Budget Authority (Net)	**$ 15,545**	**$ 23,288**	**$ 26,273**	**$ 31,632**

During the period ended September 30, 2026, and September 30, 2025, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2025, and October 1, 2024. These adjustments included, among other things, recoveries of prior year unpaid obligations that resulted from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

Unused Borrowing Authority

(Dollars in Millions)

	2026	2025 (Unaudited)
Beginning Balance - Unused Borrowing Authority	**$ 61,115**	**$ 49,472**
Current Year Borrowing Authority	200,570	271,230
Funds Drawn from Treasury	(187,258)	(259,889)
Other	(2)	302
Ending Balance - Unused Borrowing Authority	**$ 74,425**	**$ 61,115**

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

Undelivered Orders at the End of the Period

(Dollars in Millions)

	2026		2025 (Unaudited)	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 624	$ 177,022	$ 201	$ 176,785
Paid	3,345	1,068	2,294	613
Undelivered Orders	**$ 3,969**	**$ 178,090**	**$ 2,495**	**$ 177,398**

Undelivered orders represent the amount of goods and/or services ordered that have not been actually or constructively received. Paid amounts include any orders that may have been prepaid or advanced but for which delivery or performance has not yet occurred.

Distributed Offsetting Receipts

(Dollars in Millions)

	2026	2025 (Unaudited)
Negative Subsidies and Downward Re-Estimates of Subsidies:		
Direct Loan Program	$ 66,095	$ 143,372
FFEL Program	9,994	9,076
HEAL Program	1	2
TEACH Program	3	31
Facilities Loan Programs	70	117
Total Negative Subsidies and Downward Re-Estimates of Subsidies	**76,163**	**152,598**
Repayment of Perkins Loans and Capital Contributions	311	453
Other	(208)	(30)
Distributed Offsetting Receipts	**$ 76,266**	**$ 153,021**

Distributed offsetting receipts are amounts that the Department collects that are used to offset or reduce the Department's budget outlays. The Department's outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts.

Most of the distributed offsetting receipts line item on the SBR represents amounts paid from the Direct Loan Program and FFEL Program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates, downward modifications, and negative subsidies.

Reconciliation of the SBR to the Budget of the United States Government

(Dollars in Millions) (Unaudited)

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statements of Budgetary Resources	**$ 582,936**	**$ 511,896**	**$ 153,021**	**$ 34,715**
Expired Funds	(16,860)	(9,953)	-	-
Distributed Offsetting Receipts	-	-	-	153,021
Other	367	1	(7)	(3)
Budget of the United States Government*	**$ 566,443**	**$ 501,944**	**$ 153,014**	**$ 187,733**

* Amounts obtained from the Appendix, Budget of the United States Government, FY 2027

The FY 2028 President's Budget, which presents the actual amounts for the year ending September 30, 2026, has not been published as of the issue date of these financial statements. The FY 2028 President's Budget is scheduled for release in February 2027 and will be made available on OMB's website. The table above reconciles the FY 2025 SBR to the FY 2027 President's Budget (FY 2025 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal

fund is independent from the Department's direct control, budgetary resources and new obligations and upward adjustments are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

Note 12. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2026			2025 (Unaudited)		
	Intragovernmental	Other than Intragovern-mental	Total	Intragovernmental	Other than Intragovern-mental	Total
Net Cost	**$ 40,054**	**$ 55,838**	**$ 95,892**	**$ 32,092**	**$ (78,115)**	**$ (46,023)**
Components of Net Cost Not Part of Budgetary Outlays:						
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	18,981	18,981	-	45,526	45,526
Loan Modification Adjustment Transfers	-	(76)	(76)	-	16,617	16,617
Property and Equipment Disposals and Revaluations	-	-	-	-	(1)	(1)
Increase/(Decrease) in Assets:						
Loans Receivables, Net (Non-FCRA)	-	(177)	(177)	-	107	107
Other Assets	1,053	205	1,258	2,077	78	2,155
(Increase)/Decrease in Liabilities:						
Accounts Payable	-	374	374	-	(318)	(318)
Loan Guarantee Liabilities (Non-FRCA)	-	(10)	(10)	-	3	3
Other Liabilities	149	312	461	(67)	4,408	4,341
Financing Sources:						
Imputed Costs	(60)	-	(60)	(89)	-	(89)
Total Components of Net Cost Not Part of Budgetary Outlays	**1,142**	**19,609**	**20,751**	**1,921**	**66,420**	**68,341**
Components of Budget Outlays Not Part of Net Cost:						
Effect of Prior-Year Credit Reform Subsidy Re-Estimates	-	(45,526)	(45,526)	-	12,401	12,401
Acquisition of Capital Assets	-	2	2	-	-	-
Total Components of Budget Outlays Not Part of Net Cost	**-**	**(45,524)**	**(45,524)**	**-**	**12,401**	**12,401**
Miscellaneous Items:						
Non-Entity Activity	(1)	-	(1)	26	(16)	10
Non-Exchange Revenues	(38)	-	(38)	(12)	-	(12)
Other Temporary Timing Differences						
Other	-	(1)	(1)	-	(2)	(2)
Total Miscellaneous Items	**(39)**	**(1)**	**(40)**	**14**	**(18)**	**(4)**
Budgetary Agency Outlays, Net			**$ 71,079**			**$ 34,715**

This reconciliation explains the relationship between the Department's net cost and its net outlays. Reconciling items result from transactions that did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost.

Disbursements for new FCRA loans and collections of principal and interest on existing FCRA loans are recorded in nonbudgetary credit reform financing accounts. These disbursements and collections are reported on the SBR as disbursements, net, and not as agency outlays, net. Since these disbursements and collections affect neither net cost of operations nor agency outlays, net, they are excluded from this reconciliation as are any increases or decreases in the FCRA loan receivable balances.

The two major reconciling differences, both associated with the Department's FCRA loan programs, are for Year-End Credit Reform Subsidy Accrual Re-Estimates (current-year subsidy accrual costs) and Effect of Prior-Year Credit Reform Subsidy Re-Estimates (current-year budget subsidy costs).

- Current-year subsidy accrual costs are the portion of the current-year loan subsidy re-estimates not impacting the current year outlays.
- Current-year budget subsidy costs are current year indirect appropriations provided to fund subsidy costs accrued in the prior year. This includes the portion of the current year's executed President's Budget re-estimates not included in this year's net cost subsidy expense.

NOTE 13. Commitments and Contingencies

The Department discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with SFFAS 5, Accounting for Liabilities of the Federal Government. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Intragovernmental Leases

The Department leases from the GSA all or a portion of 10 privately owned and 9 publicly owned buildings in 18 cities. The table below presents the estimated future minimum lease payments for these privately and publicly owned buildings.

Future Minimum Intragovernmental Lease Payments

(Dollars in Millions)

2026			2025		
2027	$	33	2026	$	30
2028		29	2027		31
2029		29	2028		32
2030		30	2029		33
2031		30	2030		33
After 2031		31	After 2030		34
Total	**$**	**182**	**Total**	**$**	**193**

Guaranty Agencies

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in FY 2026 or FY 2025 because the Department executed new voluntary flexible agreements with the guaranty agencies effective August 1, 2026,

which superseded the previously executed agreements that were effective October 1, 2024. The Department collaboratively negotiated these agreements to achieve the mutual goal of ensuring borrowers get greater outreach assistance to resolve their defaulted loans quickly while also providing stability for guaranty agencies—a key part of keeping the FFEL Program healthy as it continues its steady winddown. No provision has been made in the financial statements for potential liabilities.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on the Department's financial position. As appropriate, the Department would seek recovery of some costs from Treasury's Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2026. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2026, is not expected to have a material impact on these financial statements.

Other Matters

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

NOTE 14. Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process

To prepare the Financial Report (FR) of the U.S. government, Treasury requires agencies to submit an adjusted trial balance. This report provides a listing of the accounts that appear in the agencies' financial statements and supports the preparation of the consolidated Financial Report. Treasury uses the trial balance information reported via the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Operations and Changes in Net Position for each agency, all of which show how agency amounts are related to particular FR statement line items. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The two schedules in this note show the Department's financial statements and the Department's reclassified statements before elimination of intragovernmental balances and before aggregation of repeated FR line items. The term "Non-Federal" is used in this note to refer to federal government amounts that result from transactions with non-federal entities. These include transactions with individuals; businesses; nonprofit entities; and state, local, and foreign governments.

Reclassification of Statement of Net Cost to Line Items Used for the Governmentwide Statement of Net Cost for the Year Ended September 30, 2026

(Dollars in Millions)

FY 2026 Department Statement of Net Cost		Line Items Used to Prepare FY 2026 Governmentwide Statement of Net Cost		
Financial Statement Line	**Amounts**	**Amounts**		**Reclassified Financial Statement Line**
Total Gross Cost	$ 140,341	$	93,347	Non-Federal Gross Cost
			115	Benefit Program Costs
			60	Imputed Costs
			2,360	Buy/Sell Cost
			44,437	Borrowing and Other Interest Expense
			26	Other Expenses (Without Reciprocals)
Total Gross Cost	**$ 140,341**	**$**	**140,341**	**Department Total Gross Cost**
Total Earned Revenue	$ (44,449)	$	(37,509)	Non-Federal Earned Revenue
			(53)	Buy/Sell Revenue (Exchange)
			(6,887)	Borrowing and Other Interest Revenue (Exchange)
Total Earned Revenue	**(44,449)**		**(44,449)**	**Department Total Earned Revenue**
Net Cost	**$ 95,892**	**$**	**95,892**	**Net Cost**

Reclassification of Statement of Net Position to Line Items Used for the Governmentwide Statement of Net Position for the Year Ended September 30, 2026

(Dollars in Millions)

FY 2026 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2026 Governmentwide Statement of Operations and Changes in Net Position		
Financial Statement Line	**Amounts**	**Amounts**		**Reclassified Financial Statement Line**
Unexpended Appropriations				
Beginning Balance	$ 91,903	$	91,903	Net Position, Beginning of Period
Appropriations Received	146,867		145,201	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(1,666)			
Appropriations Transferred	(1)		(1)	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources
Appropriations Used	(145,954)		(145,954)	Appropriations Used
Unexpended Appropriations, Ending Balance	**91,149**		**91,149**	
Cumulative Results of Operations				
Beginning Balance	(5,878)		(5,878)	Net Position, Beginning of Period
Appropriations Used	145,954		145,954	Appropriations Expended
Nonexchange Revenue	38		38	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Imputed Financing from Costs Absorbed by Others	60		60	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(53,117)		(76,995)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
			23,785	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
			93	Other Budgetary Financing Sources
Net Cost	(95,892)		(95,892)	Net Cost
Cumulative Results of Operations, Ending Balance	**$ (8,835)**	**$**	**(8,835)**	
Net Position	**$ 82,314**	**$**	**82,314**	**Net Position, End of Period**

This page is intentionally left blank.

Required Supplementary Information (Unaudited)

U.S Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2026

(Dollars in Millions)
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 11)	$ 10,563	$ 23,249	$ 2,626
Appropriations (Discretionary and Mandatory)	89,592	360	27,367
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	200,380	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	78	101,229	(1)
Total Budgetary Resources	**$ 100,233**	**$ 325,218**	**$ 29,992**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	$ 91,957	$ 258,707	$ 27,803
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	799	-	378
Unapportioned, Unexpired Accounts	582	66,511	25
Unexpired Unobligated Balance, End of Year	**$ 1,381**	**$ 66,511**	**$ 403**
Expired Unobligated Balance, End of Year	6,895	-	1,786
Unobligated Balance, End of Year (Total)	**$ 8,276**	**$ 66,511**	**$ 2,189**
Total Status of Budgetary Resources	**$ 100,233**	**$ 325,218**	**$ 29,992**
OUTLAYS, NET			
Outlays, Net (Discretionary and Mandatory)	$ 88,755		$ 29,318
Distributed Offsetting Receipts (-) (Note 11)	(76,404)		-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11 & 12)	**$ 12,351**		**$ 29,318**
Disbursements, Net (Total) (Mandatory)		**$ 91,599**	

Office of Special Education and Rehabilitative Services	Other		Combined		Total
Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 415	$ 1,941	$ 39	$ 15,545	$ 23,288	$ 38,833
20,194	9,275	-	146,428	360	146,788
-	-	190	-	200,570	200,570
(9)	63	81	131	101,310	101,441
$ 20,600	**$ 11,279**	**$ 310**	**$ 162,104**	**$ 325,528**	**$ 487,632**
$ 20,335	$ 9,937	$ 230	$ 150,032	$ 258,937	$ 408,969
4	932	-	2,113	-	2,113
-	71	80	678	66,591	67,269
$ 4	**$ 1,003**	**$ 80**	**$ 2,791**	**$ 66,591**	**$ 69,382**
261	339	-	9,281	-	9,281
$ 265	**$ 1,342**	**$ 80**	**$ 12,072**	**$ 66,591**	**$ 78,663**
$ 20,600	**$ 11,279**	**$ 310**	**$ 162,104**	**$ 325,528**	**$ 487,632**
$ 19,667	$ 9,605		$ 147,345		$ 147,345
-	138		(76,266)		(76,266)
$ 19,667	**$ 9,743**		**$ 71,079**		**$ 71,079**
		$ 406		**$ 92,005**	**$ 92,005**

Report of the Independent Auditors

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 16, 2026

The Honorable Linda McMahon
Secretary of Education
U.S. Department of Education
400 Maryland Avenue SW
Washington, D.C. 20202

Ref: FINAL INDEPENDENT AUDITORS' REPORT
Fiscal Year 2026 and 2025 Financial Statements
U.S. Department of Education
ED-OIG/A26FS0007

Dear Secretary McMahon:

The enclosed report presents the results of the audit of the U.S. Department of Education's (Department) consolidated financial statements for fiscal year 2026 to comply with the Chief Financial Officers Act of 1990, as amended. The Department's consolidated financial statements comprise the consolidated balance sheets as of September 30, 2026 and 2025, the related consolidated statements of net cost and changes in net position, the combined statement of budgetary resources for the year ended September 30, 2026, and the related notes to the consolidated financial statements. The auditors' report should be read in conjunction with the Department's consolidated financial statements to fully understand the context of the information contained therein.

The independent public accounting firm of KPMG LLP was awarded a contract to audit the Department's consolidated financial statements; report on internal control over financial reporting; report on compliance with laws, regulations, contracts, and grant agreements; and report on whether the Department's financial management systems complied substantially with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget's bulletin, Audit Requirements for Federal Financial Statements.

In its audit of the Department, KPMG LLP reported

- the consolidated financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;

- a material weakness in internal control over financial reporting, described in Exhibit A;[1]
- three significant deficiencies in internal control over financial reporting, described in Exhibit B;[2]
- no instances in which the Department's financial management systems did not comply substantially with the requirements of FFMIA; and
- no reportable noncompliance with provisions of laws, regulations, contracts, and grant agreements tested.

KPMG LLP is responsible for the attached auditors' report dated November 16, 2026, and the conclusions expressed therein. We do not express an opinion on the Department's consolidated financial statements or conclusions about the effectiveness of internal control over financial reporting, whether the Department's financial management systems complied substantially with the three requirements of FFMIA, or on compliance.

We appreciate the cooperation given KPMG LLP and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 219-1410.

Sincerely,



René L. Rocque
Acting Inspector General

Enclosure

[1] A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
[2] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Acting Inspector General
United States Department of Education

Secretary
United States Department of Education:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the United States Department of Education (the Department), which comprise the consolidated balance sheets as of September 30, 2026 and 2025, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ended September 30, 2026, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2026 and 2025, and its net cost of operations, changes in net position, and budgetary resources for the year ended September 30, 2026, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Prior Period Financial Statements

The consolidated balance sheet of the Department as of September 30, 2025, and the related notes to the consolidated balance sheet, were audited by us, and our report dated January 22, 2026, expressed an unmodified opinion on that balance sheet and related notes. The consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ended September 30, 2025, and related notes, were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the fiscal year 2026 Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on

KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the



required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the About This Report, Message from the Secretary, Message from the Federal Student Aid Chief Operating Officer, Message from the Chief Financial Officer, About the Financial Section, Other Information section, Appendices, and Acknowledgements but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2026, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Exhibits A and B, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Exhibit A to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit B to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2026 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance

with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

We also performed tests of the Department's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in Exhibit C. The Department's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C
November 16, 2026

Exhibit A

Material Weakness

A. Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement

Background:

The material weakness under this section is related to the Department's direct loan portfolio. The Department is required to perform re-estimates of the subsidy costs of its direct loan portfolio annually as of September 30.

These subsidy re-estimates are calculated using an internally developed cash flow model, the Student Loan Model (SLM). The SLM utilizes assumptions developed using information from external sources, internal Information Technology (IT) systems, and the Department's general ledger. The future cash flow outputs generated from the SLM are input into the format required by OMB's Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs, to produce the subsidy re-estimates.

Condition:

Management did not design and implement sufficient controls to support the reliability of the underlying data used in key assumptions for the SLM cash flow model to develop the subsidy re-estimates.

Cause/Effect:

Management's risk assessment process did not sufficiently analyze the risks related to the reliability of the underlying data used in the subsidy cost estimates. Inadequate controls over the reliability of the underlying data used to develop the subsidy cost estimates increases the risk that the consolidated financial statements could be materially misstated.

Criteria:

The following criteria were considered in the evaluation of this condition:

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 10, *Design Control Activities* and Principle No. 13, *Use Quality Information*.
- FASAB Technical Release 6, Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act, Paragraph 29.

Recommendation:

We recommend that management design and implement sufficient controls to ensure that all key information used in developing the subsidy cost estimates are complete and accurate. Such review should be documented and maintained.

Exhibit B

Significant Deficiencies

A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of IT logical access, security management, segregation of IT duties, application change management, and computer operations are related to Department systems.

Conditions:

In prior years, we reported a significant deficiency related to the Department's IT controls due to persistent unmitigated IT control deficiencies. During FY 2026, management has not fully remediated prior-year deficiencies related to security management, logical access authentication and administration, separated and transferred user access removal, user access reviews and recertification, segregation of IT duties, application change management, and computer operations. In addition to these existing deficiencies, new IT control deficiencies were identified related to controls over access controls, segregation of IT duties, and change management controls for one financial and mixed support system and one identity and access management support system. Specifically, we noted the following:

1. Deficiencies in IT security management controls: Management did not effectively implement corrective action, remediation, and quality review controls for IT security weaknesses. Specifically, Plan of Action and Milestone (POA&M) closure documentation did not always address the root cause of the deficiencies, thereby increasing the potential of IT control deficiencies reoccurring in the future.

2. Deficiencies in IT logical access controls: Access controls were not consistently performed and followed. Specifically, control deficiencies over logical access were noted for the authorization and approval of requested application access, including the completion of role-based trainings and security clearance reinvestigations; removal of terminated or inactive access; adherence to segregation of IT duties and least privilege concepts; performance of complete, accurate, and timely access reviews and recertifications, including maintaining related evidence to support the reviews and associated access revocation; and ensuring password controls and system security settings meet the Department's requirements.

3. Deficiencies in IT application change management controls: The application change management policies and controls were not fully designed and documented or were not consistently followed in accordance with the Department's policy and sufficient evidence was not provided to support testing approvals, code comparisons, code integrity verification procedures, and adherence to segregation of IT duties and least privilege concepts to the code repository and production environments for in-scope applications related to certain application changes.

4. Deficiencies in IT computer operations controls: Controls over computer operations were not properly designed and implemented. Specifically, control deficiencies over centralized tracking of all job processing and scheduling tool changes; changes that were made directly in the production environment; and adherence to the Department's requirements for the use, logging, and monitoring of generic and shared accounts for the job scheduling tool.

Cause/Effect:

Management has not performed effective risk assessments and there was a lack of effective monitoring controls over the effectiveness of designed control activities by the Department to ensure:

1. System deficiencies have a documented POA&M and are tracked in the required security management tool, and corrective actions to remediate prior-year conditions and associated root causes are fully implemented.

2. Logical access systems and support processes consistently:

    - Adhere to documented and required agency-wide policies and procedures;
    - Establish logical access control;
    - Adhere to segregation of duties and least privilege processes and principles;
    - Ensure requests and related evidence for new, modified, or separated or inactive users are retained and documented completely and accurately;
    - Ensure complete and accurate access reviews are performed to detect and mitigate the risk of unauthorized accounts, access that is not commensurate with job responsibilities or least privilege, access permissions not being revoked timely, and related evidence are documented and retained; and
    - Design password controls and system security settings to meet the Department's requirements.

3. The established application change process is fully documented and followed for all types of changes and adherence to segregation of IT duties and least privilege concepts for code repositories and the production environment of the in-scope systems related to the application change process.

4. The established process for job processing changes is followed, the requirements for the use and monitoring of generic/shared accounts controls for the job scheduling tool are followed and enforced, and the established computer operations processes detect and/or prevent unauthorized changes to the job processing tool and schedules.

    Ineffective IT controls increase the risk of unauthorized use, disclosure, disruption, or destruction of information and information systems, and unauthorized changes could be implemented. This may impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the consolidated financial statements.

Criteria:

The following criteria were considered in the evaluation of these conditions:

- The Green Book, Principle No. 2, *Exercise Oversight Responsibility*, Principle No. 3, *Establish Structure, Responsibility, and Authority*, Principle No. 4, *Demonstrate Commitment to Competence*, Principle No. 5, *Enforce Accountability*, Principle No. 6, *Define Objectives and Risk Tolerances*, Principle No.10, *Design Control Activities*, Principle No. 11, *Design General Control Activities Over Information Technology*, Principle No.12, *Implement Control Activities*, Principle No. 13, *Use Quality Information*, Principle No.14, *Communicate Internally,* Principle No.16, *Perform Monitoring Activities*, Principle No.17, and *Evaluate Issues and Remediate Deficiencies*.

- Federal Information Processing Standards (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*.

- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 5, Release 5.2.0, specifically security control requirements PM-4 *Plan of Action and Milestone Process*, AC-2 *Account Management*, AC-5 *Separation of Duties*, AC-6 *Least Privilege*, AC-7 *Unsuccessful Logon Attempts*, AT-3 *Role-based Training*, AT-4 *Training records*, IA-2 *Identification and Authentication (Organizational Users)*, PS-3 *Personnel Screening*, CM-3 *Configuration Change Control*, CM-5 *Separation of Duties,* and SI-7 *Software, Firmware, and Information Integrity.*

Recommendations:

We recommend that management:

1. Evaluate, design, and implement security management controls to ensure that corrective actions remediate the risk and address the root cause of findings and quality reviews over the POA&M closure documentation are conducted to confirm that the noted deficiencies are fully addressed to prevent future reoccurrences.

2. Evaluate, design, and implement logical access controls and provide training and oversight over access provisioning requirements, removal and/or deactivation of access, periodic reviews and recertifications of access, retention of auditable evidence, and adherence to password and security setting requirements, segregation of duties, and least privileged principles.

3. Evaluate, design, and implement change management controls to ensure the Department's system change management process:

    a. Identifies and categorizes the types of changes that impact the system, data, and configurations.

    b. Defines and documents the change descriptions and requirements for testing, approvals, documentation, audit trails, code integrity verifications, and retention for each system change.

    c. Adheres to segregation of duties and least privileged principles for source code repositories and production environments of in-scope systems.

4. Evaluate, design, and implement computer operations controls to develop and implement formal procedures addressing controls over changes to production jobs and schedules and the monitoring of actions taken by the generic/shared job processing account in the job scheduling tool.

B. Monitoring Controls over Service Organizations Need Improvement

Background:

The Department has agreements with numerous service organizations to handle essential functions related to the student loan portfolio and IT services. These service organizations provide the Department with System and Organization Controls (SOC) reports on a regular cadence to ensure that management can perform monitoring and review in accordance with the relevant federal accounting standards.

Condition:

We noted that monitoring controls over service providers are not properly designed and implemented. Specifically, we noted the following:

a. Management is not performing a timely review of compensating user entity controls (CUECs) presented in the loan servicers' SOC reports and ensuring that the necessary controls are in place at the Department.

b. Management lacks full awareness of the third-party IT provider services in use, and there is no centralized or formally maintained documentation identifying the subscribed service offerings utilized to operate the core financial management system by the third-party provider.

Cause/Effect:

Management's risk assessment process did not sufficiently analyze the risks associated with the SOC reports. Management's ineffective controls over the review of SOC reports, including the lack of timely implementation of controls to address the CUECs and review of services in use, increases risks of incomplete or inaccurate loan receivable information, data, and transactions which could result in incomplete and inaccurate financial statements.

Criteria:

The following criteria were considered in the evaluation of this condition:

- The Green Book, Principle 5, *Enforce Accountability*, Principle No.10, *Design Control Activities*, Principle 11, *Design Activities for the Information System,* and Principle 16, *Perform Monitoring Activities*.

- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 5, Release 5.2.0, specifically security control requirements PL-2 *System Security and Privacy Plans,* CM-8 *System Component Inventory, and* SA-9 *External System Services.*

Recommendations:

We recommend management ensure that controls are operating effectively over the timely review of SOC reports, including the CUECs presented in such reports. Furthermore, management should design and implement third-party IT provider monitoring controls to strengthen documentation, visibility, and oversight of third-party service providers and their associated services.

C. Entity-Level Controls Need Improvement

Background:

A key factor in achieving an entity's mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department needs to address weaknesses in its entity-wide control environment related to monitoring activities.

Condition:

The Department's entity-level controls were not sufficiently designed and implemented to ensure that long standing, recurring internal control deficiencies are remediated in a timely manner.

Cause/Effect:

Insufficient monitoring of remediation activities prevented the Department from ensuring that corrective action plans are implemented and control deficiencies are remediated timely. The condition documented above contributed to the control deficiencies described earlier in this report and could lead to other weaknesses in internal control over financial reporting.

Criteria:

The following criteria were considered in the evaluation of this condition:

- The Green Book, Principle 16, *Perform Monitoring Activities* and Principle No.17, *Evaluate Issues and Remediate Deficiencies*.

Recommendations:

We recommend that management implement key monitoring controls to ensure that corrective action plans are implemented to remediate control deficiencies identified in a timely manner. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department.

Managements Response Exhibit C

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF FINANCE AND OPERATIONS

November 10, 2026

MEMORANDUM

TO: Keith Cummins
Assistant Inspector General for Audit
Office of Inspector General

FROM: Casey K. Sacks, Ph.D.
Delegated the Duties of Chief Financial Officer
Office of Finance and Operations

Ray Crawford
Acting Chief Information Officer
Office of the Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT
Fiscal Years 2026 and 2025 Financial Statements
U.S. Department of Education
ED-OIG/A26FS0007

Please convey the Department's sincere thanks to everyone on your staff who worked diligently on this financial statement audit. The Department reviewed the draft Fiscal Year 2026 Financial Statement Audit Report. We concur and agree with the Independent Auditors' Report, including the Opinion on the Financial Statements, Report on Internal Control over Financial Reporting, and Report on Compliance and Other Matters.

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

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

Please contact Mark Washington, Deputy Assistant Secretary, and Delegated Deputy Chief Financial Officer, Office of Finance and Operations, at mark.washington@ed.gov with any questions or comments.

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202
www.ed.gov

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

C-1

Other Information

About the Other Information Section

The Other Information section includes:

Office of Inspector General's (OIG's) Management and Performance Challenges for Fiscal Year 2027

The Management and Performance Challenges Report provides a summary of what the Office of Inspector General (OIG) believes are the Department's biggest challenges for FY 2027. The OIG identified the following five challenges: (1) change management, (2) oversight and monitoring of grantees, (3) oversight and monitoring of student financial assistance programs, (4) data quality and reporting, and (5) information technology (IT) security. The full report is available at the **OIG website**.

Summary of Financial Statement Audit and Management Assurances

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the Department or through the audit process.

Payment Integrity Information Act Reporting

This section summarizes the U.S. Department of Education's (Department's) efforts to maintain payment integrity and to develop effective controls designed to prevent, detect, and recover improper payments. It also includes information regarding the Department's high-risk programs.

Civil Monetary Penalty Adjustment for Inflation

This section reports on the Department's annual inflation adjustments to civil monetary penalties as required under the *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*.

Grants Oversight and New Efficiency Act of 2016 (GONE Act) Reporting

This section provides a high-level summary of the Department's expired, but not closed, federal grants and cooperative agreements.

Memorandum from the Office of the Inspector General (Unaudited)

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

The Inspector General

November 13, 2026

TO: The Honorable Linda McMahon
Secretary of Education

FROM: René L. Rocque
Acting Inspector General

SUBJECT: Management Challenges for Fiscal Year 2027

In compliance with the Reports Consolidation Act of 2000, the U.S. Department of Education (Department) Office of Inspector General reports annually on the most serious management and performance challenges the Department faces, its progress in addressing those challenges, and further actions that it could take to enhance its effectiveness.

The Government Performance and Results Modernization Act of 2010 defines major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of the Department to achieve its mission or goals.

For fiscal year (FY) 2027, we identified five management challenges the Department faces as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. These challenges are (1) change management, (2) oversight and monitoring of grantees, (3) oversight and monitoring of student financial assistance programs, (4) data quality and reporting, and (5) information technology security.

We provided our draft report to Department officials and considered their comments in developing the final report. This report will be posted on our website at https://oig.ed.gov/reports/list.

We look forward to working with the Department to address the FY 2027 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 219-1410.

Attachment

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510
Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2027

Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education

What are Management Challenges?

The Government Performance and Results Modernization Act of 2010 defines major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of the U.S. Department of Education (Department) to achieve its mission or goals. In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) reports annually on the most serious management and performance challenges the Department faces, its progress in addressing those challenges, and further actions that it could take to enhance its effectiveness.

What We Did

To identify management challenges, we examined audit, inspection, flash review, and investigative work that was completed or part of a body of work that was completed between October 1, 2023, and September 30, 2026; reviewed corrective actions that the Department has not completed; assessed ongoing audit, inspection, flash review, and investigative work to identify significant vulnerabilities; and analyzed new programs and activities that could pose significant challenges.

What We Found

For fiscal year (FY) 2027, we identified five management challenges the Department faces as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. These challenges are (1) change management, (2) oversight and monitoring of grantees, (3) oversight and monitoring of student financial assistance programs, (4) data quality and reporting, and (5) information technology (IT) security.

Progress in Addressing Challenges

In response to a draft of this report, the Department stated that the challenges identified reflect areas requiring continued management attention and described several areas in which it made progress during FY 2026. The Department stated that, over the past year, it implemented significant changes to the Federal student assistance programs under the One Big Beautiful Bill Act (OBBBA), continued efforts to improve operational processes and maintain program delivery during a period of substantial organizational change, undertook efforts to identify and prevent fraud in the Federal student assistance programs and improve program oversight, made improvements to Section 117 foreign funding reporting, and took steps to strengthen audit follow-up activities. We recognize the

significance of some of these actions and encourage the Department to continue assessing and mitigating related risks and monitoring the effectiveness of its controls.

Management Challenge 1—Change Management

On February 11, 2025, the President signed Executive Order 14210, "Implementing the President's 'Department of Government Efficiency' Workforce Optimization Initiative," with the stated goal of commencing a critical transformation of the Federal bureaucracy to restore accountability to the American public and a requirement that agencies develop agency reorganization plans and identify opportunities for consolidation or elimination. Two weeks later, on February 26, 2025, the President signed Executive Order 14219, "Implementing the President's 'Department of Government Efficiency' Cost Efficiency Initiative," with a focus on transforming Federal spending on contracts, grants, and loans to ensure transparency in government spending and accountability for government employees. On March 20, 2025, the President signed Executive Order 14242, "Improving Education Outcomes by Empowering Parents, States, and Communities," directing the Secretary of Education (Secretary) to take all necessary steps to facilitate the closure of the Department, to the maximum extent appropriate and permitted by law, and to return authority over education to the States and local communities while ensuring the effective and uninterrupted delivery of services, programs, and benefits on which Americans rely.

In response to the President's executive orders and policy direction, the Department revised many of its priorities and made changes to its organizational structure, staffing, and operations to reflect those new priorities. For example, the Department's workforce optimization efforts resulted in staffing changes in 16 of its 17 offices and an overall reduction of at least 40 percent of the more than 4,000 employees who were working for the Department as of January 2025. These staffing changes resulted in the elimination of several suboffices in 15 of the 17 Department offices, including some that appear to have been performing statutory functions or oversight and monitoring functions.[16] In addition, since May 2025, the Department has entered into 14 agreements with 6 Federal agencies, under which the other Federal agencies will manage major aspects of the Department's programs and operations under the oversight of the Department.[17] For example, these agreements obtain services supporting the administration of approximately $55 billion in formula and discretionary grant program funding administered by the Department as well as the administration of Federal student assistance programs, starting with managing and collecting on over $234 billion in defaulted Federal student loan debt. Further, the Department is in the process of relocating its headquarters functions from the Lyndon B. Johnson building to a nearby building in Washington, DC and assigning staff to work in other Federal agency buildings throughout the city.

The Department has many statutorily required responsibilities which, in part, include managing and overseeing a student loan portfolio of more than $1.7 trillion; awarding and administering over $76 billion in discretionary program funds to a wide range of eligible recipients, including local educational agencies (LEA), State educational agencies (SEA), institutions of higher education (IHE), individuals, nonprofits, and other organizations; and monitoring such recipients' use of funds and progress in meeting project and program objectives. It is also responsible for implementing and overseeing the implementation of programmatic changes resulting from new legislation. For

16 **Department Changes in Staffing and Operations** (ED-OIG/F25DC0245, issued June 2026).

17 Partner agencies include the U.S. Departments of Labor (three agreements), Interior (one agreement), Health and Human Services (four agreements), Justice (three agreements), State (two agreements), and Treasury (one agreement).

example, the Department has issued regulations and is revising its operational processes to implement several significant changes made to Federal student assistance programs by the OBBBA, with many of these changes effective as of July 1, 2026.[18] In FY 2026, the Department had an administrative budget of about $2.7 billion and around 2,300 employees, along with contractors that provide outsourced business operations, to perform these and its other functions.

Why This is a Challenge

The Department is in a state of significant transition, having made several major changes relating to its organizational structure, staffing, operations, and priorities since January 2025. Change of this magnitude can result in challenges associated with employee resistance, fatigue, and uncertainty—such as decreased productivity, operational disruption, and lost efficiency—and have an impact on the organization's ability to respond to stakeholder questions and concerns. To successfully manage change, the Department must align its management of human capital with its performance plans and strategic objectives.

Human capital management is a set of interrelated strategies and practices aligned with an organization's mission, guiding the processes for selecting, developing, training, and managing a high-quality, productive workforce.[19] According to the Office of Personnel Management, organizations that achieve and sustain excellence in strategic human capital management outperform those that do not. The Government Performance and Results Modernization Act of 2010 requires agencies to indicate how human capital management will support strategic goals within each agency's strategic plan and annual performance plan. In addition, each agency must develop a human capital operating plan aligned with the agency's strategic plan and annual performance plan. The Department's most recent human capital operating plan was issued for FY 2025 and supported its FY 2022–2026 strategic plan and FY 2025 annual performance plan. The Department did not issue an annual performance plan for FY 2026 and has yet to issue its annual performance report for FY 2025, strategic plan for FY 2026–2030, or annual performance plan for FY 2027.[20] According to the Department, it has adopted the President's stated intention to close the Department and to cede its functions to the States as its new strategic plan. Uncoordinated human capital management can reduce organizational performance and threaten and impede progress in the achievement of goals and objectives.

The Department has historically faced challenges related to its oversight and monitoring of grantees and student financial assistance programs. Reduced staffing and resources and other significant organizational changes, such as implementing agreements under which other Federal agencies will manage aspects of the Department's programs, may make it much more difficult for the Department to effectively meet those challenges and continue to perform its statutory and mission-critical activities, especially if it does not have in place a robust process for managing these changes and plans for building and maintaining institutional knowledge that may have been lost when key staff departed.

Our recent work, and that of the Government Accountability Office (GAO), has identified instances where the Department's 2025 workforce optimization efforts impacted the performance of statutory and mission-critical activities.

---

18 These changes are described in the management challenge, "Oversight and Monitoring of Student Financial Assistance Programs."

19 **Office of Personnel Management: Human Capital Management Overview** (retrieved October 2026).

20 In November 2026, Federal Student Aid issued its **FY 2026–2030 Strategic Plan**.

- The workforce optimization efforts resulted in the elimination of the unit responsible for the oversight and approval of the closure of OIG external audits. It is unclear which Department office, if any, now oversees external audit follow-up and closure activities, and no external OIG audits have been closed since January 2025, even though several audits have been resolved and appear ready for closure.[21]
- In 2025, Federal Student Aid (FSA) stopped assessing student loan servicers on accuracy and call quality due to a lack of staff capacity. In 2025, the number of staff at FSA dropped by more than 45 percent.[22]
- FSA's group that conducts program reviews of institutions was significantly impacted by workforce optimization efforts. The group still has some remaining staff and, according to FSA, continues to conduct program reviews of IHEs, though at a reduced scale due to staffing limitations.[23]
- The Department did not fully comply with the requirements of the Geospatial Data Act, in part, because of a lack of resources and subject matter expertise resulting from workforce optimization efforts.[24]

In FY 2027 and beyond, it is critical that the Department strategically plan for and effectively manage the major operational, human capital, and organizational changes that it has already taken or may yet undertake. The Department must effectively articulate and communicate to employees its strategic goals and objectives, planned staffing and organizational changes and their rationale, employees' roles and responsibilities in helping to implement them, and how these changes will better enable the Department to achieve its mission and strategic goals and objectives and support America's students. The Department should also establish key goals, objectives, and performance measures to gauge the success of its efforts and provide transparency and accountability for its actions. As a foundation for these efforts, the Department should issue a strategic plan and an annual performance plan consistent with the Government Performance and Results Modernization Act of 2010 and a human capital operating plan aligned with its strategic plan and annual performance plan.[25]

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. The Department engaged contractor support to assist in the resolution of external audits, FSA hired more than 200 new staff members (with additional hiring expected) and has begun training program review staff, and the Department issued regulations to implement the programmatic changes made to the Federal student assistance programs by the OBBBA.

21 **Department's Follow-Up Process for External Audits** (ED-OIG/I25DC0239, issued August 2026).

22 **Federal Student Loans: Education Needs to Address Gaps in Servicer Oversight** (GAO-26-108534, issued March 2026).

23 **Department's Compliance with Payment Integrity Information Reporting Requirements for FY 2025** (ED-OIG/A26DC0288, issued August 2026).

24 **Department's Compliance with the Geospatial Data Act** (ED-OIG/A26DC0284, issued September 2026).

25 The Office of Personnel Management issued a **final rule**, effective November 30, 2026, that will replace the requirement for a human capital operating plan with that of an annual staffing plan. Annual staffing plans are to be aligned with the agency strategic plan, annual performance plan, agency budget, President's management agenda, and the human capital framework.

Management Challenge 2—Oversight and Monitoring of Grantees

The Department is responsible for administering education programs that Congress authorized and the President signed into law. This responsibility includes awarding program funds to a wide range of eligible recipients, including LEAs, SEAs, IHEs, individuals, nonprofits, and other organizations, and monitoring their use of funds and progress in meeting program objectives. The Department is also responsible for ensuring that programs are administered fairly and that grants are executed in conformance with both authorizing statutes and laws prohibiting discrimination in federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance. The funding for many grant programs flows through primary recipients (such as SEAs) to subrecipients (such as LEAs or other entities). The primary recipients must oversee and monitor the subrecipients' activities to ensure compliance with Federal requirements.

The Department administers programs that touch every area and level of education, serving students from early learning through adult education. Its grant programs annually serve more than 17,500 public school districts and over 54 million students attending more than 99,000 public and 30,000 private schools. One of the key programs that the Department administers is Title I, Part A, which provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families, to help ensure that all children meet challenging State academic standards. In FY 2026, this program provided about $18.4 billion to serve an estimated 26 million students in nearly 90 percent of school districts and about 60 percent of all public schools. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which provided more than $14 billion in FY 2026 to help States and school districts meet the special educational needs of an estimated 7.6 million students with disabilities.

Why This is a Challenge

Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our recent work, and that of GAO, related to various grant programs identified weaknesses in grantee oversight and monitoring that included concerns with SEA and LEA controls and Department oversight processes. For example, our audits of several States' implementation of their Department-approved Statewide accountability systems found that States did not always correctly identify schools requiring support and improvement, affecting the allocation of additional funding and services under their approved plans.[26] Our audit of another State's administration of the pandemic-related Emergency Assistance to Nonpublic Schools program found that it used $20 million to provide services and assistance to ineligible nonpublic schools.[27] In an inspection involving another pandemic relief program, we found that a grantee did not ensure that the services contracted for and paid with $3.9 million in Elementary and Secondary School Emergency Relief

26 **Mississippi Department of Education's Implementation of Selected Components of Mississippi's Statewide Accountability System** (ED-OIG/A22IL0091, issued March 2024), **Oregon Department of Education's Implementation of Selected Components of Oregon's Statewide Accountability System** (ED-OIG/A23IL0142, issued September 2024), **Connecticut State Department of Education's Implementation of Selected Components of Connecticut's Statewide Accountability System** (ED-OIG/A24IL0199, issued September 2025), and **West Virginia Department of Education's Implementation of Selected Components of West Virginia's Statewide Accountability System** (ED-OIG/A24IL0200, issued September 2025).

27 **Wisconsin Department of Public Instruction's Administration and Oversight of Emergency Assistance to Nonpublic Schools Grant Funds** (ED-OIG/A24NY0195, issued September 2025).

funds were provided in accordance with the executed contract.[28] Other inspections at the school district level identified significant unallowable and unsupported costs charged to Magnet School Assistance Program grants[29] and weaknesses in processes for overseeing the development of individualized education programs (IEP) and delivery of IEP services for children with disabilities.[30]

At the Department, we found that Office of Elementary and Secondary Education (OESE) staff did not screen School-Based Mental Health Services program grant applications to ensure that they met all application requirements before entering them into the peer review process and did not always implement post-award activities as designed, including program monitoring plans and reviews of grantees' annual performance reports.[31] In addition, for the Title I, Part A program, GAO reported that in 2026, the Department suspended its annual monitoring of selected States' compliance with fiscal requirements, including State oversight of school districts' practices, and focused on closing prior findings and reviewing grant balances. The Department stated that it plans to conduct streamlined monitoring in 2027 but did not provide GAO with details on its monitoring plans.[32]

Going forward, the Department may face challenges in the following areas related to its oversight and monitoring of grantees.

Oversight of Activities Performed by Grantees with Department-Approved Waivers. With some restrictions, the Elementary and Secondary Education Act (ESEA) authorizes the Secretary to waive any statutory or regulatory requirement related to the administration of the ESEA. In July 2025, OESE issued a Dear Colleague letter inviting SEAs, LEAs, schools, and Tribal leaders to seek creative and effective waivers for improving student academic achievement and maximizing the impact of Federal funds. The Department encouraged State and local leaders to think creatively about how Federal funds may be best leveraged to respond to parents' concerns about the quality of education delivered in America's public schools and outlined existing areas of flexibility under the ESEA and the waiver process. The Department has waived certain ESEA requirements for 7 States, and 26 States have been granted the authority to waive selected statutory or regulatory requirements for school districts and schools.

Creative and non-traditional approaches to implementing activities under the ESEA could potentially lead to improved student academic achievement at the State and local levels, if designed and implemented properly. However, increased flexibility and alternative ways for grantees to implement ESEA activities could result in less funding and support for disadvantaged and vulnerable groups of students. It could also result in a significant increase in Department resources—time, money, staffing—needed to effectively oversee

28 **Puerto Rico Department of Education's Use of ARP ESSER Funds to Measure Student Academic Progress** (ED-OIG/I25GA0233, issued March 2026).

29 **Savannah-Chatham County Public School System's Administration of the Magnet Schools Assistance Program Grant** (ED-OIG/I25GA0276, issued September 2026) and **New York City Community School District 13's Administration of the Magnet Schools Assistance Program Grant** (ED-OIG/I25GA0260, issued October 2026).

30 **Omaha Public Schools' Oversight of IEPs** (ED-OIG/I25CA0218, issued December 2025) and **Prince George's County's Oversight of IEPs** (ED-OIG/I25CA0261, issued August 2026).

31 **OESE's Processes for Awarding School-Based Mental Health Services Grant Program Grants and Monitoring Grantee Performance** (ED-OIG/A24IL0156, issued March 2025).

32 **Managing Risks in Federally Funded, State-Administered Programs** (GAO-26-109100, issued July 2026).

and monitor those activities. Department oversight and monitoring of the grant funds and activities impacted by those waivers could be challenging because Department program reviewers will need to evaluate grantee compliance against criteria that are likely to differ by grantee and that may also be new and unfamiliar to the reviewers.

- **Oversight of Grant Program Services Obtained Through Interagency Agreements.** In May 2025, the Department executed an interagency agreement (IAA) with the U.S. Department of Labor to obtain services for administration and management activities for the adult education and family literacy programs and career and technical education programs that were previously performed by the Department's Office of Career, Technical, and Adult Education. Between November 2025 and June 2026, the Department announced that it executed additional IAAs with five Federal agencies (Health and Human Services, Interior, Justice, Labor, and State) to obtain services for a significant portion of the K–12 and postsecondary education programs work historically performed by the Department, as well as other work related to civil rights enforcement and student privacy protection. Under these agreements, the receiving agencies will provide grant administration services to the Department in managing and overseeing Department programs, including conducting monitoring activities to ensure program compliance and providing technical assistance to grantees. However, the Department will maintain all statutory responsibilities and continue overseeing the education programs subject to the IAAs, including coordinating audit resolution and closure, monitoring internal controls and risk assessments for impacted programs, and reviewing grantees' annual performance and fiscal reports.

In executing these partnerships, the Department has described its goals as streamlining Federal education activities, reducing administrative burdens, and refocusing programs and activities to better serve students and grantees. The OIG has consistently made recommendations aimed at improving program efficiency and effectiveness and is supportive of such efforts. However, this substantial change in operations, whereby two partner agencies will now be responsible for sharing data and carrying out and coordinating on activities related to grantee oversight and monitoring that were previously performed by just one agency—coupled with the significant loss of staff at the Department over the past 2 years and the elimination of certain subcomponents that provided program offices with monitoring and technical assistance support—is likely to present its own set of challenges. It will be critically important for the Department to ensure that program expertise is transferred and that there is continuous communication between the agencies to avoid any gaps in grantee oversight and monitoring or duplication of effort.

- **Resolution of External Audits.** The Office of Management and Budget requires agencies to establish processes to ensure the prompt and proper resolution of audit recommendations and implementation of corrective actions. Audits serve the interests of the Department by reporting whether grant terms and conditions are fulfilled; applicable statutes and regulations are followed; and fiscal and other operations are conducted in a legal, efficient, and economical manner. The Department's 2025 workforce optimization efforts resulted in the elimination of the unit responsible for the oversight and approval of the closure of OIG external audits. Since then, the Department's audit follow-up operations have become unclear and appear largely inactive.[33]

33 **Department's Follow-Up Process for External Audits** (ED-OIG/I25DC0239, issued August 2026).

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. The Department engaged contractor support to assist in the resolution of external audits after determining that additional support was necessary to manage the overall volume and complexity of its audit portfolio. The Department stated that this support will also help it evaluate longer-term process efficiencies and identify new methodologies for audit follow-up and closure activities.

Management Challenge 3—Oversight and Monitoring of Student Financial Assistance Programs

Within the Department, FSA administers the Federal student assistance programs, and the Office of Postsecondary Education (OPE) develops Federal postsecondary education policy and regulations for these programs. OPE also administers the review process for accrediting agencies to ensure that the Department recognizes only agencies that are reliable authorities for evaluating the quality of education and training that postsecondary institutions offer.

FSA oversees the delivery of more than $130 billion annually in Federal student assistance, in the form of loans, grants, and Federal work study, to more than 10.5 million postsecondary students and their families. FSA directly manages or oversees a loan portfolio of more than $1.7 trillion, representing about 219 million student loans to more than 45 million borrowers. FSA also oversees approximately 5,280 postsecondary institutions that participate in the Federal student assistance programs. In FY 2026, FSA performed these functions with an administrative budget of about $2.5 billion (more than $1.9 billion of which is for contracts as noted below) and less than 900 employees—approximately 40 percent fewer staff than it had in FY 2024—along with contractors that provide outsourced business operations.

In March 2026, the Department entered into an IAA with the U.S. Department of Treasury (Treasury), under which Treasury will assume operational responsibility and provide operational support for aspects of the Department's Federal student assistance programs. The agreement is to be implemented in three phases. In the first phase, Treasury will assume operational responsibility for managing and collecting on over $234 billion in defaulted Federal student loan debt. In the second phase, Treasury will provide operational support for administrative operations for servicing non-defaulted student loan debt. In the third phase, Treasury will provide operational support for additional activities, such as administering the Free Application for Federal Student Aid (FAFSA), assessing student and institutional eligibility, origination of loans, oversight, and enforcement activities. The Department, through both OPE and FSA, will maintain all statutory responsibilities, including policy development.

Why This is a Challenge

The Department must provide effective oversight and monitoring of Federal student assistance programs to help ensure organizational goals can be achieved, that the programs are operating effectively and efficiently, and are not subject to fraud, waste, and abuse. The Department's responsibilities include coordinating and monitoring the activity of many Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department. These entities include postsecondary institutions,

contracted servicers, accrediting agencies, guaranty agencies, lenders, and Treasury.

The following are some examples of challenges that the Department faces regarding the oversight and monitoring of Federal student assistance programs.

- **Implementation of IAA with Treasury.** The Department is implementing the first phase of its IAA with Treasury, where Treasury assumes operational responsibility for managing and collecting on defaulted Federal student loan debt. For each of the three phases, the Department will need to coordinate roles and responsibilities with Treasury, the sharing of data, and the transfer of operational activities currently performed by FSA. Effective coordination and oversight are essential to ensure that program requirements are met and program goals and objectives are achieved.
- **Implementation of Provisions in the OBBBA.** As noted under Management Challenge 1, the OBBBA made significant changes to the Federal student assistance programs. Many of these changes were effective July 1, 2026. The Department issued final regulations for these programmatic changes in May and July 2026. FSA will need to oversee and monitor program participants' implementation of these changes. These changes include
  - the creation of the Workforce Pell program, making students enrolled in short-term programs eligible for Pell grants (the effective implementation of which will be particularly important given issues that we noted—specifically, inaccurate completion and placement rates—in recent inspections of schools' compliance with short-term program requirements to be eligible to participate in the Direct Loan program);[34]
  - the creation of accountability measures for institutions, specifically addressing that programs will not be eligible to participate in the Direct Loan program if they result in low earning outcomes for students;
  - the introduction of annual and aggregate limits for Direct Loans for graduate and professional students;
  - the introduction of annual and aggregate limits for parent borrowers of Direct PLUS Loans, lifetime maximum aggregate limits for student borrowers, including graduate and professional students, and institutionally determined loan limits for a program;
  - the proration of Direct Loan amounts for a student enrolled on a less than full-time basis; and
  - the creation of the Repayment Assistance Plan, a new income-based repayment plan for borrowers; the phase out of existing repayment plans; and a requirement that student loan borrowers repay their loans under either a standard repayment plan or the Repayment Assistance Plan.
- **Oversight of Institutional and Program Eligibility.** Under the Higher Education Act (HEA), FSA is responsible for assessing the eligibility of institutions and programs to participate in Federal student assistance programs and assessing the administrative capability and financial responsibility of institutions by conducting

34 **Short-Term Program Eligibility Compliance: Rosedale Technical College** (ED-OIG/I25NY0265, issued July 2026) and **Short-Term Program Eligibility Compliance: National Holistic Institute** (ED-OIG/I25NY0266, issued October 2026).

program reviews. Our work has identified weaknesses in FSA's oversight of institutions participating in Federal student assistance programs—weaknesses that could be exacerbated by the significant loss of staff across FSA's eight School Participation Divisions.[35] According to FSA, while the group that conducts its program reviews of institutions was significantly impacted by the Department's 2025 workforce optimization efforts, the group still has some remaining staff and continues to conduct program reviews of institutions of higher education, though at a reduced scale due to staffing limitations. Additionally, the group that conducted program reviews of guaranty agencies and lenders no longer has any staff, but FSA stated that it maintains oversight controls through other mechanisms external to FSA.[36]

- **Contract Oversight.** More than $1.9 billion of FSA's annual administrative budget is devoted to contracting for loan servicing, systems, and other activities to support Federal student assistance programs. Department policy requires every contract to be monitored to provide assurance that the contractor performs the work called for in the contract and to develop a clear record of accountability for performance. Our work, and that of GAO, has identified weaknesses in FSA's oversight of its contractors. GAO found that in February 2025, FSA stopped assessing student loan servicers on accuracy and call quality due to a lack of staff capacity. The decision to stop assessing these performance metrics occurred shortly after the downsizing of the Federal workforce beginning in January 2025. Prior to FSA discontinuing this oversight, most servicers did not meet the performance standards for accuracy and faced financial penalties. FSA continued to assess servicer performance on other performance metrics, which are less labor intensive to monitor.[37]

- **Student Eligibility and Fraud.** FSA and participating institutions implement controls to assess student eligibility for Federal student assistance. Despite such controls over student eligibility, fraud rings consisting of large, loosely affiliated groups of criminals continue to fraudulently obtain Federal student aid. We have found that FSA could strengthen its preventive controls to better protect Federal student aid funds and the public from fraudulent activity. For example, in 2024, we made recommendations for FSA to take additional actions related to the verification of user identities when granting access to FSA systems, including online submissions of the FAFSA.[38] In 2026, we recommended that FSA work with the Internal Revenue Service to implement additional controls to detect and prevent the misuse of stolen identities on FAFSA submissions and for FSA to conduct risk-based verification and validation procedures at the time users' accounts are created to access FSA systems.[39]

35 **The Importance of Strengthening Internal Controls in FSA: FYs 2019–2024** (issued December 2024).

36 **Department's Compliance with Payment Integrity Information Reporting Requirements for FY 2025** (ED-OIG/A26DC0288, issued August 2026).

37 **Federal Student Loans: Education Needs to Address Gaps in Servicer Oversight** (GAO-26-108534, issued March 2026)

38 **FSA's Actions to Mitigate Risks Associated with the FSA ID Account Creation Process** (ED-OIG/F23IT0138, issued July 2024).

39 **Fraud Advisory: Potential Fraud Involving FAFSA from Dependent Students with Unusual Parent Data** (issued February 2026).

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. FSA assigned a Senior Executive to oversee the implementation of the IAA with Treasury, FSA and Treasury launched the Defaulted Loan Support Center and FSA has taken other actions to assist defaulted borrowers, the Department issued regulations to implement the programmatic changes made to the Federal student assistance programs by the OBBBA, and FSA hired more than 200 new staff members (with additional hiring expected) and has begun training program review staff. In addition, FSA implemented a real-time identity fraud detection capability within the FAFSA and has taken other actions to address fraud in Federal student assistance programs.

Management Challenge 4—Data Quality and Reporting

The Department collects, analyzes, and reports on data for many purposes that include enhancing the public's ability to access high-value education-related information, reporting on programmatic and operational performance, informing management decisions, and improving education in the United States. The Department collects information from numerous sources, including States, which compile information relating to public school districts; public schools; postsecondary institutions, including colleges, universities, and institutions offering technical and vocational education at or beyond the high school level; and surveys of private schools, public elementary and secondary schools, IHEs, students, teachers, and principals.

In addition, the Department and FSA issue annual reports to inform Congress, the President, other external stakeholders, and the American people on how these organizations used Federal resources. These annual reports enable stakeholders to assess the organizations' performance relative to their missions and to determine whether the organizations have been accountable for the resources entrusted to them.

Why This is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and complete. The Department relies on program data to evaluate program performance and inform management decisions. Quality and reliable data are critical and necessary when monitoring grantees' performance, which is one of the Department's key responsibilities. Within the Department, the Institute of Education Sciences (IES) compiles a wide range of statistics and develops products to ensure that educational programs conform to high standards of quality, integrity, and accuracy. In FY 2025, however, IES reduced its workforce by nearly 90 percent. Further, under the IAAs, other agencies will be taking on increasing responsibilities for collecting and assessing grantee performance and fiscal data as part of their monitoring efforts, and, with proper oversight by the Department, will need to ensure that systems and controls are in place to assure the reliability of these data.

The following are some other examples of challenges that the Department faces regarding data quality and reporting.

- **Reliability of Loan Program Subsidy Data.** The design and implementation of controls over the reliability of the underlying data used in the Federal student loan programs' subsidy reestimates has been identified as a material weakness in each

annual financial statement audit from FY 2018 through FY 2025.[40] Errors identified in the underlying data resulted in the Department and FSA receiving disclaimers of opinion on their financial statements from FYs 2022 through 2024; however, no such disclaimer was reported for FY 2025.[41] Subsidy re-estimates are periodic revisions of the estimated costs to the government of extending or guaranteeing Federal student loans. Subsidy re-estimates are important for transparency and accountability in Federal student loan programs, helping to manage financial risks and ensure the efficient use of funds.

- **Reliability of Postsecondary Institution Data.** The Department's publicly available postsecondary institution data (College Scorecard, College Navigator, and Integrated Postsecondary Education Data System (IPEDS) Data Center) are used to analyze trends in postsecondary education and help students attending postsecondary schools, prospective students, and their parents compare postsecondary schools and make informed school enrollment decisions. Our recent work on the quality of data reported through the Department's IPEDS surveys, managed by the National Center for Education Statistics (NCES), found that some schools did not always report verifiable data on students' cost of attendance, financial aid, and the schools' graduation rates to the Department.[42] As a result, prospective students and their parents might make enrollment decisions based on such unreliable information. Furthermore, we found that while the Department had control activities for IPEDS data quality in place, it had not conducted a review or evaluation of its internal controls over the process for ensuring the quality of IPEDS survey data.[43]

- **Compliance with the Geospatial Data Act.** For FY 2026, the Department was not in full compliance with the requirements of the Geospatial Data Act.[44] Geospatial data can enhance operations and support decision-making, including formula grant allocations. It also informs public and congressional reports, such as the School Pulse Panel, the annual Condition of Education publication, and the College Scorecard. We found that the Department does not have adequate resources to fulfill the responsibilities of effective geospatial data collection, production, and stewardship; geospatial data was not included in the Department's record schedules approved by the National Archives and Records Administration; and the Department's geospatial data was not always documented with all relevant metadata for geospatial data. This occurred, in part, because of a lack of resources and subject matter expertise resulting from the Department's 2025 workforce optimization efforts. NCES, within IES, is the primary Federal entity for collecting and analyzing education data. Out of 191 IES employees, 161 were separated due to workforce optimization efforts, leaving 30 (16 percent) employees remaining in all of IES, none of whom worked on geospatial data. Our three prior assessments for FYs 2020, 2022, and 2024, found that the Department complied with the requirements of the Geospatial Data Act.

40 **FY 2025 Department Financial Statement Audit** (ED-OIG/A25FS0234, issued January 2026).

41 **FY 2022 Department Financial Statement Audit** (ED-OIG/A22FS0064, issued January 2023), **FY 2023 Department Financial Statement Audit** (ED-OIG/A23FS0127, issued November 2023), and **FY 2024 Department Financial Statement Audit** (ED-OIG/A24FS0168, issued November 2024).

42 **Quality of Data Reported through the Department's IPEDS Surveys by NUC University** (ED-OIG/I24IL0174, issued April 2025), **Quality of Data Reported through the Department's IPEDS Surveys by Joliet Junior College** (ED-OIG/I24IL0210, issued September 2025), and **Quality of Data Reported through the Department's IPEDS Surveys by Southern New Hampshire University** (ED-OIG/I24IL0217, issued January 2026).

43 **NCES' Internal Control Activities Over IPEDS** (ED-OIG/F25IL0003, issued August 2026).

44 **Department's Compliance with the Geospatial Data Act** (ED-OIG/A26DC0284, issued September 2026).

Oversight of Section 117 Reporting. Section 117 of the HEA mandates financial transparency of IHEs by requiring the reporting of gifts from and contracts with a foreign source to the Department. Our inspection of Section 117 reporting requirements found that FSA did not have any monitoring plans, policies, or procedures in place for its oversight of Section 117 reporting, and that although it was accurately posting the data it received from IHEs through its reporting portal onto its public-facing website, improvements could be made to assist in identifying and reducing data input errors.[45] Subsequent to our inspection, the Department and the U.S. Department of State entered into an IAA in February 2026, under which the U.S. Department of State is to administer Section 117's reporting and information collection provisions, along with enforcement and other activities; the Department will maintain all statutory responsibilities and oversight of the program. As with the other IAAs, it will be critically important for the Department to ensure that program expertise is transferred and that there is continuous communication between the agencies to avoid any gaps in oversight and monitoring or duplication of effort.

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. The administration of Section 117 reporting requirements was transferred from FSA to the Office of the General Counsel, and the Department provided training to IHEs on Section 117 reporting and introduced a new reporting portal to improve reporting by IHEs and its monitoring capabilities.

Management Challenge 5—Information Technology Security

The Federal Information Security Modernization Act (FISMA) requires the OIG to assess the effectiveness of the Department's information security program. FISMA mandates that this evaluation include (1) testing the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems; and (2) an assessment of the effectiveness of the information security policies, procedures, and practices of the agency. The Department's Office of the Chief Information Officer (OCIO) monitors and evaluates contractorprovided IT services through a service-level agreement framework and develops and maintains common business solutions required by multiple program offices. FSA does not have its own chief information officer; however, it has a chief technology officer, whose primary responsibility is to promote the effective use of technology to achieve FSA's strategic objectives through sound technology planning and investments, integrated technology architectures and standards, effective systems development, and production support.

From FY 2023 through FY 2025, the Department's overall IT security program and practices were assessed as effective, with nearly all FISMA domains meeting the requirements needed to operate at a Level 4 (Managed and Measurable) or Level 5 (Optimized) maturity rating.[46] For FY 2026, the Department's overall information security program and practices were again assessed as effective, as 5 out of the 10 FISMA domains met the requirements needed to operate at a Level 4 maturity rating or higher.[47] However, regression was noted across multiple FISMA domains. Specifically,

45 **FSA's Oversight of Section 117 Reporting Requirements** (ED-OIG/I24DC0166, issued February 2025).

46 **FY 2023 Department FISMA Audit** (ED-OIG/A23IT0118, issued September 2023), **FY 2024 Department FISMA Audit** (ED-OIG/A24IT0153, issued August 2024), and **FY 2025 Department FISMA Audit** (ED-OIG/A25IT0212, issued July 2025).

47 **FY 2026 Department FISMA Audit** (ED-OIG/A26IT0281, issued September 2026).

the Department's core maturity ratings were sustained across five domains and regressed across four domains, and its supplemental maturity ratings were sustained for one domain and regressed for two. This downward trend in FISMA maturity ratings indicates that the Department's security program and practices are not operating in a manner that is sustainable over the long term.

Why This is a Challenge

In recent years, the Department made significant progress in strengthening its IT security program. In our FY 2026 Management Challenges Report, we noted that the Department could see this progress halted and possibly even reversed because of the substantial loss of staff within OCIO specifically and across the Department more generally. OCIO had an overall reduction of at least 52 percent of employees resulting from the Department's 2025 workforce optimization efforts. In addition, fewer than 50 percent of employees remained in the FSA suboffice that provides primary IT services for all FSA systems.[48] This is in stark contrast to a priority corrective action that the Department identified in its response to this same challenge in FY 2025—specifically, that it planned to establish and protect dedicated lines of funding and personnel for its enterprise cyber and IT program. If the Department is unable to hire or retain qualified individuals to fill key positions in its security program, there is increased risk that processes and controls that have been put in place to protect the security of the Department's resources will further diminish or fail. This could increase the susceptibility of the Department's operations to fraud, waste, abuse, and cyber threats and result in more findings and recommendations in its annual security audits and inspections.

Further, the Department may lack the capacity to implement corrective actions for existing findings and recommendations, thereby exposing it to continuing information security weaknesses. While the Department's overall IT security program and practices were assessed as effective for FY 2026, more than 20 recommendations were made to the Department to strengthen its IT controls. Without measurable improvements in these areas, the Department cannot ensure that its overall IT security program remains effective in protecting its systems and resources from compromise and loss. Additionally, the program may face increasing difficulty adapting to emerging and rapidly evolving cybersecurity threats, including those driven by advances in artificial intelligence and post-quantum computing, which demand stronger, more resilient, and continuously maturing security capabilities. As technology environments and cybersecurity requirements evolve, it is important that the Department ensures that it implements and strengthens the respective security controls to protect its information and resources.

The Department's systems house millions of sensitive records on students, parents, and others, and are used to process billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized people (including Department employees, contractor employees, and other third parties such as school financial aid administrators). Given the notable increase in occurrences of high-profile data breaches (both in the public and private sectors) and advanced cybersecurity attacks, the importance of safeguarding the Department's information and information systems cannot be overstated. Protecting this complex IT infrastructure from constantly evolving cyber threats is an enormous responsibility and challenge. Without adequate management and operational and technical security controls, the Department's IT systems and information are vulnerable to attacks, both internal

48 **Department Changes in Staffing and Operations** (ED-OIG/F25DC0245, issued June 2026).

and external. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

Progress in Addressing the Challenge

In its response to the FY 2026 FISMA audit, the Department noted that it has taken several actions to improve its IT security program and will be prioritizing other actions, including leveraging emerging technologies, to protect its networks and data and restore and sustain maturity in those domains where we identified regression from FY 2025. The Department stated that, among other things, it implemented an artificial intelligence-enabled cloud-based platform for storing, processing, analyzing, and using large amounts of data to facilitate enhancements to its Cybersecurity Framework Risk Scorecard, and improved documentation practices and standard operating procedures for its Supply Chain Risk Management program.

Department Comments

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

November 3, 2026

TO: René Rocque
Acting Inspector General
U.S. Department of Education

FROM: Mark Washington, Deputy Assistant Secretary
Delegated Duties of the Deputy Chief Financial Officer
Office of Financial Management

MARK WASHINGTON
Digitally signed by MARK WASHINGTON
Date: 2026.11.03 10:06:11 -05'00'

SUBJECT: **Response to Office of Inspector General Draft Report, "Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education"**

The Department appreciates the opportunity to provide comments on the Office of Inspector General's (OIG) draft report, *Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education*, and thanks OIG for its continued communication throughout FY 2026.

The Department values OIG's independent perspective on risks and vulnerabilities affecting its programs and operations. While the challenges identified in the draft report generally reflect areas requiring continued management attention, the Department believes it is important that the report also recognizes significant progress made during FY 2026, particularly in implementing major programmatic changes, strengthening oversight, and addressing longstanding management challenges.

Over the past year, the Department successfully implemented significant changes to Federal student assistance programs under the One Big Beautiful Bill Act (OBBBA), including completing related rulemaking activities and implementing the applicable provisions. These efforts required extensive coordination across offices and with external stakeholders. The Department also continued efforts to improve operational processes, strengthen collaboration, and maintain program delivery during a period of substantial organizational change.

In the area of program oversight and integrity, Federal Student Aid (FSA) has undertaken extensive efforts to identify and prevent fraud, strengthen oversight of program participants, and implement statutory changes, including the Workforce Pell program. The Department has also made significant improvements to Section 117 foreign funding reporting through a new reporting portal, expanded access to information for monitoring and enforcement, and increased coordination with the Department of State. These efforts support greater transparency, accountability, and stronger internal controls.

The Department has also continued efforts to address longstanding audit findings and improve its corrective action processes. Although challenges remain in resolving the backlog of external audits, the Department has taken steps to strengthen audit follow-up activities, including obtaining contractor support to assist with audit resolution. These efforts reflect continued attention to improving oversight and addressing outstanding recommendations.

The Department recognizes that sustained progress requires ongoing monitoring, effective internal controls, and continued coordination across offices and with Federal partners. The Department remains committed to addressing identified risks while ensuring that management challenges and related corrective actions are evaluated in the context of current operations and progress made.

We appreciate OIG's consideration of our comments and look forward to continued collaboration in addressing the Department's management challenges.

500 D Street S.W., WASHINGTON, DC 20202
www.ed.gov
The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditors' report can be found beginning on page 112 and the Department's management assurances on page 47.

Summary of Financial Statement Audit

Audit Opinion: Unmodified
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	1	0	0	0	1

Summary of Management Assurances

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

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	1	0	0	0	0	1

Effectiveness of Internal Control Over Operations—FMFIA 2

Statement of Assurance: Unmodified

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

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: Federal Systems conform to financial management system requirements

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

Compliance with Federal Financial Management Improvement Act of 1996 (FFMIA)

	Agency	Auditor
1. System Requirements	No Lack of Compliance Noted	No Lack of Compliance Noted
2. Federal Accounting Standards	No Lack of Compliance Noted	No Lack of Compliance Noted
3. U.S. Standard General Ledger at Transaction Level	No Lack of Compliance Noted	No Lack of Compliance Noted

Payment Integrity Information Act Reporting

Executive Summary

The Department of Education maintains a comprehensive payment integrity program to prevent, identify, and recover improper payments (IPs) and unknown payments (UPs) and to comply with the Payment Integrity Information Act of 2019 (PIIA) and OMB Circular A-123, Appendix C. During FY 2026, the Department assessed payment integrity risks across its programs, estimated IP and UP rates for two Phase 2 programs, implemented corrective actions addressing identified root causes, strengthened the use of Treasury's Do Not Pay services, and continued recovery and oversight activities. The Department's FY 2026 risk assessments did not identify any additional programs requiring statistically valid IP and UP estimates.

The two programs for which the Department produced FY 2026 IP and UP estimates were Federal Student Aid's (FSA) Federal Pell Grant (Pell) and William D. Ford Federal Direct Loan (Direct Loan) programs. The FY 2026 IP and UP rates were 0.35 percent for Pell, and 0.70 percent for Direct Loan.

The Pell IP and UP rate decreased from 1.07 percent in FY 2025 to 0.35 percent in FY 2026. A significant factor in this reduction was implementation of authorities provided by the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act, which allows federal tax information used in determining student aid eligibility to be obtained directly from the Internal Revenue Service. Direct receipt and verification of this information substantially reduced errors associated with income reported on the Free Application for Federal Student Aid (FAFSA®), historically a significant source of Pell improper payments. The Pell Grant rate also decreased due to a decrease in improper payments identified through compliance audit data. The Direct Loan IP and UP rate decreased, from 0.99 percent in FY 2025 to 0.70 percent in FY 2026, primarily due to a decrease in improper payments identified through compliance audit data. The Department's recent enhanced fraud initiative also works to reduce improper payments in student aid programs. Starting on April 26, 2026, the Department began implementing a real-time identity fraud detection capability within the FAFSA® form.

For Pell and Direct Loans, the principal FY 2026 causes of IPs and UPs included documentation or verification deficiencies, incorrect payment timing and amounts, and student withdrawal-related deficiencies. FSA continues to implement corrective actions addressing causes within its control, including improvements associated with the FUTURE Act and FAFSA® Simplification Act. For errors associated with institutional administration of Title IV funds, FSA continues to provide guidance, training, and oversight to promote compliance with requirements for institutional eligibility, financial responsibility, and administrative capability.

The Department also strengthened preventive and detective controls during FY 2026. The Department expanded its use of the Department of the Treasury's Do Not Pay (DNP) services, executed an agreement with Treasury supporting expanded DNP services, and continued monthly reviews against applicable DNP data sources. Treasury Type B

Taxpayer Identification Number testing began on June 29, 2026, with the return of testing results scheduled to begin September 30, 2026. The Department also continued to monitor payment and grant activity for indicators of potential payment integrity risk, including excessive drawdowns and other grantee cash-management issues, and provided technical assistance and oversight where appropriate.

Additionally, the Department continues to identify and recover confirmed improper payments through established recovery mechanisms. Although the Department determined that payment recapture audits would not be cost-effective for its programs and activities, it recovers amounts identified through compliance audits, Office of Inspector General audits, program reviews, grant fund returns, and other oversight activities. When an improper payment is confirmed and determined to be collectible, the Department establishes an account receivable and pursues recovery in accordance with applicable requirements. In limited circumstances, the Department may determine that collection is not in the federal government's best interest.

Overall, the Department's FY 2026 payment integrity activities continued to emphasize prevention, risk-based oversight, corrective action, and recovery. Results from risk assessments, statistical estimates, DNP screening, audits, program reviews, and other monitoring activities are used collectively to identify emerging risks, strengthen controls, and support continued compliance with PIIA and OMB Circular A-123, Appendix C.

Description of Risk-Susceptible and High-Priority Programs

In FY 2026, the Federal Pell Grant, and the William D. Ford Federal Direct Loan programs were designated as programs that are "susceptible to significant improper payments" (referred to as Phase 2 per OMB Circular A123, Appendix C guidance). The Federal Pell Grant program and William D. Ford Federal Direct Loan program were also **OMB-designated high-priority programs in FY 2026.**

The Department continues to emphasize payment integrity and minimizing improper and unknown payments in these important programs as required by OMB guidance. In FY 2026, the Department used statistically valid sampling and estimation methodologies to estimate the improper payment rates for the Federal Pell Grant, and Direct Loan programs. The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

For a detailed breakdown of information on improper and unknown payment estimates, root causes, and corrective actions for the Federal Pell Grant and Direct Loan programs in FY 2026 and prior years, please visit **https://paymentaccuracy.gov.**

Federal Pell Grant Program

The Federal Pell Grant Program, authorized under Title IV of the *Higher Education Act of 1965* (HEA), provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Grant funds can be disbursed directly to the school to be applied towards a student's costs, directly to the student, or a combination of both. A student is eligible to receive a Federal Pell

Grant if the student meets the requirements of an eligible student under 34 Code of Federal Regulations (CFR) Part 668. Students may use their grants at any participating postsecondary institution as established by 34 CFR Part 690 and further updated by the *Higher Education Reconciliation Act of 2005* (HERA) and the *Higher Education Opportunity Act of 2008* (Public Law 110-315) (HEOA).

William D. Ford Federal Direct Loan Program

The Direct Loan Program, added to HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. A student is eligible to receive a Direct Loan if the student enrolls in a school that provides Direct Loans, and the student meets the requirements of an eligible student under 34 CFR Part 668. Eligible students may receive a Direct Loan in accordance with the annual and aggregate loan limits as established by 34 CFR Part 685.203 and further updated by HERA and HEOA.

Risk Assessments

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program and activity with annual outlays over $10 million that do not report an improper payment estimate. In FY 2026, the period of review for Department programs was October 1, 2024, through September 30, 2025. The Department conducted improper payment risk assessments for 19 non-FSA grant programs, three administrative activities and 6 FSA-managed programs. No new programs were identified as susceptible to significant improper payments in FY 2026.

Sampling and Estimation Methodology Plan (S&EMP)

Federal Pell Grant and Direct Loan Programs

In FY 2026, the Department used a statistically valid S&EMP to estimate improper and unknown payments for the Federal Pell Grant and Direct Loan programs. This statistical methodology uses a random sample of annual compliance audits, with associated final audit determination letters, if applicable, that cover nearly 5,200 eligible schools. A small number of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA accounts for these disbursements through a statistically valid sampling process. In addition to the compliance audits and related data, the methodology also uses the results of tests of FFEL to Direct Loan consolidations and Direct Loan refunds. A plain language description of the methodology and results for each program is available on the Department's **improper payments website.**

Improper Payment Estimates

Federal Pell Grant and Direct Loan Programs

Figure 8. FY 2026 Federal Pell Grant Estimates (Dollars in Millions)

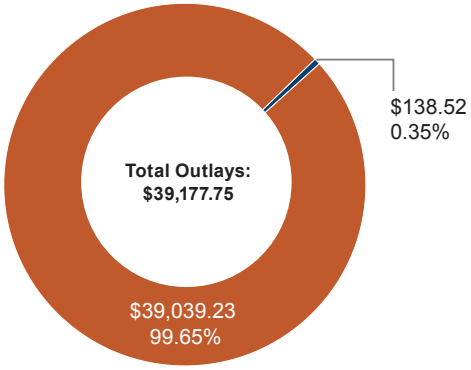
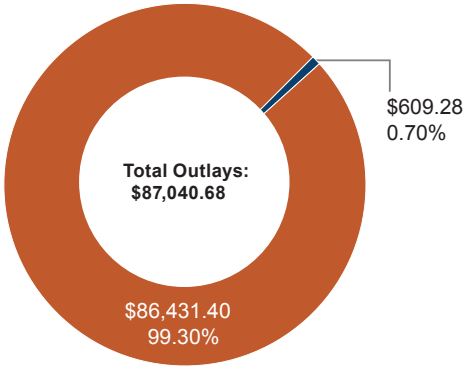


Figure 9. FY 2026 Direct Loan Estimates (Dollars in Millions)

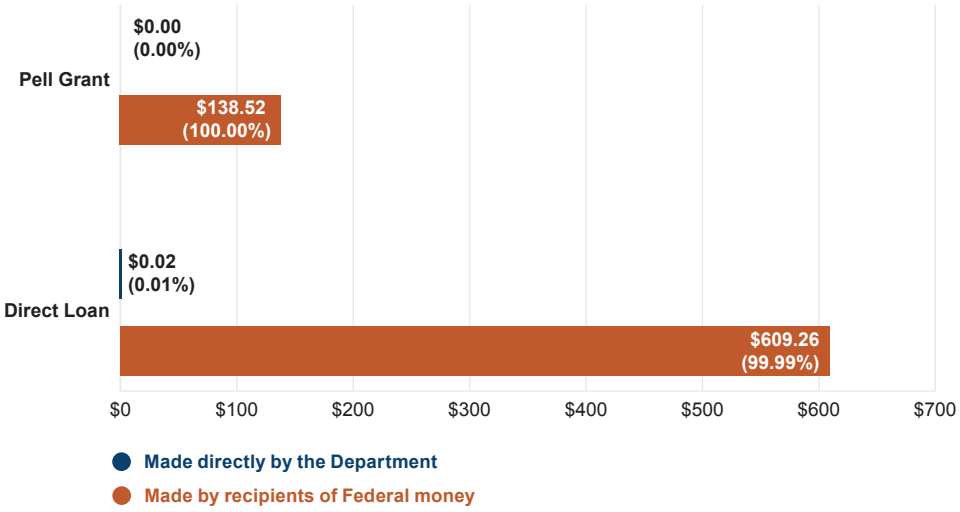


Note: The source of the FY 2026 Federal Pell Grant and Direct Loan outlay amounts is FSA's Financial Management System (FMS).

Figure 8 and Figure 9 summarize the Pell Grant and Direct Loan Improper Payment and Unknown Payment estimates. For FY 2026, the Pell Grant program says Proper Payments of 99.65% and 0.35% of Improper and Unknown Payments, summarized in Figure 8. The Direct Loan program saw 99.30% of Proper Payments with 0.70% of Improper and Unknown Payments, summarized in Figure 9.

Figure 10 summarizes the estimated improper payments made directly by the Department and the amount of improper payments made by recipients of federal money. For additional details, please refer to the Root Cause Categories.

Figure 10. FY 2026 Sources of Improper Payments & Unknown Payments (Dollars in Millions)



Readers can obtain more detailed information on reporting improper payment and unknown payment estimates in FY 2026 and prior years at **https://paymentaccuracy.gov**.

Monetary Loss and Non-Monetary Loss

This section outlines the portion of the improper payment estimates attributed to monetary loss and non-monetary loss, as defined by OMB.

- **Monetary loss to the Federal Government:** An amount that should not have been paid and in theory should/could be recovered.
- **Non-monetary loss to the Federal Government:** Either an underpayment or a payment to the correct recipient for the correct amount where the payment process fails to follow applicable regulation and/or statute.

Federal Pell Grant and Direct Loan Programs

Of the estimated monetary loss for the Federal Pell Grant and Direct Loan programs, the majority is outside of the agency's control. As explained previously, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. These "third-party" controls are outside of the Department's operational control. Examples of root causes outside of the Department's operational control are defined further in the following section. The amounts of monetary and non-monetary loss for the Federal Pell Grant and Direct Loan programs are reported in Table 1.

Table 1: FY 2026 Monetary and Non-Monetary Loss for Federal Pell Grants and Direct Loans

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Improper Payment Estimate
Pell Grants	Estimated Monetary loss to the Government	$13.97	10.09%
	Estimated Non-Monetary loss to the Government	$119.89	86.55%
	Estimated Unknown improper payments	$4.66	3.36%
	Total	**$138.52**	**100.00%**
Direct Loan	Estimated Monetary loss to the Government	$69.69	11.44%
	Estimated Non-Monetary loss to the Government	$536.40	88.04%
	Estimated Unknown improper payments	$3.19	0.52%
	Total	**$609.28**	**100.00%**

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Monetary Loss
Pell Grants	Estimated Monetary loss Within Agency Control	$0.00	0.00%
	Estimated Monetary loss Outside Agency Control	$13.97	100.00%
	Total	**$13.97**	**100.00%**
Direct Loan	Estimated Monetary loss Within Agency Control	$0.00	0.00%
	Estimated Monetary loss Outside Agency Control	$69.69	100.00%
	Total	**$69.69**	**100.00%**

Root Cause Categories

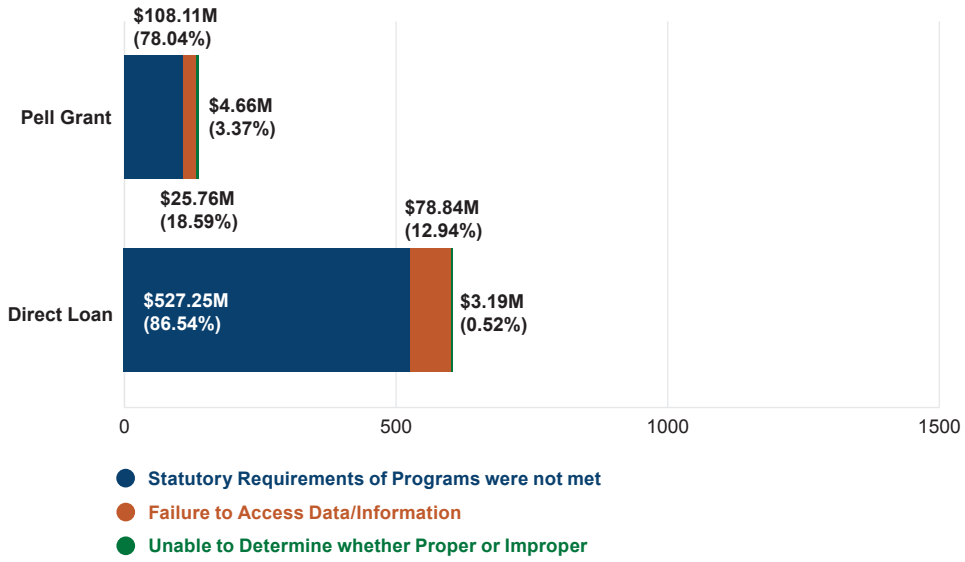
The five root cause categories of error as defined in OMB Circular A-123, Appendix C (OMB Memorandum M-21-19) are: "Statutory Requirements of Program Were Not Met," "Failure to Access Data/Information," "Inability to Access Data/Information," "Data/Information Needed Does Not Exist," and "Unable to Determine Whether Proper or Improper."

Federal Pell Grant and Direct Loan Programs

For the Federal Pell Grant and Direct Loan programs, specific root causes associated with the "Statutory Requirements of Program Were Not Met" category include, but are not limited to, a school's failure to perform or properly complete verification, a school's failure to provide disbursement or return notifications to the student in a timely manner, professional judgment deficiencies, excess cash held by institution and not returned timely, untimely credit balance return to the Department, miscalculation of Cost of Attendance (COA), and inadequate documentation for meeting Satisfactory Academic Progress (SAP) standards. Specific root causes associated with the "Failure to Access Data/Information" category include, but are not limited to, incorrect academic level or enrollment status used, a school's failure to observe annual eligibility limits, a school's failure to properly complete verification, incorrect financial aid determination, and incorrect decision to complete return of Title IV funds calculation. Specific root causes associated with the

"Unable to Determine Whether Proper or Improper" category may include, but are not limited to, failure to resolve conflicting income information during verification and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA®.

Figure 11. FY 2026 Root Causes of Improper Payments (Dollars in Millions)



Corrective Actions

Federal Pell Grant and Direct Loan Programs

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. FSA's Office of Institutions of Higher Education Oversight and Enforcement (IHE O&E) conducts program reviews of eligible schools to assess institutions' compliance with Title IV regulations. This office evaluates a school's compliance with federal requirements, assesses liabilities for errors in performance, and identifies actions the school must take to make Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for noncompliance.

IHE O&E monitors annual compliance audits of schools. A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program unless an allowable waiver or exemption has been granted or, for Single Audit filers, the Title IV programs (major program) have been determined low risk. Independent auditors perform compliance audits to monitor schools' administration of FSA programs. If any internal control deficiencies or instances of noncompliance are identified, the school must develop a corrective action plan that addresses the audit report findings. Auditors are required to evaluate whether the school has taken appropriate corrective action to address findings and recommendations from prior audits. IHE O&E also performs audit resolution. This includes reviewing and evaluating the effectiveness of a school's corrective action and mitigation efforts for noted exceptions in audit reports.

FSA continued to work with Treasury to implement the authorities provided in the FUTURE Act. FSA implemented the authorities provided in the FUTURE Act and FAFSA® Simplification Act to significantly improve data authentication by enabling FSA to automatically receive certain federal tax information (FTI) from the IRS through a direct-data exchange with applicant approval and enabling customers to automatically report their income for the total and permanent disability (TPD) discharge post-monitoring, income-driven repayment (IDR), and FAFSA® processes. Implementation improved reporting through, for example, modifying and simplifying the questions that students and their families have to answer on the FAFSA® form.

The corrective actions listed below are specific to the root causes of improper payments identified from the FY 2026 improper payment fieldwork, and are tailored to reflect the unique processes, procedures, and risks involved with the Federal Pell Grant and Direct Loan programs.

Table 2. Federal Pell Grant and Direct Loan Improper Payment Corrective Actions

Corrective Action	Description of Actions Taken in FY 2026 and Planned for FY 2027	OMB Root Cause Category
Continue to implement and monitor usage of the FUTURE Act Direct Data Exchange (FA-DDX) to import U.S. income and tax information to the FAFSA® form.	In FY 2026, FSA continued to monitor the usage of the FUTURE Act Direct Data Exchange (FA-DDX) for importing U.S. income and tax information into the FAFSA® form. FSA enhanced the FA-DDX system's reliability and security, working closely with the IRS to resolve technical challenges and roll out system updates. The agency improved the FAFSA® interface to streamline the data import process, provided updated training and guidance for administrators and students, and monitored usage to ensure efficient performance and user satisfaction. FSA made available the 2026–27 FAFSA® form for applicants that includes the updates described to reduce burden on applicants and Financial Aid Administrators. In FY 2027, FSA will continue to monitor usage of the FUTURE Act Direct Data Exchange (FA-DDX) to import U.S. income and tax information to the FAFSA® form and refine the FAFSA® process to ensure minimal burden on applicants and Financial Aid Administrators for release of the 2027-28 FAFSA® form.	Failure to Access Data/Information
Enhance verification procedures	In FY 2026, FSA implemented a new fraud detection system within the 2025–26 FAFSA®. Specifically, providing the ability to screen every applicant using advanced, risk based identity checks. If an application is flagged, then they are temporarily held until verification is completed, which may delay ISIR delivery but strengthen overall program integrity. Students flagged for review will be contacted directly by the Department; no institutional action is required unless explicitly requested. This initiative is designed to protect federal aid dollars, reduce identity related fraud, and ensure aid flows to legitimate applicants with minimal disruption. In FY 2027, FSA will continue to identify opportunities to enhance verification procedures to prevent and detect improper payments. These initiatives will be designed to protect federal aid dollars, reduce identity related fraud, and ensure aid flows to legitimate applicants with minimal disruption.	(1) Failure to Access Data/Information (2) Statutory Requirements of Program Were Not Met (3) Unable to Determine Whether Proper or Improper
Publish and deliver guidance, training, and other resources for institutions processing financial aid that address (1) verification errors; (2) administrative and process errors; and (3) documentation errors frequently made by schools.	In FY 2026, FSA published and delivered various free training, guidance, and resources for school financial aid administrators to target the root causes of improper payments and other frequently identified compliance issues. For example, FSA published the 2025-2026 FSA Handbook and FSA Assessments, which provide guidance on FAFSA® and verification requirements. FSA also published updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. FSA also held the FSA training conference for Financial Aid Professionals, which received positive feedback from financial aid administrators. The FSA Training Conference has been the largest conference for the financial aid community, and one of the largest in the federal government. In FY 2027, FSA will continue to publish and deliver various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and unknown payments and other frequently identified compliance issues. For example, FSA will continue to publish the FSA Handbook, FSA Assessments, and updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. FSA is coordinating internally to ensure relevant offices within FSA participate in the planning for the FY 2027 FSA training conference to ensure key objectives and milestones are met. FSA will host the FY 2027 FSA Training Conference in Washington, D.C. in December 2026.	
Evaluate schools' compliance with federal student aid requirements, assess liabilities for errors in performance, and identify actions schools must take to make the Title IV, HEA programs (Federal Pell Grant and Direct Loan program), or the recipients, whole for any funds that were improperly managed as part of the program review, Single Audit, and/or audit process conducted in accordance with the Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs.	In FY 2026, FSA evaluated schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and assessed liabilities for errors in performance. For improper payments identified through oversight activities, such as compliance audits and program reviews, FSA established accounts receivable and pursued collection for those deemed collectible, including applicable overpayments. For additional information on actions taken to recover overpayments, please see **paymentaccuracy.gov**. In FY 2027, FSA will continue to evaluate schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and will assess liabilities for errors in performance. For future improper payments identified through oversight activities, such as compliance audits and program reviews, FSA will continue to establish accounts receivable and pursue collection for those deemed collectible, including applicable overpayments.	

Do Not Pay

During FY 2026, the Department strengthened its use of the Department of the Treasury's Do Not Pay (DNP) services as part of its broader payment integrity and fraud risk management activities. The Department executed an agreement with Treasury to support expanded DNP services and continued monthly reviews of applicable DNP data sources to identify potential payment eligibility issues requiring further review.

The Department also implemented Treasury's Type B Taxpayer Identification Number (TIN) testing, with testing beginning June 29, 2026, and the return of testing results scheduled to begin September 30, 2026. As part of implementation, the Department assessed affected payment processes, coordinated with Treasury on testing requirements, and addressed circumstances in which certain bulk payment files do not contain individual TINs. The Department also continued DNP Portal reviews and evaluated opportunities to further strengthen the use of DNP within its pre-payment and payment integrity processes. The Department utilizes both Continuous Monitoring and Batch Matching services to identify matches. In FY 2026, DNP screened 1.15M payments and effective August 1, 2026, Education began cancelling invoices that conclusively matched with DNP. 1,000 invoices were cancelled through the end of September as a result of screening activities.

These efforts strengthen the Department's ability to identify potential payment eligibility concerns, investigate identified matches, and take appropriate action based on the results of DNP screening and other payment integrity controls.

Department Congressional Reporting

The applicable reports may be accessed by navigating from the Resources page on paymentaccuracy.gov to the Congressional Reports page and then selecting the relevant report from the dropdown list for the Department of Education and fiscal year.

- The Annual Risk Assessment Report required under 31 U.S.C. § 3352(a)(3)(C);
- (ii) The Agency Annual High-Priority Program Report required under 31 U.S.C. § 3352(b)(2)(A)-(D);
- (iii) The Annual Improper Payment Estimation Report required as accompanying materials under 31 U.S.C. § 3352(c);
- (iv) The Annual Report on Actions to Reduce Improper Payments required as accompanying materials under 31 U.S.C. § 3352(d);

Civil Monetary Penalty Adjustment for Inflation

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

There are no inflation adjustments to civil monetary penalties for FY 2026 per **OMB Memorandum M-26-11**. The civil monetary penalty rates remain capped at the FY 2025 rates.

Location for Penalty Update Details:

https://www.ecfr.gov/current/title-34/subtitle-A/part-36

Table 4.

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	01-25-24	01-21-25	48,119
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	01-25-24	01-21-25	40,080
Violation of Title IV of the HEA	20 USC 1082(g)	01-25-24	01-21-25	71,545
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	01-25-24	01-21-25	71,545
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	01-25-24	01-21-25	2,111
Improper lobbying for government grants and contracts	31 USC 1352(c)(1) and c(2)(A)	01-25-24	01-21-25	25,132 to 251,322
False claims and statements	31 USC 3802(a)(1) and (a)(2)	01-25-24	01-21-25	14,308

Grants Oversight and New Efficiency Act of 2016 (GONE Act) Reporting

The **Grants Oversight and New Efficiency Act of 2016 (GONE Act)** required agencies to report on expired grants and cooperative agreements with zero-dollar balances or undisbursed funds. Although the statutory GONE Act reporting requirement has ended, OMB Circular A-136 continues to require agencies to provide information on expired awards and undisbursed balances in the Other Information section of the Agency Financial Report (AFR).

As of September 30, 2026, the Department reported 673 expired grants and cooperative agreements with zero dollar balances in the 2 to 3 year category. The Department also reported 1,794 expired awards with undisbursed balances totaling $627.9 million in the 2 to 3 year category. These amounts reflect a decrease in the number of expired awards with zero dollar balances compared to the FY 2025 AFR, along with a slight increase in the number of expired awards with undisbursed balances and an overall increase in total undisbursed balances.

Table 5. Expired Grant and Cooperative Agreement Awards

Category	2–3 Years	3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	673	-	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	1,794	-	-
Total Amount of Undisbursed Balances	$627,904,356	$0	$0

Source: G5, grants management system linked to the Department's general ledger system. Data reflect a performance end date of September 30, 2024.

Note: Annual GONE Act reporting reflects expired awards tied to the performance period used for that reporting cycle. As a result, the population of expired awards and associated balances varies from year to year.

Appendices

Appendix A: Selected Department Web Links and Education Resources

College Cost Lists

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

College Financing Plan

The College Financing Plan is a consumer tool that participating institutions use to notify students about their financial aid packages. It is a standardized form that is designed to simplify the information that prospective students receive about costs and financial aid so that they can easily compare institutions and make informed decisions about where to attend school. **https://www2.ed.gov/policy/highered/guid/aid-offer/index.html**

College Navigator

College Navigator consists of the latest data from the Integrated Postsecondary Education Data System, and the core postsecondary education data collection program for the National Center for Education Statistics, as well as data from Federal Student Aid on cohort default rates, the Office of Postsecondary Education on campus safety and accreditation, and information on veterans from the Veterans Benefits Administration. **https://nces.ed.gov/collegenavigator/**

College Preparation Checklist

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

These additional resources within the checklist assist students in finding scholarships and grants:

https://studentaid.gov/resources/prepare-for-college/checklists

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

College Scorecard

The Department's College Scorecard makes it easier to find out more about a college's affordability and value. The College Scorecard continues to be a tool that provides clear, accessible, and reliable data on college cost, graduation, debt, and post-college earnings. The College Scorecard continues to move the field forward in informing college choices with the help of technology and open data, making it possible for anyone—a student, a school, a policymaker, or a researcher—to decide which factors to evaluate. **https://collegescorecard.ed.gov/**

Condition of Education and Digest of Education Statistics

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

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

Education Resources Information Center

The Department offers Education Resources Information Center (ERIC)—the world's largest free, digital library of education research. It is composed of more than 2 million bibliographic records and nearly 500,000 full-text materials indexed from 1966 to the present. Each ERIC bibliographic record contains an abstract of a journal article or grey literature document (for example, a technical report or conference paper), along with such indexed information as author, title, and publication date. **https://eric.ed.gov**

Federal Program Inventory

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

Since that time, Congress passed the *Digital Accountability and Transparency Act of 2014* (DATA Act) requiring new public reporting requirements, which impact the definition of programs used in this guidance. In 2024, building upon the successful 2020 exploratory pilot effort and recommendations published in the 2021 Report to Congress, OMB launched the Federal Program Inventory, which focused on Federal financial assistance. In 2025, OMB expanded the Federal Program Inventory to include Tax Expenditures and Interest on the Public Debt. This site provides the history of the Federal government's efforts to create an inventory as well as key insights, data from the pilot, and planned next steps. **https://fpi.omb.gov/**

Government Accountability Office

The Government Accountability Office (GAO) supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people. **https://www.gao.gov/agencies/department-education**

Grants Information and Resources

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

For more information on the Department's programs, see **https://www.ed.gov/grants-and-programs**

National Assessment of Educational Progress

The National Assessment of Educational Progress (NAEP) assesses samples of students in grades 4, 8, and 12 and at ages 9, 13, and 17 in various academic subjects. Results of the assessments are reported for the nation and, for some subjects and grades, states and selected large urban school districts that participate in the Trends in Urban District Assessment (TUDA; formerly known as Trial Urban District Assessment) in terms of comparable scale scores and achievement levels—*NAEP Basic, NAEP Proficient*, and *NAEP Advanced*. **https://nces.ed.gov/nationsreportcard/**

Office of Inspector General

The Office of Inspector General (OIG) conducts independent and objective audits, investigations, inspections, and other activities to promote the efficiency, effectiveness, and integrity of the Department's programs and operations. **https://oig.ed.gov/**

For a list of recent reports, go to **https://oig.ed.gov/reports/list**

One-Stop Shopping for Student Loans

The Department provides a site where students can manage their loans. **http://studentaid.gov/**

Performance Data

ED*Facts* is a Department initiative to put performance data at the center of policy, management, and budget decisions for all K–12 educational programs. ED*Facts* centralizes performance data supplied by K–12 state educational agencies with other data assets within the Department, such as financial grant information, to enable better analysis and use in policy development, planning, and management. **http://www.ed.gov/about/inits/ed/edfacts/index.html**

Projections of Education Statistics to 2030

The Projections of Education Statistics provides projections for key education statistics, including enrollment, graduates, teachers, and expenditures in elementary and secondary public and private schools, as well as enrollment and degrees conferred at degree-granting postsecondary institutions. **https://nces.ed.gov/programs/pes/**

Regional Educational Laboratory Program

The Department administers the Regional Education Laboratory (REL) program to support the use of research and evidence to help states and school districts improve their education programs and, ultimately, student performance. To do this, each regional REL contractor works with teachers, administrators, and policy makers to identify "high-leverage" problems of practice and to build the research capacity of local stakeholders. Each REL develops partnerships with state- and local-level education agencies to gather and analyze data, conduct evaluations, and provide technical assistance that addresses these "high-leverage" problems. **https://ies.ed.gov/use-work/regional-educational-laboratories-rel**

Resources for Career, Technical, and Adult Education

The Department continues to support state and local efforts to implement high-quality secondary and postsecondary career and technical education programs under the nation's $1.3 billion investment in funding under the *Carl D. Perkins Career and Technical Education Act* (Perkins V). Among the Department's efforts is hosting the Perkins Collaborative Resource Network (PCRN) website that provides a one-stop shop for information, resources, and data pertaining to Perkins V CTE programs. The PCRN website provides individual state profiles containing Perkins V State Plans, fiscal information, and accountability data; tools and resources from Department-sponsored national activities investments; and a Perkins V data explorer where users can run reports on trends in student participation and outcomes in CTE programs. **https://cte.ed.gov**

To support the *Workforce Innovation and Opportunity Act* (WIOA), the Department offers professional development resources through the Literacy Information and Communication System (LINCS). This initiative seeks to expand evidence-based practice in the field of adult education and literacy. LINCS serves as the Office of Career, Technical, and Adult Education's (OCTAE) primary outreach and dissemination mechanism to adult educators and provides high-quality, on-demand educational opportunities to practitioners of adult education and literacy, so those practitioners can help adult learners successfully transition to postsecondary education and 21st-century jobs. LINCS is comprised of: the LINCS Resource Collection, which provides online access to high-quality, evidence-based materials and instructional resources; the LINCS Community, a virtual professional learning space where adult educators can engage in discussions focused on critical topics to the field of adult education; a Learning Portal that offers anytime, anywhere professional development courses; a Professional Development Center that provides technical assistance to states in meeting the state leadership requirements set forth in WIOA; and the Learner Center, which provides access to federally developed or federally reviewed resources to assist adult learners in reaching their learning goals. **http://lincs.ed.gov/**

What Works Clearinghouse Practice Guides for Educators

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

Appendix B: Glossary of Acronyms and Abbreviations

ABCP Conduit	Asset-Backed Commercial Paper Conduit
AFR	*Agency Financial Report*
AMS	Acquisition Management System
ANI	Application Notice and Instructions
APR	Annual Performance Report
ARP	*American Rescue Plan Act of 2021*
AWG	Administrative Wage Garnishment
BFS	Bureau of Fiscal Service
CARES	*Coronavirus Aid, Relief, and Economic Security Act of 2020*
CCAMPIS	Child Care Access Means Parents in School
CFR	Code of Federal Regulations
CISA	*Cybersecurity Information Sharing Act of 2015*
COA	Cost of Attendance
COVID-19	Coronavirus Disease 2019
CRRSAA	*Coronavirus Response and Relief Supplemental Appropriations Act of 2021*
CSP	Charter School Programs
CSRS	Civil Service Retirement System
CUECs	Complementary User-Entity Controls
DATA Act	*Digital Accountability and Transparency Act of 2014*
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DEI	Diversity, Equity, and Inclusion
DEIA	Diversity, equity, inclusion, and accessibility
DNP	Do Not Pay
DOI	U.S. Department of the Interior

DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDCAPS	Education Central Automated Processing System
ERIC	Education Resources Information Center
ESF	Education Stabilization Fund
FAFSA®	Free Application for Federal Student Aid®
FASAB	Federal Accounting Standards Advisory Board
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*
FERPA	*Family Educational Rights and Privacy Act*
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FISMA	*Federal Information Security Modernization Act of 2014*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FMSS	Financial Management Support System
FSA	Federal Student Aid
FR	Financial Report
FTI	Federal Tax Information
FUTURE Act	*Fostering Undergraduate Talent by Unlocking Resources for Education Act*
FY	Fiscal Year
G5	Grants Management System
GA	Guaranty Agencies
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GONE Act	*Grants Oversight and New Efficiency Act of 2016*
GPRA	*Government Performance and Results Act of 1993*

GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities
HCERA	*Health Care and Education Reconciliation Act of 2010*
HCM	Heightened Cash Monitoring
HEA	*Higher Education Act of 1965*
HEAL	Health Education Assistance Loan
HERA	*Higher Education Reconciliation Act of 2005*
HEOA	*Higher Education Opportunity Act of 2008*
HHS	U.S. Department of Health and Human Services
HTTPS	Hypertext Transfer Protocol Secure
IAA	Interagency Agreements
IDEA	*Individuals with Disabilities Education Act*®
IDR	Income-Driven Repayment
IEP	Individualized Education Program
IES	Institute of Education Sciences
IHE	Institutions of Higher Education
IHE O&E	Institutions of Higher Education Oversight and Enforcement
IP	Improper Payments
IRS	Internal Revenue Service
IT	Information Technology
K-12	Kindergarten through grade 12
LEAs	Local Educational Agencies
LINCS	Literacy Information and Communication System
NAEP	National Assessment of Educational Progress
NCES	National Center for Education Statistics
Next Gen FSA	Next Generation Federal Student Aid
NIST	National Institute of Standards and Technology
NNP	Notice of Proposed Priorities
NPRM	Notice of Proposed Rulemaking

NSLDS®	National Student Loan Data System
OCIO	Office of the Chief Information Officer
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OFM	Office of Financial Management
OFO	Office of Finance and Operations
OGC	Office of the General Counsel
OGM	Office of Grants Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPEPD	Office of Planning, Evaluation, and Policy Development
OPM	Office of Personnel Management
OS	Office of the Secretary
OSERS	Office of Special Education and Rehabilitative Services
PBO	Performance-based Organization
Pell	Federal Pell Grant
Perkins V	*Carl D. Perkins Career and Technical Education Act*
PCRN	Perkins Collaborative Resource Network
PIIA	*Payment Integrity Information Act of 2019*
PLUS	Parent Loan for Undergraduate Students
POC	Principal Office Component
PPS	Probability Proportional to Size
PPRA	Protection of Pupil Rights Amendment
President's Budget	*Budget of the United States Government*
PSLF	Public Service Loan Forgiveness
REL	Regional Educational Laboratory
RAP	Repayment Assistance Plan

SAP	Satisfactory Academic Progress
SAVE	Saving on a Valuable Education
SBR	Statement of Budgetary Resources
SEAs	State Educational Agencies
Secretary	Secretary of Education
S&EMP	Sampling and Estimation Methodology Plan
SFFAS	Statement of Federal Financial Accounting Standards
SI	Super Intelligence
SLM	Student Loan Model
SOC	System and Organization Controls
SPPO	Student Privacy Policy Office
SSA	Social Security Administration
State	U.S. Department of State
STEM	Science, Technology, Engineering, and Mathematics
TCCUs	Tribally Controlled Colleges and Universities
TEACH Grant	Teacher Education Assistance for College and Higher Education Grant
TIN	Taxpayer Identification Number
Title I	Title I, Part A
Title IV	Title IV of the Higher Education Act of 1965
Title VI	Title VI of the Civil Rights Act of 1964
Title IX	Title IX of the Education Amendments Act of 1972
TOP	Treasury Offset Program
TPD	Total and Permanent Disability
Treasury	U.S. Department of the Treasury
TUDA	Trends in Urban District Assessment
Ups	Unknown Payments
VFAs	Voluntary Flexible Agreements
WIOA	*Workforce Innovation and Opportunity Act*

Acknowledgments

This *Agency Financial Report* was produced with the energies and talents of our employees and contract partners.

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

The Office of Budget Service has lead responsibility for multiple functions, including developing and implementing the Department's Budget. The Office of Grants Management (OGM) develops, manages, and provides policy guidance and oversight of the Department's grant management activities and operations.

The Office of Acquisitions Management provides leadership strategically focused on delivering better outcomes, driving behavior changes, and implementing innovative solutions for improved program performance leading to the Department's mission success.

We offer our sincerest thanks and acknowledgment to staff of all participating principal offices. In particular, we recognize the following organizations for their contribution:

Other Contributors

Federal Student Aid

Office of Communications and Outreach

Office of Planning, Evaluation, and Policy Development

Office of the Chief Information Officer

Office of the Inspector General

Office of the Secretary

Partners

Department of the Treasury

Government Accountability Office

Office of Management and Budget

The following companies were contracted to assist in the preparation of the U.S. Department of Education *FY 2026 Agency Financial Report*:

For General Layout and Web Design

Fathom Creative

For Accounting Services

Sikich CPA LLC
FMR Consulting Inc.
OptumServe Technology Services Inc.

The FY 2026 Agency Financial Report

U.S. Department of Education
Office of Finance and Operations

An electronic version is available
on the World Wide Web at
http://www2.ed.gov/about/reports/annual/index.html

U.S. Department of Education, November 2026



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

WWW.ED.GOV