U.S. Department of Education FY 2016 Agency Financial Report

U.S. Department of Education
John B. King, Jr.
Secretary

Office of the Chief Financial Officer
Tim Soltis
Delegated the Duties of Chief Financial Officer

November 14, 2016

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[RUSSIAN]

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For Fiscal Year 2016, in addition to the *Agency Financial Report* (AFR), the Department will post to its website the *Annual Performance Report* (APR). The APR and the Congressional Budget Justification will be posted on the Department's website at http://www.ed.gov/about/reports/annual/index.html with the FY 2018 budget.

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

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About This Report

The purpose of the United States Department of Education's (the Department) Fiscal Year (FY) 2016 *Agency Financial Report* (AFR) is to inform Congress, the President, and the American people on how the Department has used the federal resources entrusted to it to promote achievement and preparedness of students entering a global environment by fostering excellence and ensuring equal access. The Department demonstrated its commitment to education by, among other things: improving access to early learning programs, reforming elementary and secondary education, making higher education more accessible and affordable, and working to attract talented people to the teaching profession. The Department also demonstrated that it is a good steward of financial resources by putting in place well-controlled and well-managed business and financial management systems and processes.

The AFR also provides high-level financial and performance highlights, assessments of controls, a summary of challenges, and a demonstration of 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*. The report satisfies the reporting requirements contained in the following legislation:

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

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

Certificate of Excellence

The Department of Education received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting for its FY 2015 AFR.

How This Report Is Organized

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

1. Management's Discussion and Analysis

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

2. Financial Section

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

3. Other Information

This section provides improper payments reporting details, the schedule of spending, a summary of financial statement audit and management assurances, and the Office of Inspector General's Management and Performance Challenges for FY 2017 Executive Summary.

4. Appendices

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

Message From the Secretary

November 14, 2016

Fiscal year 2016 has been an exciting year. I want to take a moment to share and celebrate what I have seen and learned and reflect on our progress across the country as our work continues on behalf of students, teachers, and families.

Our mission at the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department's FY 2016 Agency Financial Report (AFR), presented here, contains the Department's financial and performance highlights over the fiscal year ending September 30, 2016. During 2016, I set three priorities for the Department to focus on: first, we must provide continued support for states, districts, and educators in their work to advance educational equity and excellence for every child; second, we must be committed to lifting up the teaching profession; and third, we must continue to progress on advancing access, affordability, and completion in higher education.

Thanks to the work of the Department, states, schools, students, educators, families, and communities, the country can demonstrate significant progress in education, from early learning through college.

For example, more of our youngest learners have access to quality preschool than ever before, through $1.5 billion in federal investments from this agency and more robust state support for early learning. In 2016, the Department announced another important milestone: America's high school graduation rate hit a record high at just over 83 percent, with more traditionally underserved students graduating. Dropout rates are at historic lows, and more students—particularly African-American and Hispanic students—are enrolling in and graduating from college, representing an expansion of opportunity for millions of students.

Equality of opportunity is a core American value that helps form our national identity, solidify our democracy, and strengthen our economy. Despite progress, persistent educational opportunity gaps undermine that ideal across the country. In early FY 2016, however, the nation received a new tool to improve education for all: the *Every Student Succeeds Act* (ESSA), which was signed by the President on December 10, 2015.

ESSA advances equity by upholding critical protections and maintaining dedicated resources for America's most disadvantaged students. The law requires that action will be taken to improve outcomes for students in schools that chronically underperform, that do not improve low graduation rates over time, and that do not ensure progress for all students. Importantly, ESSA provides the chance to build on the progress we have made over the last eight years to improve our elementary and secondary schools, and to ensure that all children receive a rigorous, well-rounded education that prepares them to thrive in college and careers.

Our public elementary and secondary schools have undergone some of the most significant changes in decades over the last eight years—work that is being led by educators who are retooling their classroom practices to adapt to new and higher standards. The Department continues to support these efforts and knows results will not be seen overnight, so we need to be patient but not passive in continuing to pursue the goal of preparing all students for success after high school.

It is critically important to keep a college degree within reach for all families so that our institutions of higher education act as a bridge, not a barrier, to greater prosperity and self-fulfillment. There is an urgent need to rein in the unsustainable cost of college and reverse the devastating slide in state support for higher education—a primary driver behind escalating tuition.

When it comes to college success, the most expensive degree is the one you never get: an analysis by the Office of Federal Student Aid last year found that students who drop out of college with debt and no degree are three times more likely to default on their loans than borrowers who graduate. Although the percentage of young adults with some college experience has increased considerably, their likelihood of graduating strongly correlates with income or racial background, which means that we must shift our attention toward the more essential metric of success: completion of a high-quality degree.

The good news is that we are making progress toward reimagining higher education in ways that can make it more accessible, affordable, and, most importantly, scholastically attainable. We are working to hold institutions accountable for students' success, and we are working to provide tools (such as those listed in appendix A) that help students, educators, and researchers.

Performance Highlights

In the Department's *FY 2014–2018 Strategic Plan,* our mission is defined in six strategic goals and 22 supporting strategic objectives, as well as six programmatic two-year Agency Priority Goals, which are posted on performance.gov and reported in the *FY 2015 Annual Performance Report and FY 2017 Annual Performance Plan*. The performance data the Department reports are often self-reported by states and other entities, although typically entities reporting the data provide assurances of the data's accuracy to the Department. Also, grantees and other recipients of federal funds disbursed by the Department are subject to monitoring, third-party audits and reviews of program compliance, and in some cases, specific management certifications attesting to accuracy and compliance with the Department's accountability standards. In addition, the Department uses data system edit checks and program reviews.

The *Government Performance and Results Act Modernization Act of 2010* requires agencies to describe the accuracy and reliability of data presented in the *Annual Performance Report and the Annual Performance Plan.* Details of how the Department assesses the completeness and reliability of the data are reported and presented as part of Appendix A of the *FY 2015 Annual Performance Report and FY 2017 Annual Performance Plan*, and known limitations of the data are also included.

Financial Management

The Department is the smallest of the cabinet-level agencies in terms of staff, with a staffing level of over 4,200 full-time equivalents (FTE), yet it has the third-largest grant portfolio among the 26 federal grant-making organizations. Our balance sheet now exceeds $1.1 trillion in assets, primarily from student loans. The Department had over $1 trillion in loans outstanding at the end of the year, including new loans made in FY 2016, as well as the balances of old loans less collections of interest and principal.

Good stewardship of taxpayers' funds is a priority for our Department, and I have been assured that the financial data included in this AFR are complete and reliable in accordance with federal requirements. We received our 15th consecutive unmodified or "clean" audit opinion and no reported material internal control weaknesses. The financial report includes information and assurances about the Department's financial management systems and controls, as well as control and compliance challenges noted by the Department and its auditors.

Management Challenges

The Office of Inspector General's (OIG) review, included in the Other Information section of this report, identifies five FY 2017 management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation.

Management understands its challenges and remains committed to addressing them. In FY 2016, the Department implemented cross-cutting initiatives in partnership with internal and external stakeholders to address the management challenges both within the context of our agency and within that of the government as a whole. The Department has collaborated with both government and private sector partners to explore solutions to payment and data integrity issues, address fraud risk and provide better oversight of our programs. Specific initiatives are highlighted as applicable in the Management's Discussion and Analysis section of this report.

Outreach and Partnerships

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

The Department continually meets and engages with stakeholders, including parent and student advocates, national organizations that represent the interests of higher education, primary and secondary education stakeholders, and civil rights and advocacy organizations. Through face-to-face meetings, online and digital engagement, and stakeholder forums, we and our national partners share updates with state and local affiliates.

Looking Ahead

The Department's *Fiscal Year 2014–2018 Strategic Plan,* available on ed.gov and performance.gov, will be updated and revised by the next presidential administration, but the agency's core mission of advancing educational excellence and equity and ensuring equal access to quality teaching and learning will remain, as it has for almost four decades. The commitment to creating more opportunities and encouraging solutions that drive equity and excellence in the education system is one that the Department takes seriously. Together, we can accomplish great things for all students.

Sincerely,

John B. King, Jr.

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Management’s Discussion and Analysis

About the Management's Discussion and Analysis

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

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

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

Mission and Organizational Structure

This section provides information about the Department's mission, an overview of its history, and its structure. The active links include the organization chart and principal offices, a map of its regional offices, and a link to the full list of Department offices with a description of selected offices by function.

Discussion of Performance

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

The section includes an overview of performance reporting and a high-level discussion on the Department's focus areas for FY 2016–17. The results achieved from Department expenditures are discussed at a high level in the AFR. For more details about performance, please refer to the Department's budget and performance web page and performance.gov. Finally, the Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on Direct Loans, Shared Services, and Enterprise Risk Management (ERM).

To view information on all Department programs, visit the Department's website.

Financial Highlights

The Department expends a substantial portion of its budgetary resources and cash on multiple loan and grant programs intended to increase college access, quality, and completion; improve preparation for college and career from prekindergarten through 12th grade (P–12), especially for children with high needs; and ensure effective educational opportunities for all students. Accordingly, the Department has included more high-level details about sources and uses of the federal funds received and net costs by program.

Analysis of Systems, Controls, and Legal Compliance

The Department's internal control framework and its assessment of controls, in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provide assurance to Department leadership and external stakeholders that financial data produced by the Department's business and financial processes and systems are complete, accurate, and reliable. The revised OMB Circular A-123 is effective for FY 2016 and supersedes all previous versions.

Because the Department produces an AFR, detailed performance reporting is included in the *Annual Performance Report*, as specified in OMB Circular A-11, Part 6, Section 260. A high-level summary of performance is included in the AFR to provide context for reporting of financial data and assessment of controls.

About the Department

Our Mission

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

Who We Are. In 1867, the federal government recognized that furthering education was a national priority and created a federal education agency to collect and report statistical data. The Department was established as a cabinet-level agency in 1980. Today, the Department supports programs in every area and level of education.

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

- establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds;
- supporting data collection and research on America's schools;
- identifying major issues in education and focusing national attention on them; and
- enforcing federal laws prohibiting discrimination in programs that receive federal funds.

Our Public Benefit. The Department is committed to helping ensure that students throughout the nation develop skills to succeed in school, college, and the workforce. While recognizing the primary role of states and school districts in providing a high-quality education, the Department supports efforts to recruit, prepare, support, retain, and reward outstanding teachers and leaders in America's schools. The Department supports efforts to help students succeed regardless of background or circumstance by establishing challenging content, setting high expectations for all students, and monitoring academic progress.

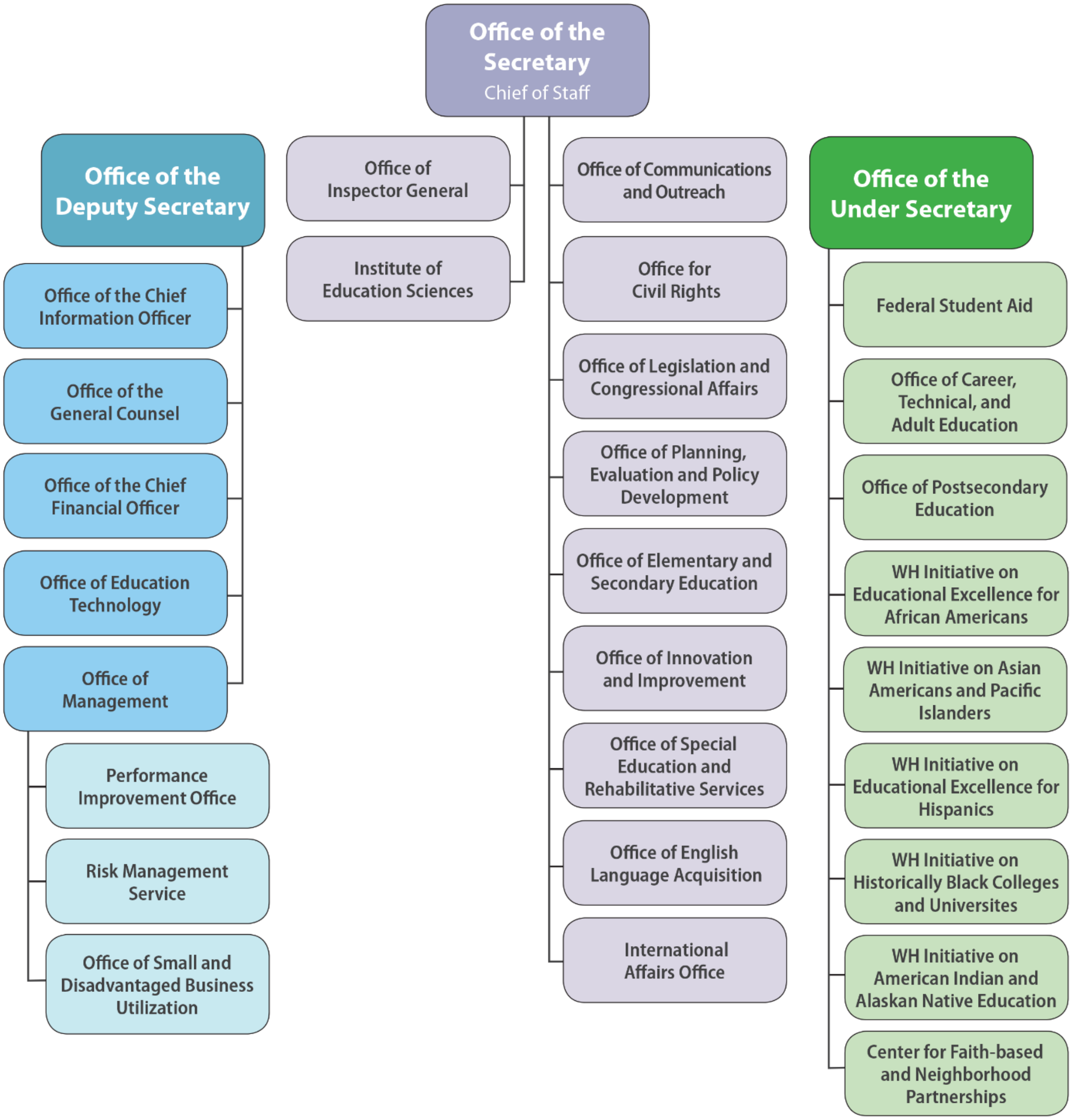
The Department's largest asset is the portfolio of student loans (see the Financial Highlights and Notes sections). Grants to states are the second-largest item, mostly for elementary and secondary education, awarded based on statutory formulas (see the chart on page 6). The third biggest item is student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

Regional Offices. The Department has 10 regional offices that provide points of contact and assistance for schools, parents, and citizens. Regional offices offer support through civil rights enforcement and federal student aid services to promote efficiency, effectiveness, and integrity in the programs and operations of the Department. In addition to civil rights enforcement offices in federal regions, civil rights enforcement offices are located in Washington, D.C., and Cleveland, Ohio.

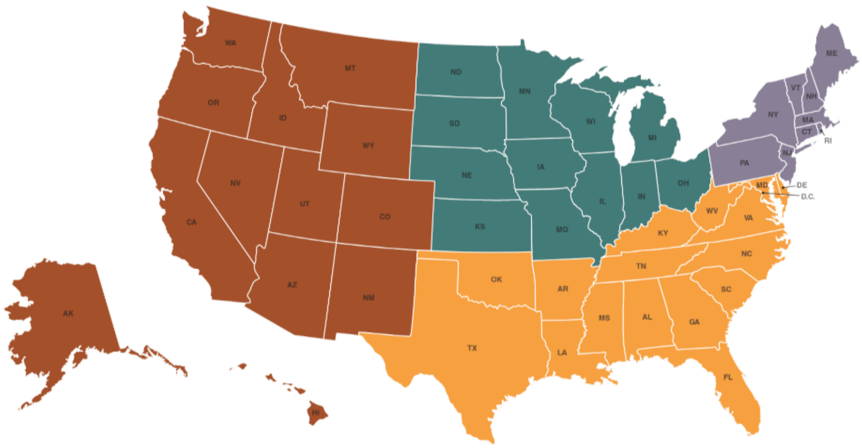
Descriptions of the principal offices and overviews of the activities of the Department and its programs are available on the Department's website.

Our Organization in Fiscal Year 2016

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



FY 2015 Actual Formula Grant Distribution by Region and State



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

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

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

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

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

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

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

The Department's Approach to Performance Management

Performance Management Framework

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

FY 2014–18 Strategic Plan

AGENCY MISSION

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

FY 2014–18 STRATEGIC PLAN

Strategic Goals	Strategic Objectives	FY 2016–17 Agency Priority Goals
Goal 1: *Postsecondary Education, Career and Technical Education, and Adult Education.* Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.	**Objective 1.1: *Access and Affordability.*** Close the opportunity gap by improving the affordability of and access to college and/or workforce training, especially for underrepresented and/or underprepared populations (e.g., low-income and first-generation students, English learners, individuals with disabilities, adults without high school diplomas, etc.). **Objective 1.2: *Quality.*** Foster institutional value to ensure that postsecondary education credentials represent effective preparation for students to succeed in the workforce and participate in civic life. **Objective 1.3: *Completion.*** Increase degree and certificate completion and job placement in high-need and high-skill areas, particularly among underrepresented and/or underprepared populations. **Objective 1.4: *Science, Technology, Engineering, and Mathematics Pathways.*** Increase STEM pathway opportunities that enable access to and completion of postsecondary programs.	• Increase college degree attainment in America • Federal Student Aid Transparency
Goal 2: *Elementary and Secondary Education.* Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready.	**Objective 2.1: *Standards and Assessments.*** Support implementation of internationally benchmarked college- and career-ready standards, with aligned, valid, and reliable assessments. **Objective 2.2: *Effective Teachers and Strong Leaders.*** Improve the preparation, recruitment, retention, development, support, evaluation, recognition, and equitable distribution of effective teachers and leaders. **Objective 2.3: *School Climate and Community.*** Increase the success, safety, and health of students, particularly in high-need schools, and deepen family and community engagement. **Objective 2.4: *Turn Around Schools and Close Achievement Gaps.*** Accelerate achievement by supporting states and districts in turning around low-performing schools and closing achievement gaps, and developing models of next-generation high schools. **Objective 2.5: *STEM Teaching and Learning.*** Increase the number and quality of STEM teachers and increase opportunities for students to access rich STEM learning experiences.	• Support implementation of college- and career-ready standards and assessments

FY 2014–18 STRATEGIC PLAN

Strategic Goals	Strategic Objectives	FY 2016–17 Agency Priority Goals
Goal 3: *Early Learning.* Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.	**Objective 3.1: *Access to High-Quality Programs and Services.*** Increase access to high-quality early learning programs and comprehensive services, especially for children with high needs. **Objective 3.2: *Effective Workforce.*** Improve the quality and effectiveness of the early learning workforce so that early childhood educators have the knowledge, skills, and abilities necessary to improve young children's health, social-emotional, and cognitive outcomes. **Objective 3.3: *Measuring Progress, Outcomes, and Readiness.*** Improve the capacity of states and early learning programs to develop and implement comprehensive early learning assessment systems.	• Increase enrollment in high-quality state preschool programs
Goal 4: *Equity.* Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.	**Objective 4.1: *Equitable Educational Opportunities.*** Increase all students' access to educational opportunities with a focus on closing achievement gaps and remove barriers that students face based on their race, ethnicity, or national origin; sex; sexual orientation; gender identity or expression; disability; English language ability; religion; socioeconomic status; or geographical location. **Objective 4.2: *Civil Rights Compliance.*** Ensure educational institutions' awareness of and compliance with federal civil rights obligations and enhance the public's knowledge of their civil rights.	• Ensure equitable educational opportunities
Goal 5: *Continuous Improvement of the U.S. Education System.* Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, evidence, transparency, innovation, and technology.	**Objective 5.1: *Data Systems and Transparency.*** Facilitate the development of interoperable longitudinal data systems for early learning through employment to enable data-driven, transparent decision-making by increasing access to timely, reliable, and high-value data. **Objective 5.2: *Privacy.*** Provide all education stakeholders, from early childhood to adult learning, with technical assistance and guidance to help them protect student privacy while effectively managing and using student information. **Objective 5.3: *Research, Evaluation, and Use of Evidence.*** Invest in research and evaluation that builds evidence for education improvement; communicate findings effectively; and drive the use of evidence in decision-making by internal and external stakeholders. **Objective 5.4: *Technology and Innovation.*** Accelerate the development and broad adoption of new, effective programs, processes, and strategies, including education technology.	• Enable evidence-based decision making
Goal 6: *U.S. Department of Education Capacity.* Improve the organizational capacities of the Department to implement the *Strategic Plan*.	**Objective 6.1: *Effective Workforce.*** Continue to build a high-performing, skilled, diverse, and engaged workforce within the Department. **Objective 6.2: *Risk Management.*** Improve the Department's program efficacy through comprehensive risk management, and grant and contract monitoring. **Objective 6.3: *Implementation and Support.*** Build Department capacity and systems to support states' and other grantees' implementation of reforms that result in improved outcomes, and keep the public informed of promising practices and new reform initiatives. **Objective 6.4: *Productivity and Performance Management.*** Improve workforce productivity through information technology enhancements, telework expansion efforts, more effective process performance management systems, and state-of-the-art leadership and knowledge management practices.	

The *FY 2014–18 Strategic Plan* is comprised of six strategic goals, which serve as the foundation for establishing long-term priorities. The strategic objectives are actions that the Department will undertake to realize the goals. For each objective, the Department has established measures to gauge its progress. In collaboration with OMB and alongside the release of the President's FY 2017 budget request, the Department announced its FY 2016–17 Agency Priority Goals (APGs) and is reporting quarterly updates on performance.gov. The Department monitors progress toward its strategic goals and its APGs using data-driven review and analysis. This focus promotes active management engagement across the Department. Additional information on performance management is available in the *Annual Performance Plans and Annual Performance Reports*.

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

Information in the *Agency Financial Report*

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

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

U.S. Department of Education FY 2016 Priorities

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

Advancing Equity and Excellence

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

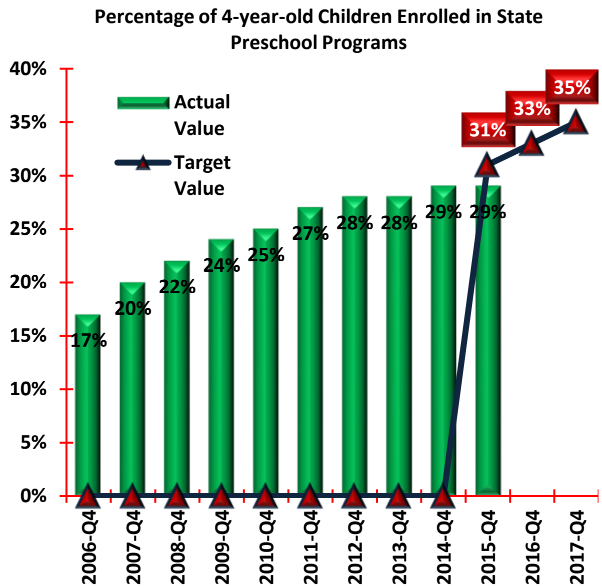
Early in FY 2016, the *Every Student Succeeds Act* (ESSA), which replaced the *No Child Left Behind Act* as the latest authorization of the *Elementary and Secondary Education Act* (ESEA), passed by substantial bipartisan majorities and was signed by President Obama. ESSA embraces many of the priorities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

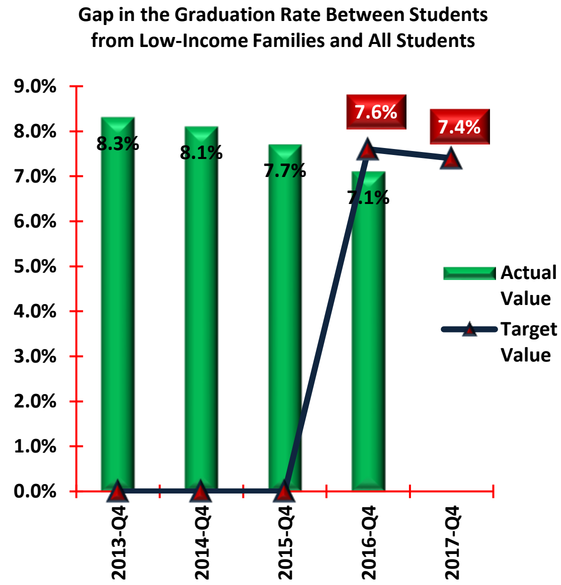
ESSA advances equity by upholding critical protections and maintaining dedicated resources for America's most disadvantaged students. The law requires that action will be taken to improve outcomes for students in schools that are among the lowest performing 5 percent of Title I schools in the state,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

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

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

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





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

Expanding Support for Teachers and School Leaders

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

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

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

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

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

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

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

Promoting Access, Affordability, and Completion in Higher Education

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

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

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

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

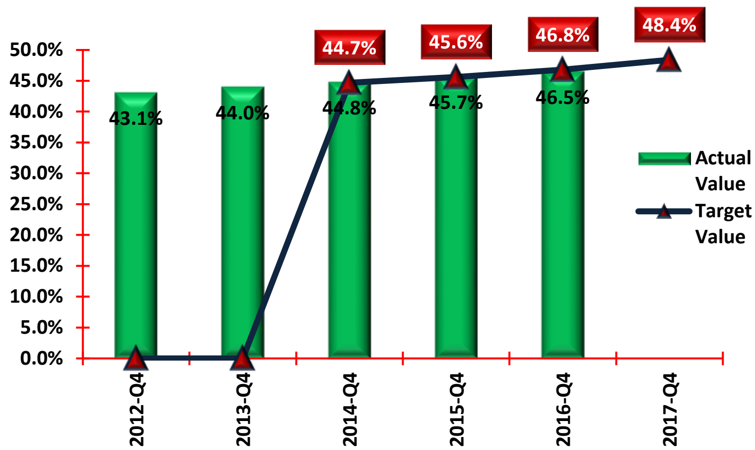
Another key is helping students and their families obtain financial aid by making it easier and faster for them to fill out the Free Application for Federal Student Aid (FAFSA). With this understanding, the Obama administration took major steps to streamline the FAFSA. Today, more than 99 percent of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

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

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

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

Increase in Degree Attainment among 25–34-Year-Old Age Cohort



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

Developing and Using Data and Other Evidence

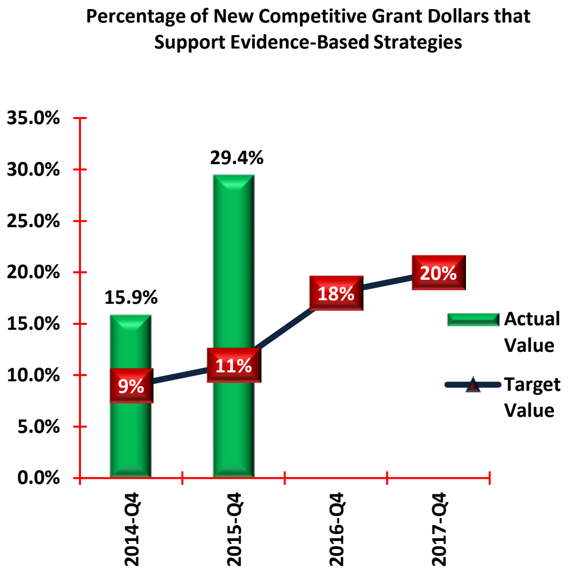
The Obama administration's robust support of evidence-based innovation gives states and school districts tools to direct their education improvement efforts toward the most effective practices. With a focus on new and promising efforts backed by research, the administration helped schools and communities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

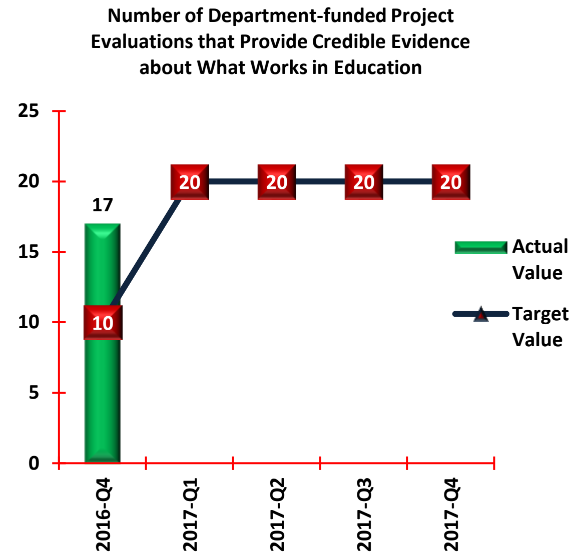
The Department has pioneered efforts that encourage grantees and practitioners to use evidence and data in ways that improve student outcomes. The Department has significantly scaled up the use of evidence-based grant-making. i3, an evidence-based grant program that was also born out of this priority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

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

Progress: The Department is on track for 18 percent of new FY 2016 discretionary grant funding to support evidence-based practices. The i3 program has released 17 rigorous evaluations that can inform the field. Through InformED, the Department has launched numerous new products that have generated significant public interest. For example, data from the Civil Rights Data Collection have been downloaded over 2,700 times. In addition, more than 1.5 million users have accessed the College Scorecard since September 12, 2015.

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





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

Forward-Looking Information

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

Direct Loan Program

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

Managing Student Loan Debt

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

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

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

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

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

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

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

Managing Risks and Uncertainty Facing the Direct Loan Program

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

Legislative, Regulatory, and Policy Risk

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

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

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

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

Estimation Risk

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

Macroeconomic Risk

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

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

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

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

Continuous Improvement

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

Shared Services

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

Enterprise Risk Management

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

Financial Highlights

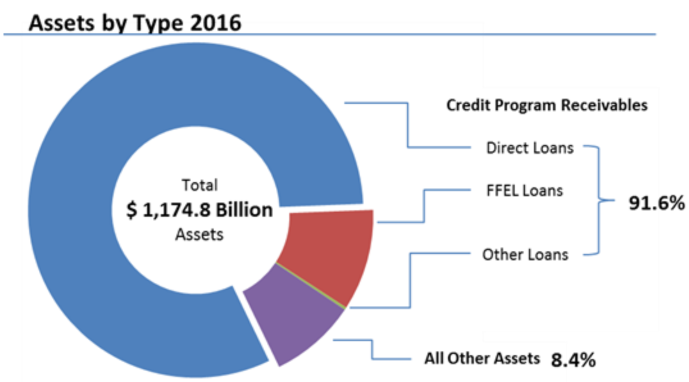
Introduction

This section provides summarized information and analyses about the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It also provides a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces complete, accurate, and timely financial information. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board and the format and content specified by OMB Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 15 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2016 are on pages 46–83 and the Independent Auditors' Report begins on page 92.

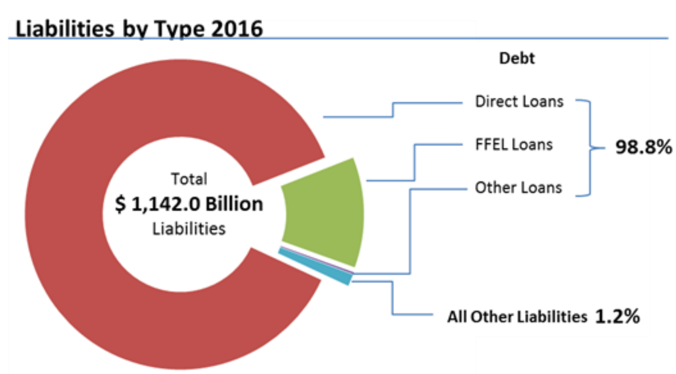
Balance Sheet

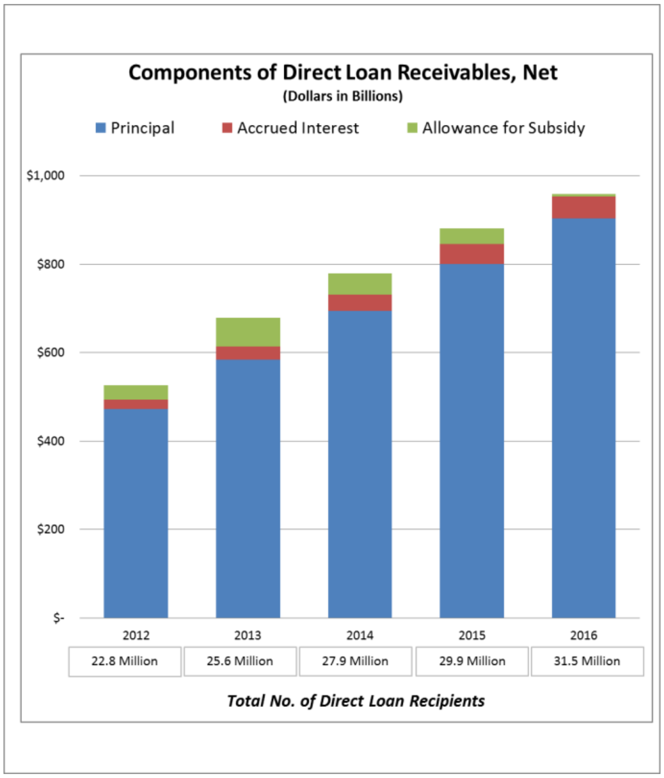
The consolidated balance sheet presents, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.



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

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





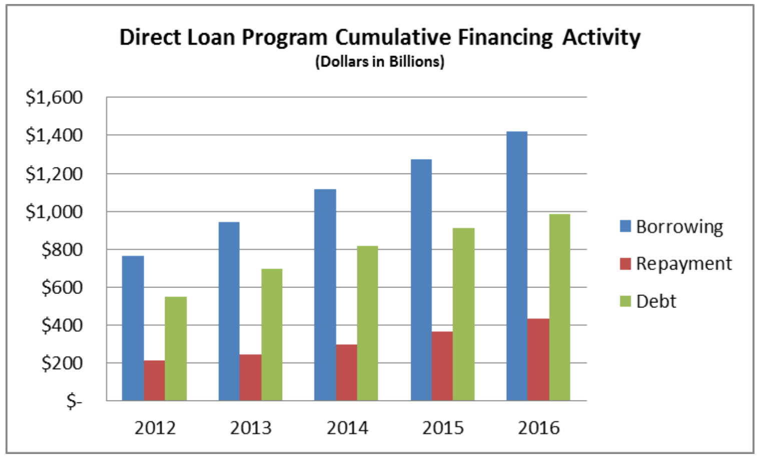
The chart to the left shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program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

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

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

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

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

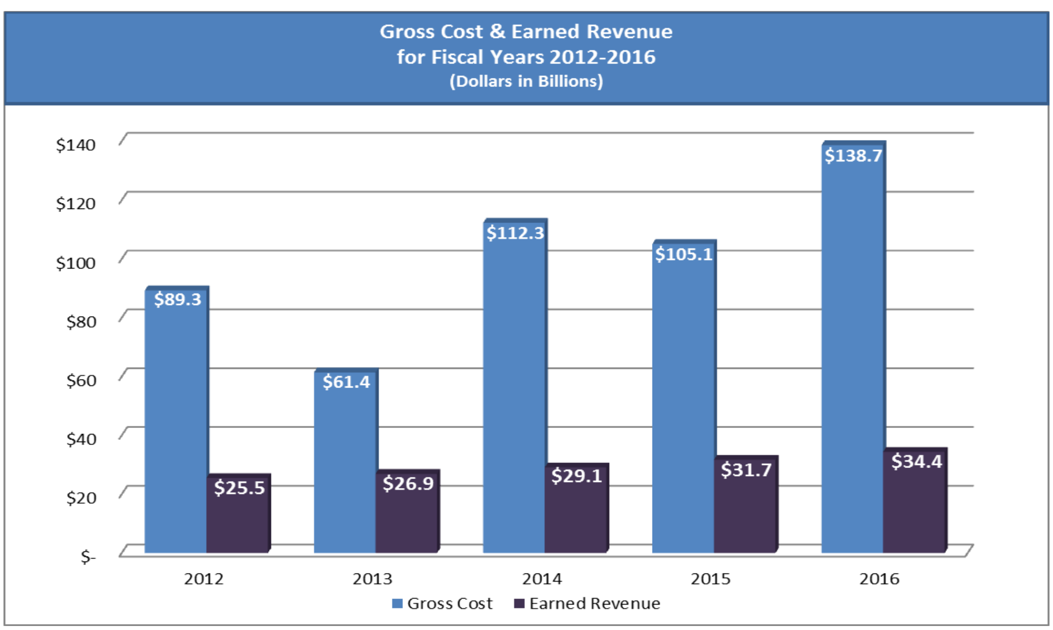


Loans in the Delinquent category are considered in "repayment" status, but payments are anywhere from 31 to 360 days late. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. The percentage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

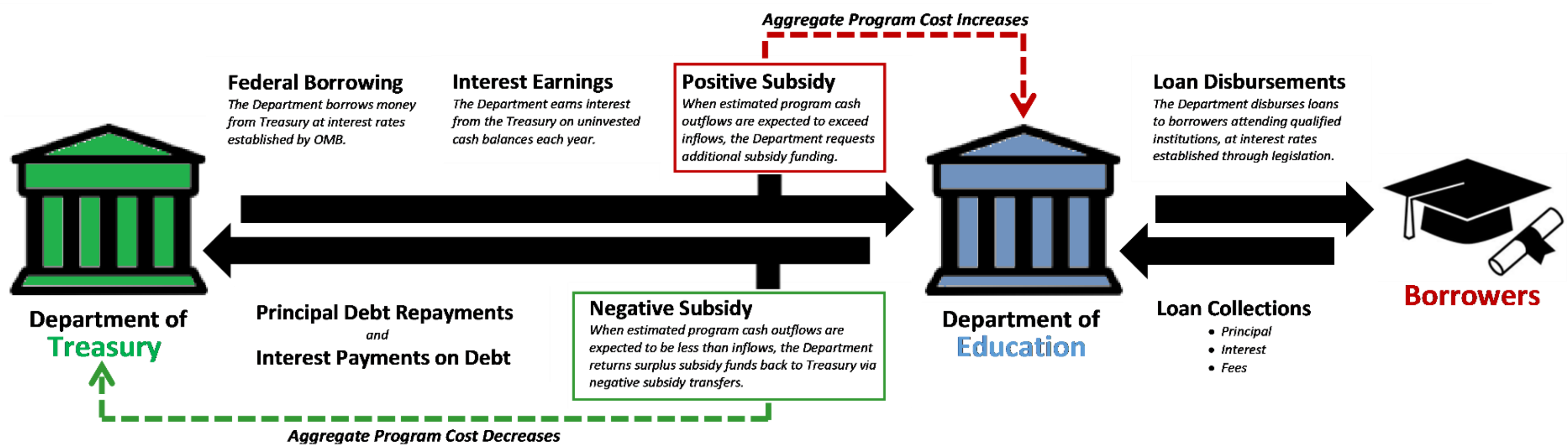
The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows as mandated by the *Federal Credit Reform Act of 1990* (FCRA). The chart to the above right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

Statement of Net Cost

The consolidated statement of net cost reports the Department's components of the net costs of operations for a given fiscal year. Net cost of operations consists of the gross cost incurred less any exchange (i.e., earned) revenue from activities. Gross cost is composed of the cost of credit and grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.



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



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

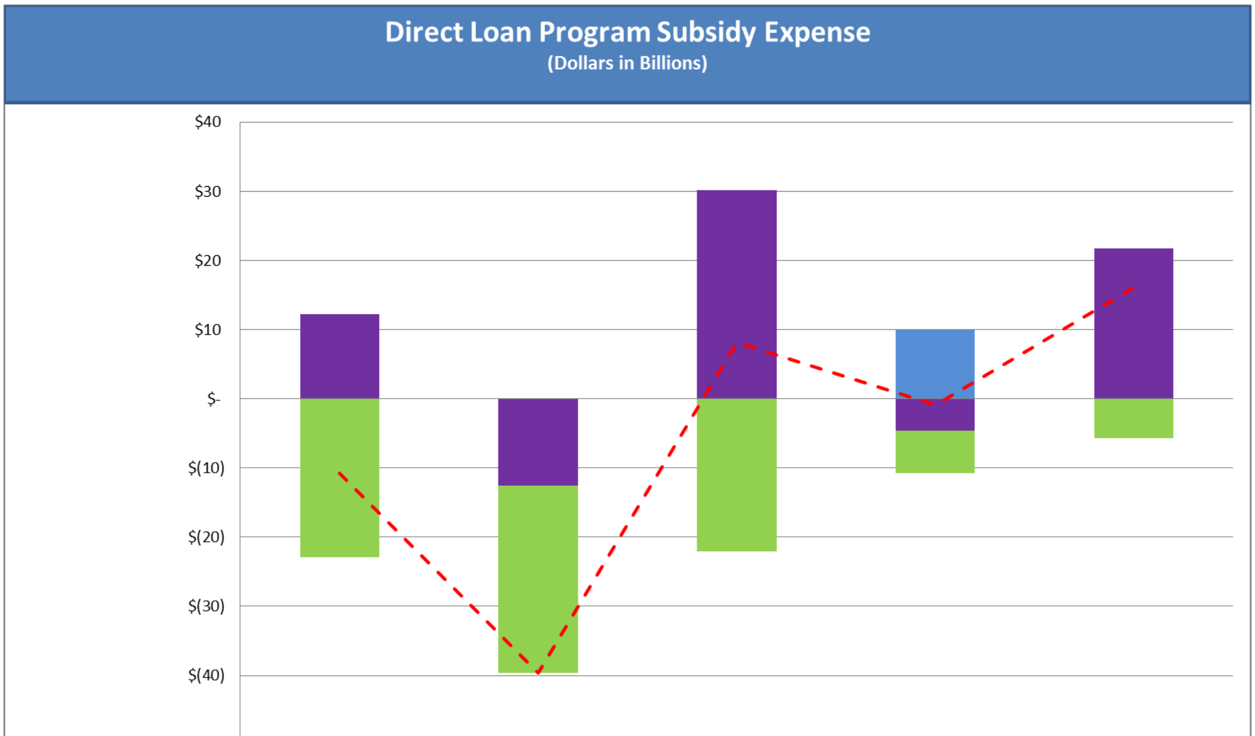
All figures are rounded in millions of dollars. Further details of these figures can be found in the Financial Section of this report.

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

Analysis of Direct Loan Program Subsidy Expense

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

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



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

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

The costs of the Direct Loan program are highly sensitive to changes in actual and forecasted interest rates. For example, in FY 2016, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy cost by $4.8 billion.

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

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

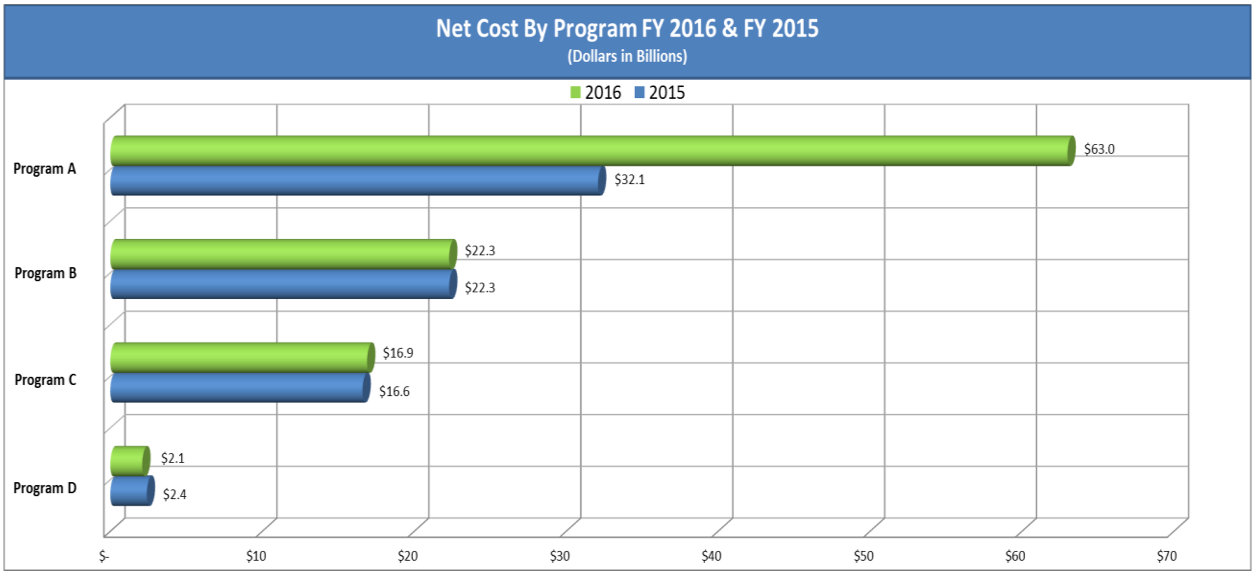
Analysis of Net Cost by Program

As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the Department's *FY 2014–18 Strategic Plan*. As further described in the performance section of the Management's Discussion & Analysis, *Strategic Plan* Goals 1–5 are sharply defined directives that guide the Department's program offices to carry out the vision and programmatic mission; the net cost programs can be specifically associated with these five strategic goals. The Department also has a cross-cutting *Strategic Plan* Goal 6, U.S. Department of Education Capacity, which focuses on improving the organizational capacities of the Department to implement the *Strategic Plan*. As a result, the Department does not assign specific programs to *Strategic Plan* Goal 6 for presentation in the statement of net cost.

Net Cost Program	Program Office	Strategic Goal
Program A: Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Career, Technical, and Adult Education	**Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education**. Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.

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

The Department has more than 100 grant and loan programs (www.ed.gov/programs/inventory.html). In the statement of net cost, they have been mapped to the applicable strategic goals. The Department's FY 2016 expenditures for grant programs totaled over $75 billion. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* grants. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process and formula grants, using formulas determined by Congress with no application process. The following table presents a breakdown of net cost by program for FY 2016 and FY 2015.



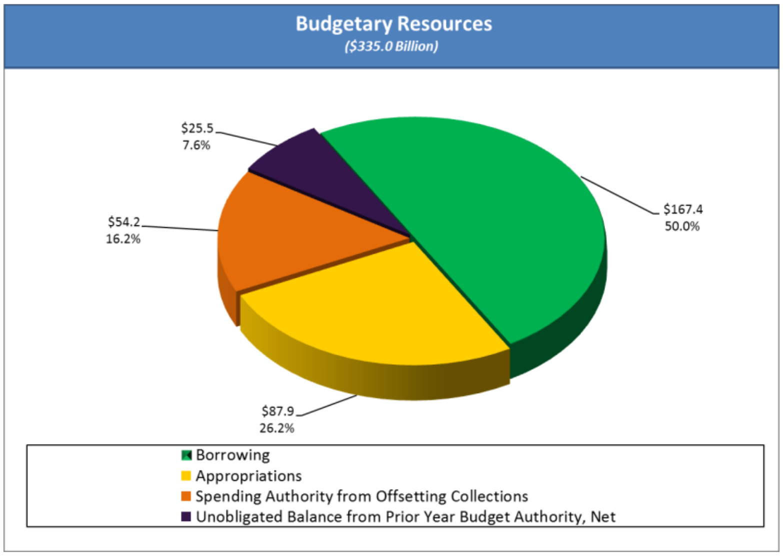
The FY 2016 increase in net cost for Program A is primarily attributed to subsidy loan expenses. FY 2016 Direct Loan program and FFEL program subsidy expense increased by $17 billion and $14 billion, respectively, from FY 2015 subsidy expense amounts.

Statement of Changes in Net Position

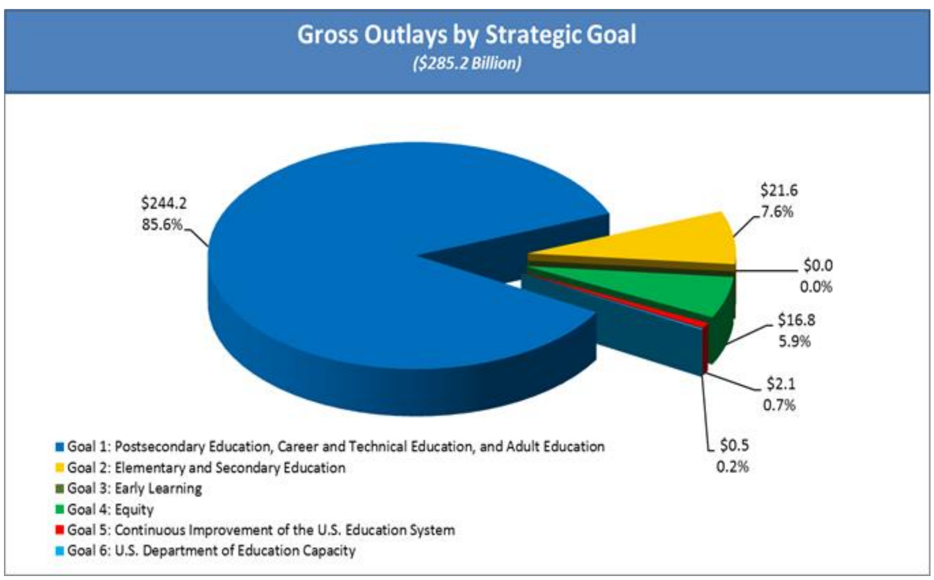
The consolidated statement of changes in net position reports the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net position of the Department totaled $32.8 billion for the period ended September 30, 2016. This reflects a 40 percent decrease over the net position of $54.8 billion from the prior fiscal year.

Statement of Budgetary Resources

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



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



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

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2016 and FY 2015, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity. The implications of this are that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and that ongoing operations are subject to the enactment of future appropriations.

Analysis of Systems, Controls, and Legal Compliance

Management Assurances

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

STATEMENT OF ASSURANCE
FISCAL YEAR 2016
November 14, 2016

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

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

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

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

Based on the results of the Department's assessments described above, our system of internal controls provides Department management with reasonable assurance that the objectives of sections 2 and 4 of the FMFIA were achieved as of September 30, 2016.

John B. King, Jr.

John B. King, Jr.

Introduction

Strong risk management practices and internal control help an entity run its operations efficiently and effectively, report reliable information about its operations and financial position, and comply with applicable laws and regulations. The FMFIA requires federal agencies to establish internal controls that provide reasonable assurance that agency objectives will be achieved. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* implements FMFIA and defines management's responsibilities for ERM and internal control. The Circular provides guidance to federal managers to improve accountability and effectiveness of federal programs as well as mission support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. The guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal controls:

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

This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2016 to meet the three objectives.

Control Framework and Analysis

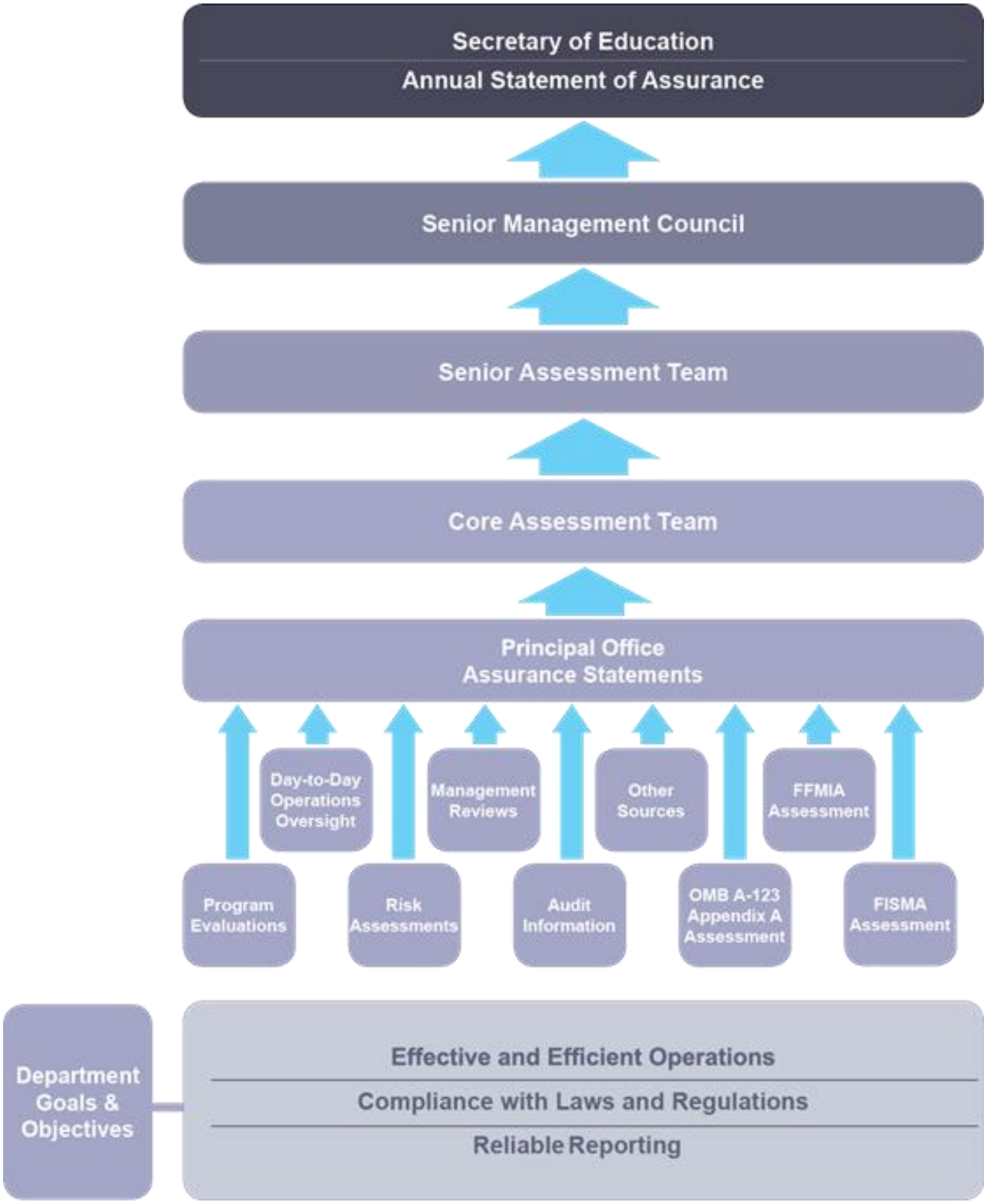
As indicated in the performance management section above, the Department's *Strategic Plan*, including the six FY 2016–17 APGs, sets the foundation for determining the Department's mission goals and objectives. Underpinning the Department's internal control framework are its organizational structure, people, processes, policies and procedures, systems, controls, and data.

Control Framework

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

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

Internal Control Framework and Assurance Process



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

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

OCFO staff work with the principal offices to help them identify potential control deficiencies and consults with the SAT to determine whether they represent significant deficiencies or potential material weaknesses. Any principal office that identifies a significant deficiency or material weakness must prepare a Corrective Action Plan to address the issue. These Corrective Action Plans, in addition to daily operational oversight and management-initiated evaluations, facilitate the correction and monitoring of controls. If potential material weaknesses are identified, they are evaluated by the Senior Management Council to determine if they should be reported on the Department's Statement of Assurance.

Analysis of Controls

Overall, the Department relies on the principal office annual assurances, supported by risk-based internal control evaluations and testing, to provide reasonable assurance that its internal controls are well designed and in place and working as intended. The Department also considers issues identified by external auditors. During FY 2016, the Department revised its annual assurance process to conform to the new requirements contained in the revised U.S. Government Accountability Office publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book"). Additionally, the Department overhauled its entity-level assessment to reflect the updated Green Book.

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

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

Internal Control over Financial Reporting

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

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

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

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

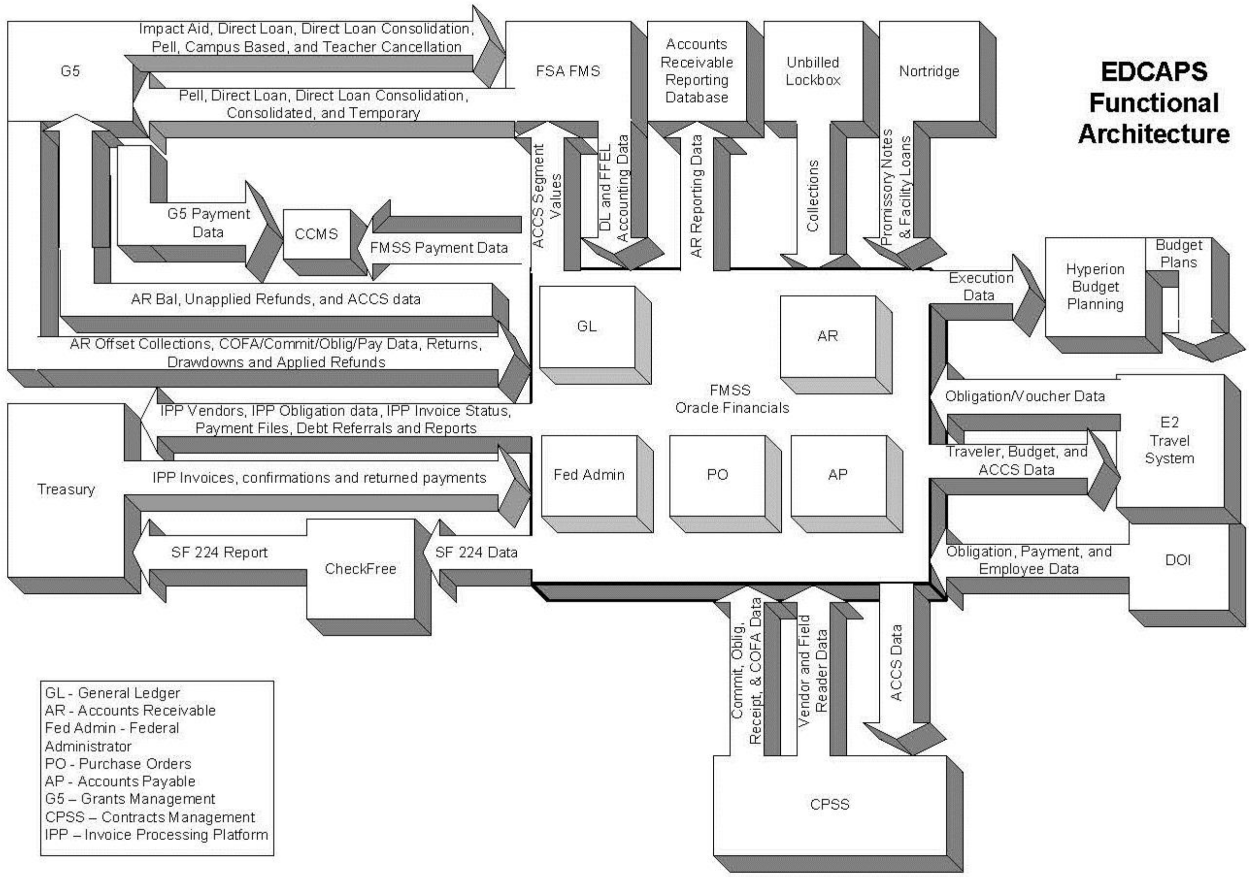
Internal Control over Financial Management Systems

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Appendix D to OMB Circular A-123, Compliance with the Federal Financial Management Improvement Act of 1996, and OMB Circular A-130, *Managing Federal Information as a Strategic Resource,* provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

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

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

[6] These figures include FSA.



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

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

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

The Department's financial management systems are designed to support effective internal control and produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and the results of external audits, the Department has not identified any material weaknesses in controls over systems. The Department has also determined that its financial management systems substantially comply with FFMIA requirements. However, as noted below in the Internal Control Exceptions section, the Department continues to address issues and improve its controls over systems.

Federal Information Security Modernization Act of 2014

The *Federal Information Security Modernization Act of 2014* (FISMA) requires federal agencies to develop, document, and implement an agencywide program to provide security for the information and information systems that support the operations and assets of the agency and ensure the confidentiality, integrity, and availability of system-related information.

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

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

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

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

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

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

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

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

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

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

- Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organizationwide information security program, at both the agency and system level;

- Strengthen and refine the process to ensure accountability for individuals responsible for remediating the identified control deficiencies in the Department's and FSA's systems, including cooperation between the Technology Office and Business Operations; and

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

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

Internal Control over Payments

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

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

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

As described below, in FY 2016, the Department determined that its Pell Grant and Direct Loan programs were susceptible to significant improper payments risk. A detailed description of the Department's controls over improper payments related to these two programs is presented in the Other Information section of this report.

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

Internal Control Exceptions

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

Improper Payments Information Act of 2002

The *Improper Payments Information Act of 2002*, Pub. L. 107-300, 116 Stat. 2350, as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), Pub. L. 111-204, 124 Stat. 2224, and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), Pub. L. 112-248, 126 Stat. 2390, requires federal agencies to annually report improper payments in programs susceptible to significant improper payments. IPERA also requires agency Inspectors General to review agency improper payment reporting in the AFR and accompanying materials, and to determine whether the agency has met six compliance requirements.

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

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

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

Debt Collection Improvement Act of 1996

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

Due to unique program requirements of HEA, the Department requested guidance from Treasury's Bureau of Fiscal Service, Office of General Counsel for the application of this revised DCIA requirement to Title IV debt. Treasury provided its interpretation of this requirement for Title IV debt in July 2015. As of September 30, 2016, the Department and FSA were not in compliance with the new 120-day referral requirement in 31 U.S.C. Section 3716(c)(6) because FSA had not yet revised its loan servicing systems, procedures, and internal processes in response to this interpretation. During FY 2016, FSA did identify policy changes required to work towards achieving compliance. As of the end of FY 2016, FSA is vetting these policy changes and expects to begin a multiple-year implementation in FY 2017. This area of noncompliance is noted in the independent auditors' report, exhibit B.

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

Financial Section

Message From the Chief Financial Officer

On behalf of the Department of Education, it is my privilege to present to you our Fiscal Year (FY) 2016 Agency Financial Report (AFR). I thank the Department's leadership and staff for their commitment to another successful fiscal year, and I hope that you find the AFR a useful summary of the Department's financial picture, operating performance, and stewardship.

Both the short- and long-term economic impacts of the Department's mission to prepare students for college and to support attainment of college degrees by those students are immense. At the heart of U.S. global competitiveness are students whose creativity, innovative mindsets, and entrepreneurial aspirations will sustain the American economy, as well as the U.S. contribution to the challenges we face today and in the future. High quality, equitably accessible, and affordable education for our country's students is the foundation for our future prosperity.

With approximately $1.2 trillion in total assets, comprised primarily of credit program receivables that are funded by $1.1 trillion in Treasury borrowings, and $285.2 billion in total annual spending supporting programs across the full education spectrum, effective controls over financial activities are essential to responsibly delivering our mission outcomes.

Over the past eight years, the Department of Education experienced an unprecedented rate of growth in our loan portfolio, primarily due to the Department's assumption of direct student loans. For example, credit program receivables increased from $234.3 billion in FY 2009 to $1.1 trillion in FY 2016. During this time period, we also received two large supplemental appropriations; $97.4 billion under the *American Recovery and Reinvestment Act of 2009* and $10 billion under the Education Jobs Fund.

I am proud of attaining our 15th consecutive unmodified or "clean" opinion of our financial statements, the result of our dedicated cadre of financial professionals, their application of effective controls, and a continuous improvement approach to promoting responsible financial stewardship across all of the Department's mission offices. With less than 1 percent of our $285.2 billion in payments each year applied to fund the Department's payroll, the achievement of clean opinions, as well as the receipt of our 12th award of the prestigious Certificate of Excellence in Accountability Reporting by the Association of Government Accountants, reflects the efforts of the Department's highly productive team.

In addition to giving an unmodified opinion of our FY 2016 financial statements, our auditors reported that we have no material controls weaknesses, nor material instances of noncompliance with laws and regulations. As such, I can provide reasonable assurance that the financial data included in this AFR are complete and reliable in accordance with federal requirements. Although we have a strong internal control framework, we are actively working to address the management challenges and other control and compliance issues reported by our auditors and self-reported in various sections of this report.

Accountability, transparency, and stewardship are core values embraced by the Department's financial management professionals and their work underpins the mission achievements described in this report that benefit all American students and families. As we move into the future, we have four major priorities to sustain our core values—upgrading our financial management and related business systems, to include migration to a shared service solution when feasible; enhancing data quality and our capacity to support decision making through robust data analytics; incorporating enterprise risk management practices into the culture of the Office of the Chief Financial Officer; and reshaping and enhancing the competencies of our financial management workforce.

We look forward to implementing even stronger financial management practices in the coming years to provide the American taxpayer with the best possible value for the resources entrusted to us.

Tim Soltis
Delegated the Duties of Chief Financial Officer

November 14, 2016

About the Financial Section

In FY 2016, 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.

The Department's financial statements and additional information for FY 2016 and FY 2015 include the following. The Department welcomes comments from readers to further improve the report. Comments can be e-mailed to AFRcomments@ed.gov.

The **Consolidated Balance Sheet** summarizes the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public. The Department revised the presentation of its Consolidated Balance Sheet to emphasize the Department's growing loan portfolio.

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

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

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

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

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

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies
Note 2. Non-Entity Assets
Note 3. Fund Balance with Treasury
Note 4. Other Assets
Note 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees
Note 6. Liabilities Not Covered by Budgetary Resources

Note 7. Debt
Note 8. Subsidy Due to Treasury General Fund
Note 9. Other Liabilities
Note 10. Intragovernmental Cost and Exchange Revenue by Program
Note 11. Credit Program Interest Expense and Interest Revenue
Note 12. Statement of Budgetary Resources
Note 13. Reconciliation of Net Cost of Operations to Budget
Note 14. Commitments and Contingencies

Required Supplementary Information

This section contains the Combining Statement of Budgetary Resources for the Periods Ended September 30, 2016, and September 30, 2015.

Required Supplementary Stewardship Information

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

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

Report of the Independent Auditors

The results of the audit of the Department’s financial statements for FY 2016 and FY 2015 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 (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to audit the financial statements of the Department as of September 30, 2016 and 2015, and for the years then ended.

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016	FY 2015
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 96,763	$ 103,619
Other Intragovernmental Assets (Note 4)	102	78
Total Intragovernmental	96,865	103,697
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	958,881	880,557
FFEL Program	114,870	134,704
Other Credit Programs for Higher Education	2,828	2,472
Other Assets (Note 4)	1,363	1,689
Total Assets (Note 2)	**$ 1,174,807**	**$ 1,123,119**
Liabilities:		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 994,285	$ 909,927
FFEL Program	131,347	139,771
Other Credit Programs for Higher Education	2,191	2,078
Subsidy Due to Treasury General Fund (Note 8)	2,642	8,237
Other Intragovernmental Liabilities (Note 9)	1,822	2,060
Total Intragovernmental	1,132,287	1,062,073
Other Liabilities (Note 9)	9,683	6,243
Total Liabilities (Note 6)	**$ 1,141,970**	**$ 1,068,316**
Commitments and Contingencies (Note 14)		
Net Position:		
Unexpended Appropriations	$ 61,052	$ 62,740
Cumulative Results of Operations	(28,215)	(7,937)
Total Net Position	**$ 32,837**	**$ 54,803**
Total Liabilities and Net Position	**$ 1,174,807**	**$ 1,123,119**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016	FY 2015
Program Costs:		
Increase College Access, Quality, and Completion		
Gross Costs	$ 97,314	$ 63,697
Earned Revenue	(34,316)	(31,600)
Net Program Costs	$ 62,998	$ 32,097
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs		
Gross Costs	$ 22,363	$ 22,350
Earned Revenue	(16)	(20)
Net Program Costs	$ 22,347	$ 22,330
Ensure Effective Educational Opportunities for All Students		
Gross Costs	$ 16,925	$ 16,656
Earned Revenue	(11)	(11)
Net Program Costs	$ 16,914	$ 16,645
Enhance the Education System's Ability to Continuously Improve		
Gross Costs	$ 2,121	$ 2,412
Earned Revenue	(58)	(59)
Net Program Costs	$ 2,063	$ 2,353
Net Cost of Operations (Notes 10 & 13)	**$ 104,322**	**$ 73,425**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016 Cumulative Results of Operations	FY 2016 Unexpended Appropriations	FY 2015 Cumulative Results of Operations	FY 2015 Unexpended Appropriations
Beginning Balances:				
Beginning Balances	**$ (7,937)**	**$ 62,740**	**$ (23,741)**	**$ 66,447**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 88,210	$ -	$ 100,955
Appropriations Transferred – In/Out	-	-	-	(397)
Other Adjustments (Rescissions, etc.)	-	(821)	-	(783)
Appropriations Used	89,077	(89,077)	103,482	(103,482)
Nonexchange Revenue	9	-	8	-
Donations and Forfeitures of Cash and Cash Equivalents	1	-	2	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	81	-	30	-
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(5,124)	-	(14,293)	-
Total Financing Sources	**$ 84,044**	**$ (1,688)**	**$ 89,229**	**$ (3,707)**
Net Cost of Operations:	**$ (104,322)**	**$ -**	**$ (73,425)**	**$ -**
Net Change:	**$ (20,278)**	**$ (1,688)**	**$ 15,804**	**$ (3,707)**
Net Position	**$ (28,215)**	**$ 61,052**	**$ (7,937)**	**$ 62,740**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2016 and 2015

(Dollars in Millions)

	FY 2016 Budgetary	FY 2016 Non-Budgetary Credit Reform Financing Accounts	FY 2015 Budgetary	FY 2015 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 14,774	$ 14,437	$ 14,837	$ 10,109
Recoveries of Prior Year Unpaid Obligations	746	21,047	1,978	20,727
Other Changes in Unobligated Balance (+ or -)	(772)	(24,695)	(679)	(23,984)
Unobligated Balance from Prior Year Budget Authority, Net	$ 14,748	$ 10,789	$ 16,136	$ 6,852
Appropriations (Discretionary and Mandatory)	87,924	24	100,701	904
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	167,400	-	171,807
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	522	53,608	381	52,897
Total Budgetary Resources	**$ 103,194**	**$ 231,821**	**$ 117,218**	**$ 232,460**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 90,802	$ 216,342	$ 102,444	$ 218,023
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	10,280	-	11,806	550
Unapportioned, Unexpired Accounts	1,212	15,479	1,771	13,887
Unexpired Unobligated Balance, End of year	**$ 11,492**	**$ 15,479**	**$ 13,577**	**$ 14,437**
Expired Unobligated Balance, End of Year	900	-	1,197	-
Unobligated Balance, End of Year (Total)	**$ 12,392**	**$ 15,479**	**$ 14,774**	**$ 14,437**
Total Status of Budgetary Resources	**$ 103,194**	**$ 231,821**	**$ 117,218**	**$ 232,460**
Change in Obligated Balance:				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1	$ 52,645	$ 78,116	$ 56,219	$ 80,316
New Obligations and Upward Adjustments	90,802	216,342	102,444	218,023
Outlays (Gross) (-)	(88,452)	(196,787)	(103,847)	(199,496)
Actual Transfers, Unpaid Obligations (Net) (+ or -)	-	-	(193)	-
Recoveries of Prior Year Unpaid Obligations (-)	(746)	(21,047)	(1,978)	(20,727)
Unpaid Obligations, End of Year	**$ 54,249**	**$ 76,624**	**$ 52,645**	**$ 78,116**
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ (3)	$ (26)	$ (1)	$ (26)
Change in Uncollected Payments, Federal Sources (+ or -)	1	22	(2)	-
Uncollected Payments, Federal Sources, End of Year (-)	$ (2)	$ (4)	$ (3)	$ (26)
Memorandum (Non-add) Entries				
Obligated Balance, Start of Year (+ or -)	**$ 52,642**	**$ 78,090**	**$ 56,218**	**$ 80,290**
Obligated Balance, End of Year (+ or -)	**$ 54,247**	**$ 76,620**	**$ 52,642**	**$ 78,090**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 88,446	$ 221,032	$ 101,082	$ 225,608
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(721)	(114,123)	(713)	(122,387)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	1	22	(2)	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	(1)	(516)	(2)	(542)
Budget Authority, Net (Discretionary and Mandatory)	**$ 87,725**	**$ 106,415**	**$ 100,365**	**$ 102,679**
Outlays, Gross (Discretionary and Mandatory)	$ 88,452	$ 196,787	$ 103,847	$ 199,496
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(721)	(114,123)	(713)	(122,387)
Outlays, Net (Discretionary and Mandatory)	87,731	82,664	103,134	77,109
Distributed Offsetting Receipts (-) (Note 12)	(10,766)	-	(13,105)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 76,965**	**$ 82,664**	**$ 90,029**	**$ 77,109**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

The U.S. Department of Education (the Department), a cabinet-level agency of the executive branch of the U.S. government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department engages in four major types of activities: establishing policies related to federal educational funding, including the distribution of funds, collecting on student loans, and using data to monitor the use of funds; supporting data collection and research on America's schools; identifying major issues in education and focusing national attention on them; and enforcing federal laws prohibiting discrimination in programs that receive federal funds.

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

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

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

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

Grant Programs. The Department has more than 100 grant and loan programs. The three largest grant programs are Title I, Federal Pell Grant (Pell Grant), and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process, and formula grants, using formulas determined by Congress with no application process.

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

- Federal Student Aid (FSA) administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.

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

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and local educational activities and institutions of higher education for reform, strategic investment, and innovation in education include: the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); Office of English Language Acquisition (OELA); and Office of Innovation and Improvement (OII). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (See Note 10)

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the use of budgetary resources. FSA also issues audited stand-alone financial statements which are included in their annual report.

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

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

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

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

Accounting for Federal Credit Programs

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

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

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

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is "amortized" each year. Amortization of subsidy is interest expense on debt with Treasury minus interest income from borrowers and interest on uninvested fund balance with Treasury. It is calculated as the difference between interest revenue and interest expense. 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.

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. Financing accounts are presented separately in the combined statement of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the *Budget of the United States Government* (President's Budget).
- 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 existing loans.

Budgetary Resources

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

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, 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 provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan, 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.

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 shall expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

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

Reauthorization of Legislation. Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue in accordance with congressional budgeting rules. (See Note 12)

Use of Estimates

Department management is required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of Department administrative overhead costs; allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; the amount payable or receivable from annual credit program re-estimates and modifications of subsidy cost (general program administration cost); and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

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 balance sheet and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

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

Accounts Receivable

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

Guaranty Agencies' Federal Funds

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

The balance in the Federal Fund represents consolidated reserve balances of the 27 guaranty agencies based on the Guaranty Agency Financial Reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit based on form of organization. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are credited to the Department's Fund Balance with Treasury account. (See Notes 2, 4, and 9)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

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

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. (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 operating leases.

The Department also leases information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Notes 4 and 14)

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted. The government, acting in its sovereign capacity, can abrogate liabilities that arise from activities other than contracts. FFEL program and Direct Loan program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 6)

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. Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. (See Note 9)

Debt

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 at 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)

Net Cost

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

Net program costs are gross costs less revenue earned from activities. The Department determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program. (See Note 10)

Credit Program Interest Expense and Interest Revenue

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

Federal interest expense is recognized on the outstanding borrowing from Treasury (debt) used to finance loans. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense and interest revenue are equal for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest accruals and interest 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 11)

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.

Personnel Compensation and Other Employee Benefits

Annual, Sick, and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

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

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

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

Federal Employees’ Compensation Act. The *Federal Employees’ Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The

FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally, the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events, such as death, disability, medical, and miscellaneous costs as determined by DOL annually. (See Notes 6 and 9)

Reclassifications

Certain reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources. Changes made to the balance sheet provide additional information related to credit program receivables and related liability balances, and immaterial balances were aggregated and consolidated into other lines. Components of the prior year Direct Loan subsidy transfers were reclassified in Note 5 to better reflect the fiscal year of underlying loan disbursement versus actual subsidy disbursement; the total FY 2015 Direct Loan subsidy transfers was not affected. Additionally, changes were made to the Statement of Budgetary Resources in accordance with OMB Circular A-136, *Financial Reporting Guidance,* to disaggregate end of year expired unobligated balances and recoveries of prior year unpaid obligations.

Note 2. Non-Entity Assets

As of September 30, 2016 and 2015, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2016		2015	
Non-Entity Assets	**Intragovern-mental**	**With the Public**	**Intragovern-mental**	**With the Public**
Fund Balance with Treasury	$ 231	$ -	$ 69	$ -
Credit Program Receivables, Net	-	449	-	410
Other Assets				
Guaranty Agencies' Federal Funds	-	1,197	-	1,561
Accounts Receivable, Net	-	69	-	67
Total Non-Entity Assets	**231**	**1,715**	**69**	**2,038**
Entity Assets	96,634	1,076,227	103,628	1,017,384
Total Assets	**$ 96,865**	**$ 1,077,942**	**$ 103,697**	**$ 1,019,422**

The Department's FY 2016 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in non-agency receipt accounts, deposit accounts and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (69.8 percent), reported as Guaranty Agencies' Federal Funds, and related Federal Perkins Loan program loan receivables (26.2 percent), reported as credit program 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 these 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

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2016 and 2015, consisted of the following:

Fund Balance with Treasury
(Dollars in Millions)

2016	General Funds	Revolving Funds	Special Funds	Trust Funds	All Other Funds	Total
Status of Funds						
Unobligated Balance						
Available	$ 10,280	$ -	$ -	$ -	$ -	$ 10,280
Unavailable	902	15,480	12	-	-	16,394
Obligated Balance, not Disbursed	54,240	15,630	1	-	-	69,871
Other	-	-	-	-	218	218
Total Fund Balance with Treasury	**$ 65,422**	**$ 31,110**	**$ 13**	**$ -**	**$ 218**	**$ 96,763**

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

Composition of Funds

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Special funds include fees collected on delinquent or defaulted Perkins loans that have reverted back to the Department from the initial lenders. Trust funds generally consist of remaining undisbursed donations for the hurricane relief activities.

Status of Funds

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance ($16,394 million) differs from unapportioned and expired amounts on the SBR ($17,591 million) due to the Guaranty Agencies' Federal Funds ($1,197 million).

Note 4. Other Assets

Other assets, as of September 30, 2016 and 2015, were comprised of the following:

Other Assets
(Dollars in Millions)

	2016		2015	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Guaranty Agencies' Federal Funds	$ -	$ 1,197	$ -	$ 1,561
Accounts Receivable, Net	1	137	2	101
Advances	101	3	76	2
Property and Equipment, Net	-	24	-	21
Other	-	2	-	4
Total Other Assets	**$ 102**	**$ 1,363**	**$ 78**	**$ 1,689**

Note 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

The Department holds $1,076.6 billion in outstanding credit program net receivables. This outstanding balance is comprised primarily of direct loans, defaulted FFEL loans, and FFEL loans purchased using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). There are several other loan programs that the Department administers—including the Federal Perkins Loan program, TEACH grant program, HEAL program, and the Facilities Loan programs.

Credit program receivables, as of September 30, 2016 and 2015, consisted of the following:

Credit Program Receivables, Net
(Dollars in Millions)

	2016			
	Principal	Accrued Interest	Allowance for Subsidy	Net
Direct Loan Program	$ 902,754	$ 50,835	$ 5,292	$ 958,881
FFEL Program	109,804	18,191	(13,125)	114,870
Other Credit Programs for Higher Education	2,988	389	(549)	2,828
Total Credit Receivables	**$ 1,015,546**	**$ 69,415**	**$ (8,382)**	**$ 1,076,579**

	2015			
	Principal	Accrued Interest	Allowance for Subsidy*	Net
Direct Loan Program	$ 800,811	$ 44,250	$ 35,496	$ 880,557
FFEL Program	114,704	17,529	2,471	134,704
Other Credit Programs for Higher Education	2,876	361	(765)	2,472
Total Credit Receivables	**$ 918,391**	**$ 62,140**	**$ 37,202**	**$ 1,017,733**

* Includes allowance for subsidy and liability for loan guarantees

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

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the Direct Loan program. Direct Loans are originated and serviced through contracts with private vendors.

The Department records an estimated obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 6.2 percent of the amount obligated for new loan awards will not be disbursed.

Direct Loan program loan receivables includes defaulted and nondefaulted loans owned and held by the Department. Of the $953.6 billion in gross receivables, as of September 30, 2016, $57.3 billion (6.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $44.1 billion (5.2 percent) as of September 30, 2015.

The allowance for subsidy represents the estimated cost (to taxpayers) of financing the entire loan program for all loans outstanding. The subsidy cost figures are estimated using OMB-reviewed financial modeling methodologies which are subject to the FCRA. The allowance is the aggregate of all positive and negative subsidies as well as modification adjustments, at a point in time, for the current fiscal year and all those prior.

Positive subsidies, which are resources provided by Treasury to the Department for continuing loan origination and servicing activities, are required when estimated program cash outflows are expected to exceed inflows. Alternatively, when the estimated cash inflows are expected to exceed outflows, the Department transfers excess subsidy funds back to the Treasury (negative subsidy transfers). Positive subsidy increases aggregate program costs and negative subsidy decreases aggregate program costs to taxpayers.

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 internal and external risk factors which 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 with regard 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, such as growing efforts to increase borrower enrollment in income-driven repayment (IDR) plans, 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 increasing enrollment of borrowers in the IDR 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 which displays the interrelated risks facing the Direct Loan program.

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

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (35,496)**	**$ (47,358)**
Activity		
Fee Collections	1,685	1,618
Loan Cancellations	(5,065)	(4,777)
Subsidy Allowance Amortization	17,815	16,373
Other	(350)	(460)
Total Activity	**14,085**	**12,754**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	(15,463)	(15,555)
Defaults, Net of Recoveries	(127)	217
Fees	(1,993)	(1,678)
Other	11,887	10,830
Total of the Above Subsidy Expense Components	**(5,696)**	**(6,186)**
Loan Modification	**-**	**9,936**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1,536)	1,506
Technical and Default Re-estimates	23,351	(6,148)
Upward/(Downward) Subsidy Re-estimates	**21,815**	**(4,642)**
Ending Balance, Allowance for Subsidy	**$ (5,292)**	**$ (35,496)**

Loan cancellations include write-offs of loans because the borrower died, became disabled, or declared bankruptcy. 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. The remaining components of subsidy expense for direct loans disbursed in the current year consist of contract collection costs, program review collections, fees, loan forgiveness under PAYE and other accruals. Components of the FY 2015 subsidy expense for direct loans disbursed in the current year were reclassified to better reflect the fiscal year of underlying loan disbursement versus actual subsidy disbursement. Due to the interaction of the timing of disbursements by loan type and other underlying subsidy rates, the bulk of these expenses for both the 2015 cohort and 2016 cohort were recorded in FY 2016.

The following schedule summarizes the Direct Loan interest expense and interest revenue for the years ended September 30, 2016 and 2015:

Direct Loan Program Interest Expense and Revenue

(Dollars in Millions)

	2016	2015
Interest Expense on Treasury Borrowing	$ 30,503	$ 27,593
Total Interest Expense	**$ 30,503**	**$ 27,593**
Interest Revenue from the Public	$ 44,375	$ 39,760
Amortization of Subsidy	(17,815)	(16,373)
Interest Revenue on Uninvested Funds	3,943	4,206
Total Interest Revenue	**$ 30,503**	**$ 27,593**

The following schedule summarizes the Direct Loan subsidy expense for the years ended September 30, 2016 and 2015:

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2016	2015
Subsidy Expense for New Direct Loans Disbursed		
Interest Rate Differential	$ (15,463)	$ (15,555)
Defaults, Net of Recoveries	(127)	217
Fees	(1,993)	(1,678)
Other	11,887	10,830
Total Subsidy Expense for New Direct Loans Disbursed	**(5,696)**	**(6,186)**
Loan Modification	-	9,936
Upward/(Downward) Subsidy Re-estimates	21,815	(4,642)
Direct Loan Subsidy Expense	**$ 16,119**	**$ (892)**

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

Subsidy rates are sensitive to the difference between the borrowers' rates and the rate the Department is charged by Treasury on the debt to fund the loans; for example, a 1 percent increase in projected borrower interest rates would reduce projected direct loan subsidy cost by $4.8 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2015. With the increase in income-driven repayment participation, the Department also conducted sensitivities on incomes for students in IDR and Public Service Loan Forgiveness (PSLF) plans. A 10 percent upward increase in borrower incomes decreases costs almost $8.7 billion for cohorts 1994–2015. A 10 percent increase in PSLF plan participation would increase costs $6.3 billion for cohorts 1994–2015.

Direct Loan program re-estimated subsidy cost was adjusted downward by $4.6 billion in FY 2015. Updated discount rates for the 2014 and 2013 cohorts decreased cost by $6.2 billion. Higher participation in income-dependent repayment plans increased cost by $15 billion. The introduction of a new model for estimating income-driven repayment plan costs resulted in a decrease in subsidy costs by $5.8 billion. Costs increased $1.8 billion due to increases in default rates. Changes in prepayment rates reflect larger than expected prepayment activity, leading to decreased interest earnings, resulting in $3.5 billion in upward subsidy cost. Costs decreased $5.7 billion due to higher forbearance rates. Interest accrues during forbearance and that interest is eventually paid to the Department. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate.

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

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

The subsidy rates applicable to the 2016 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2016

	Interest Differential	Defaults	Fees	Other	Total
Stafford	6.82%	1.56%	(1.68)%	4.98%	11.68%
Unsubsidized Stafford	(8.34)%	1.06%	(1.68)%	6.24%	(2.72)%
PLUS	(22.04)%	0.78%	(4.27)%	5.38%	(20.15)%
Consolidation	3.32%	(0.50)%	0.00%	10.68%	13.50%
Total	(4.40)%	0.65%	(1.58)%	7.18%	1.85%

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy expense for new direct loans reported in the current year relates to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year may include re-estimates. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2016 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2018 President's Budget.

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

The following schedule summarizes the Direct Loan program loan disbursements by loan type for the years ended September 30, 2016 and 2015:

Direct Loan Program Loan Disbursements by Loan Type
(Dollars in Millions)

	2016	2015
Stafford	$ (23,752)	$ (23,953)
Unsubsidized Stafford	(52,254)	(52,698)
PLUS	(19,001)	(19,163)
Consolidation	(45,518)	(46,434)
Total Expenditures	**$ (140,525)**	**$ (142,248)**

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 $46 billion during both FY 2016 and FY 2015. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated.

Federal Family Education Loan Program. As a result of the *SAFRA Act,* no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2016 and 2015, total principal balances outstanding of guaranteed loans held by lenders were approximately $197 billion and $220 billion, respectively. As of September 30, 2016 and 2015, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $193 billion and $215 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables
(Dollars in Millions)

	2016				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
FFEL GSL Program (Pre-1992)	$ 4,087	$ 5,674	$ (7,622)	$ -	$ 2,139
FFEL GSL Program (Post-1991)	35,645	6,562	(12,398)	-	29,809
Loan Purchase Commitment	23,867	2,090	2,922	-	28,879
Loan Participation Purchase	44,434	3,600	4,347	-	52,381
ABCP Conduit	1,771	265	(374)	-	1,662
FFEL Program Loan Receivables	**$ 109,804**	**$ 18,191**	**$ (13,125)**	**$ -**	**$ 114,870**

	2015				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
FFEL GSL Program (Pre-1992)	$ 4,388	$ 6,149	$ (8,162)	$ (10)	$ 2,365
FFEL GSL Program (Post-1991)	33,415	5,756	(4,389)	3,398	38,180
Loan Purchase Commitment	26,474	1,981	4,410	-	32,865
Loan Participation Purchase	48,540	3,403	7,573	-	59,516
ABCP Conduit	1,887	240	(349)	-	1,778
FFEL Program Loan Receivables	**$ 114,704**	**$ 17,529**	**$ (917)**	**$ 3,388**	**$ 134,704**

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 FFEL guaranteed student loan financing account had a negative estimated liability for loan guarantees of $3.4 billion as of September 30, 2015. This indicated that expected collections on anticipated future defaulted loans was in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability as of September 30, 2015, was classified as a component of credit program receivables on the consolidated balance sheet.

The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantees for the insurance portion of the FFEL program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2016	2015
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ (3,398)**	**$ (4,218)**
Activity		
Interest Supplement Payments	(830)	(896)
Claim Payments	(6,678)	(6,917)
Fee Collections	1,731	1,926
Interest on Liability Balance	(1,766)	(1,826)
Other	5,648	12,797
Total Activity	**(1,895)**	**5,084**
Components of Loan Modification		
Loan Modification Costs	151	-
Modification Adjustment Transfers	24	-
Loan Modification	**175**	**-**
Upward/(Downward) Subsidy Re-estimates	**6,535**	**(4,264)**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**1,417**	**(3,398)**
FFEL Liquidating Account Liability for Loan Guarantees	12	10
FFEL Liabilities for Loan Guarantees	**$ 1,429**	**$ (3,388)**

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

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

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (4,410)**	**$ (5,228)**
Activity		
Subsidy Allowance Amortization	644	724
Loan Cancellations	(193)	(274)
Contract Collection Cost and Other	(40)	(40)
Total Activity	**411**	**410**
Upward/(Downward) Subsidy Re-estimates	1,077	408
Ending Balance, Allowance for Subsidy	**$ (2,922)**	**$ (4,410)**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (7,573)**	**$ (8,373)**
Activity		
Subsidy Allowance Amortization	1,208	1,362
Loan Cancellations	(355)	(518)
Direct Asset Activities	(74)	(44)
Total Activity	**779**	**800**
Upward/(Downward) Subsidy Re-estimates	2,447	-
Ending Balance, Allowance for Subsidy	**$ (4,347)**	**$ (7,573)**

The following schedule provides FFEL program subsidy expense for the years ended September 30, 2016 and 2015, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

	2016	2015
FFEL Loan Guarantee Program Subsidy Re-estimates	$ 6,535	$ (4,264)
Loan Purchase Commitment Subsidy Re-estimates	1,077	408
Loan Participation Purchase Subsidy Re-estimates	2,447	-
FFEL Program Upward/(Downward) Subsidy Re-estimates	**10,059**	**(3,856)**
FFEL Guaranteed Loan Program Modification Costs	175	-
FFEL Program Subsidy Expense	**$ 10,234**	**$ (3,856)**

FFEL guaranteed re-estimated subsidy cost was adjusted upward by $10.2 billion in FY 2016. The net upward re-estimates in these programs were due primarily to collection rates on defaulted loans which were lower than anticipated.

Subsidy rates are sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL subsidy costs by $16.6 billion.

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

FY 2016 Modification. In the FFEL program, private lenders provided loan capital, backed by a federal guarantee on the loans. The federal government provided interest subsidies to lenders and reimbursement to guaranty agencies for most of the costs associated with loan defaults and other loan cancellations. The *Consolidated Appropriations Act, 2016*, increased the guaranty agencies' maximum reinsurance percentage on default claims from 95 percent to 100 percent. State and private nonprofit guaranty agencies provide services that include: insurance payments to lenders for defaults, collection of some defaulted loans, default avoidance activities, and counseling to schools, students, and lenders.

Other Credit Programs for Higher Education

Receivables, Net for Other Credit Programs for Higher Education
(Dollars in Millions)

	2016				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
Federal Perkins Loans	$ 385	$ 242	$ (178)	$ -	$ 449
TEACH Program Loans	698	101	(109)	-	690
HEAL Program Loans	405	31	(99)	-	337
Facilities Loan Programs	1,500	15	(163)	-	1,352
Total	**$ 2,988**	**$ 389**	**$ (549)**	**$ -**	**$ 2,828**

	2015				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
Federal Perkins Loans	$ 356	$ 222	$ (168)	$ -	$ 410
TEACH Program Loans	642	97	(108)	-	631
HEAL Program Loans	415	28	(127)	(193)	123
Facilities Loan Programs	1,463	14	(169)	-	1,308
Total	**$ 2,876**	**$ 361**	**$ (572)**	**$ (193)**	**$ 2,472**

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

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

The subsidy rates applicable to the 2016 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2016

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	6.23%	0.21%	0.00%	6.61%	13.05%

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. 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 $1.5 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and $235 million obligated to support near term lending as of September 30, 2016.

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

Administrative Expenses

Administrative expenses, for the years ended September 30, 2016 and 2015, consisted of the following:

Administrative Expenses
(Dollars in Millions)

	2016		2015	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 721	$ 465	$ 653	$ 442
Other Expense	50	33	28	18
Total	**$ 771**	**$ 498**	**$ 681**	**$ 460**

Note 6. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities.

Liabilities Not Covered by Budgetary Resources
(Dollars in Millions)

	2016		2015	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Not Covered by Budgetary Resources				
Subsidy Due to Treasury General Fund	$ 2,429	$ -	$ 2,786	$ -
Other Liabilities				
Federal Perkins Loan Program	437	-	395	-
Accrued Unfunded Annual leave	-	40	-	38
FECA Liabilities	8	1	3	16
Custodial Liabilities	2	-	-	-
Total Liabilities Not Covered by Budgetary Resources	**$ 2,876**	**$ 41**	**$ 3,184**	**$ 54**
Total Liabilities Covered by Budgetary Resources	1,129,411	9,642	1,058,889	6,189
Total Liabilities	**$ 1,132,287**	**$ 9,683**	**$ 1,062,073**	**$ 6,243**

Note 7. Debt

Debt, as of September 30, 2016 and 2015, consisted of the following:

Debt
(Dollars in Millions)

	2016			
	Beginning Balance	**Borrowing**	**Repayments**	**Ending Balance**
Direct Loan Program	$ 909,927	$ 146,992	$ (62,634)	$ 994,285
FFEL Program	139,771	160	(8,584)	131,347
Other Credit Programs for Higher Education	2,078	224	(111)	2,191
Total	**$ 1,051,776**	**$ 147,376**	**$ (71,329)**	**$ 1,127,823**

	2015			
	Beginning Balance	**Borrowing**	**Repayments**	**Ending Balance**
Direct Loan Program	$ 819,007	$ 159,667	$ (68,747)	$ 909,927
FFEL Program	145,800	2,557	(8,586)	139,771
Other Credit Programs for Higher Education	1,864	268	(54)	2,078
Total	**$ 966,671**	**$ 162,492**	**$ (77,387)**	**$ 1,051,776**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2016, debt increased 7 percent from $1,052 billion in the prior year to $1,128 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 88.2 percent of the Department's debt, as of September 30, 2016, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

The Department also borrows from Treasury for activity in the other credit programs for higher education. During FY 2016, TEACH net borrowing of $67 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2016, debt in HBCU increased by $63 million, or 4.52 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

Note 8. Subsidy Due to Treasury General Fund

Subsidy Due to Treasury General Fund
(Dollars in Millions)

	2016	2015
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ -	$ 1,474
FFEL Program	213	3,977
Total Credit Program Downward Subsidy Re-estimates	**213**	**5,451**
Future Liquidating Account Collections		
FFEL Program	2,253	2,603
Other Credit Programs for Higher Education	176	183
Total Future Liquidating Account Collections	**2,429**	**2,786**
Total Subsidy Due to Treasury General Fund	**$ 2,642**	**$ 8,237**

When downward subsidy re-estimates are executed, the amounts will be transferred to the Treasury General Fund in the following fiscal year. Future liquidating account collections represent the net present value of estimated future excess collections (estimated collections in excess of estimated outlays) for the Department's pre-1992 FFEL and HEAL loan programs. When collected, these liquidating account excess collections will also be returned to the Treasury General Fund.

Note 9. Other Liabilities

Other liabilities, as of September 30, 2016 and 2015, consisted of the following:

Other Liabilities
(Dollars in Millions)

	2016		2015	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Accounts Payable	$ 1	$ 3,966	$ 1	$ 3,695
Accrued Grant Liability	-	3,760	-	2,377
Guaranty Agencies' Funds Due to Treasury	1,197	-	1,561	-
Loan Guarantee Liability	-	1,633	-	-
Federal Perkins Loan Program	437	-	395	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	40	255	83	84
Advances from Others and Deferred Credits	11	9	14	18
Accrued Unfunded Annual Leave	-	40	-	38
FECA Liabilities	8	1	3	16
Accrued Payroll and Benefits	-	19	-	15
Employer Contributions and Payroll Taxes	126	-	3	-
Custodial Liability	2	-	-	-
Total Other Liabilities	**$ 1,822**	**$ 9,683**	**$ 2,060**	**$ 6,243**

Note 10. Intragovernmental Cost and Exchange Revenue by Program

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

Net Cost Program	Program Office	Strategic Goal
Increase College Access, Quality, and Completion	FSA OPE OCTAE	**Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education.** Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	OESE	**Goal 2: Elementary and Secondary Education.** Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Ensure Effective Educational Opportunities for All Students	OELA OCR OSERS	**Goal 4: Equity.** Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.
Enhance the Education System's Ability to Continuously Improve	IES OII	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, evidence, transparency, innovation, and technology.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)
2016

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 36,325	$ -	$ -	$ 120	$ 36,445
With the Public	56,707	-	-	4,162	60,869
Total Gross Program Costs	**93,032**	**-**	**-**	**4,282**	**97,314**
Earned Revenue					
Intragovernmental	(4,744)	-	-	(6)	(4,750)
With the Public	(29,516)	-	-	(50)	(29,566)
Total Program Earned Revenue	**(34,260)**	**-**	**-**	**(56)**	**(34,316)**
Total Program Costs	**58,772**	**-**	**-**	**4,226**	**62,998**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	183	-	-	183
With the Public	-	22,179	-	1	22,180
Total Gross Program Costs	**-**	**22,362**	**-**	**1**	**22,363**
Earned Revenue					
Intragovernmental	-	(5)	-	-	(5)
With the Public	-	(11)	-	-	(11)
Total Program Earned Revenue	**-**	**(16)**	**-**	**-**	**(16)**
Total Program Costs	**-**	**22,346**	**-**	**1**	**22,347**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	105	35	140
With the Public	-	-	15,973	812	16,785
Total Gross Program Costs	**-**	**-**	**16,078**	**847**	**16,925**
Earned Revenue					
With the Public	-	-	(10)	(1)	(11)
Total Program Earned Revenue	**-**	**-**	**(10)**	**(1)**	**(11)**
Total Program Costs	**-**	**-**	**16,068**	**846**	**16,914**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	96	96
With the Public	-	-	-	2,025	2,025
Total Gross Program Costs	**-**	**-**	**-**	**2,121**	**2,121**
Earned Revenue					
With the Public	-	-	-	(58)	(58)
Total Program Earned Revenue	**-**	**-**	**-**	**(58)**	**(58)**
Total Program Costs	**-**	**-**	**-**	**2,063**	**2,063**
Net Cost of Operations	**$ 58,772**	**$ 22,346**	**$ 16,068**	**$ 7,136**	**$ 104,322**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2015

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

Note 11. Credit Program Interest Expense and Interest Revenue

For FY 2016 and FY 2015, interest expense and interest revenue for credit programs consisted of the following:

Credit Program Interest Expense and Interest Revenue
(Dollars in Millions)

	2016						
	Interest Expense	Subsidy Amortization	Net Expense	Gross Interest Revenue		Subsidy Amortization	Net Revenue
	Federal	Non-federal		Federal	Non-federal	Non-federal	
Direct Loan Program	$ 30,503	$ -	$ 30,503	$ 3,943	$ 44,375	$ (17,815)	$ 30,503
FFEL Program	4,980	(1,766)	3,214	516	4,600	(1,902)	3,214
Other Credit Programs for Higher Education	66	-	66	12	79	(25)	66
Total	**$ 35,549**	**$ (1,766)**	**$ 33,783**	**$ 4,471**	**$ 49,054**	**$ (19,742)**	**$ 33,783**

	2015						
	Interest Expense	Subsidy Amortization	Net Expense	Gross Interest Revenue		Subsidy Amortization	Net Revenue
	Federal	Non-federal		Federal	Non-federal	Non-federal	
Direct Loan Program	$ 27,593	$ -	$ 27,593	$ 4,206	$ 39,760	$ (16,373)	$ 27,593
FFEL Program	5,252	(1,826)	3,426	454	5,110	(2,138)	3,426
Other Credit Programs for Higher Education	60	-	60	13	72	(25)	60
Total	**$ 32,905**	**$ (1,826)**	**$ 31,079**	**$ 4,673**	**$ 44,942**	**$ (18,536)**	**$ 31,079**

Note 12. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2016, budgetary resources were $335 billion and net agency outlays were $160 billion. As of September 30, 2015, budgetary resources were $350 billion and net agency outlays were $167 billion.

New Obligations and Upward Adjustments by Apportionment Type and Category

New obligations and upward adjustments by apportionment type and category, as of September 30, 2016 and 2015, consisted of the following:

New Obligations and Upward Adjustments by Apportionment Type and Category
(Dollars in Millions)

	2016	2015
Direct:		
Category A	$ 2,170	$ 2,083
Category B	304,270	318,212
Exempt from Apportionment	638	104
Total Direct Apportionment	307,078	320,399
Reimbursable:		
Category A	3	4
Category B	63	64
New Obligations and Upward Adjustments	**$ 307,144**	**$ 320,467**

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

Unused Borrowing Authority

Unused borrowing authority and related changes in available borrowing authority, as of September 30, 2016 and 2015, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2016	2015
Beginning Balance, Unused Borrowing Authority	**$ 54,829**	**$ 61,327**
Current Year Borrowing Authority	167,400	171,807
Funds Drawn from Treasury	(147,376)	(162,492)
Borrowing Authority Withdrawn	(13,862)	(15,813)
Ending Balance, Unused Borrowing Authority	**$ 60,991**	**$ 54,829**

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

Undelivered orders, as of September 30, 2016 and 2015, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2016	2015
Budgetary	$ 50,019	$ 49,838
Non-Budgetary	73,366	75,064
Undelivered Orders (Unpaid)	**$ 123,385**	**$ 124,902**

Budgetary undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Non-budgetary undelivered orders primarily represent undisbursed loan awards and related negative subsidy.

Distributed Offsetting Receipts

The majority of the distributed offsetting receipts line item on the SBR represents amounts paid from the Direct Loan program and FFEL program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and negative subsidies. Distributed offsetting receipts, for the years ended September 30, 2016 and 2015, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2016	2015
Negative Subsidies and Downward Re-estimates of Subsidies:		
FFEL Program	$ 2,550	$ 4,658
Direct Loan Program	7,881	8,211
Facilities Loan Programs	18	83
TEACH Program	5	31
HEAL Program	-	19
Total Negative Subsidies and Downward Re-estimates	10,454	13,002
Other	312	103
Distributed Offsetting Receipts	**$ 10,766**	**$ 13,105**

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

The *FY 2018 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2016, has not been published as of the issue date of these financial statements. The FY 2018 President's Budget is scheduled for release in February 2017.

A reconciliation of the FY 2015 SBR to the FY 2017 President's Budget (FY 2015 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays is presented below.

SBR to *Budget of the United States Government*

(Dollars in Millions)

	Budgetary Resources	Obligations Incurrred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	**$ 349,678**	**$ 320,467**	**$ 13,105**	**$ 167,138**
Expired Funds	(2,195)	(997)		
FFEL Guaranty Agency Amounts Included in the President's Budget	9,239	9,240		
Distributed Offsetting Receipts				13,105
Other	(10)	(3)	1	3
***Budget of the United States Government*[1]**	**$ 356,712**	**$ 328,707**	**$ 13,106**	**$ 180,246**

[1] Amounts obtained from the Appendix, *Budget of the United States Government,* FY 2017

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from the Department's direct control, budgetary resources and obligations incurred are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the FY 2015 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 13. Reconciliation of Net Cost of Operations to Budget

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

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

The reconciliation of net cost of operations to budget, as of September 30, 2016 and 2015, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2016	2015
Resources Used to Finance Activities:		
New Obligations and Upward Adjustments	$ 307,144	$ 320,467
Spending Authority from Offsetting Collections and Recoveries	(136,094)	(145,810)
Offsetting Receipts	(10,766)	(13,105)
Net Budgetary Resources Obligated	**160,284**	**161,552**
Imputed Financing from Costs Absorbed by Others	81	30
Other Financing Sources	(5,124)	(14,293)
Net Other Resources	**(5,043)**	**(14,263)**
Net Resources Used to Finance Activities	**155,241**	**147,289**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	1,763	5,177
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(2,598)	(20,131)
Credit Program Collections	92,080	102,183
Acquisition of Fixed Assets	(11)	(15)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(161,826)	(165,850)
Resources from Non-Entity Activity	5,196	14,948
Net Resources that Do Not Finance the Net Cost of Operations	**(65,396)**	**(63,688)**
Net Resources Used to Finance the Net Cost of Operations	**89,845**	**83,601**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	-	1
Subsidy Amortization and Interest on the Liability for Loan Guarantees	17,977	16,710
Other	22	(1)
Total Components Not Requiring or Generating Resources	**17,999**	**16,710**
Increase/(Decrease) in Annual Leave Liability	2	1
Accrued Re-estimates of Credit Subsidy Expense	28,006	2,598
Increase in Exchange Revenue Receivable from the Public	(31,611)	(29,486)
Accrued Interest with Treasury	1	1
Other (+/-)	80	-
Total Components Requiring or Generating Resources in Future Periods	**(3,522)**	**(26,886)**
Total Components that Will Not Require or Generate Resources in the Current Period	**14,477**	**(10,176)**
Net Cost of Operations	**$ 104,322**	**$ 73,425**

Note 14. 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 FASAB Standard No. 5, Accounting for Liabilities of the Federal Government. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments

The Department leases all or a portion of 17 privately owned and 10 publicly owned buildings in 20 cities. Estimated future minimum lease payments for the privately and publicly owned buildings are presented below.

Future Minimum Lease Payments
(Dollars in Millions)

2016		2015	
FY	**Amount**	**FY**	**Amount**
2017	$ 74	2016	$ 83
2018	78	2017	76
2019	80	2018	81
2020	83	2019	79
2021	85	2020	82
After 2021	86	After 2020	84
Total	**$ 486**	**Total**	**$ 485**

Guaranty Agencies

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in fiscal years 2016 or 2015 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

Federal Perkins Loan Program

The Federal Perkins Loan program provides financial assistance to eligible postsecondary school students. In FY 2016, the Department provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the latest academic year that ended June 30, 2016, approximately 421 thousand loans were made totaling $1.0 billion at 1,378 institutions, making an average of $2,480 per loan. The Department's equity interest was approximately $6.5 billion as of June 30, 2016.

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

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015. However, the program was extended through September 30, 2017 by the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions that the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans.

Litigation and Other Claims

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

The cost of loan forgiveness related to the recent proprietary school closures reflected in the accompanying financial statements is limited to claims received through September 30. On November 1, 2016, the Department issued certain regulations that may affect the amount to ultimately be paid related to these claims. The final disposition of claims filed and those yet to be filed from schools closed before September 30 is not expected to have a material impact to 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.

United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2016
(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Unobligated Balance, Brought Forward, October 1	$ 14,774	$ 14,437	$ 12,719	$ 14,236	$ 800	$ 273	$ 982	$ 201
Recoveries of Prior Year Unpaid Obligations	746	21,047	188	21,047	368	88	102	-
Other Changes in Unobligated Balance (+ or -)	(772)	(24,695)	(374)	(24,687)	(87)	(153)	(158)	(8)
Unobligated Balance from Prior Year Budget Authority, Net	$ 14,748	$ 10,789	$ 12,533	$ 10,596	$ 1,081	$ 208	$ 926	$ 193
Appropriations (Discretionary and Mandatory)	87,924	24	41,948	24	22,145	16,493	7,338	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	167,400	-	167,272	-	-	-	128
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	522	53,608	470	53,563	3	-	49	45
Total Budgetary Resources	**$ 103,194**	**$ 231,821**	**$ 54,951**	**$ 231,455**	**$ 23,229**	**$ 16,701**	**$ 8,313**	**$ 366**
Status of Budgetary Resources:								
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 90,802	$ 216,342	$ 44,567	$ 216,152	$ 22,316	$ 16,540	$ 7,379	$ 190
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	10,280	-	8,782	-	846	-	652	-
Unapportioned, Unexpired Accounts	1,212	15,479	1,212	15,303	-	-	-	176
Unexpired Unobligated Balance, End of year	**$ 11,492**	**$ 15,479**	**$ 9,994**	**$ 15,303**	**$ 846**	**$ -**	**$ 652**	**$ 176**
Expired Unobligated Balance, End of Year	900	-	390	-	67	161	282	-
Unobligated Balance, End of Year (Total)	**$ 12,392**	**$ 15,479**	**$ 10,384**	**$ 15,303**	**$ 913**	**$ 161**	**$ 934**	**$ 176**
Total Status of Budgetary Resources	**$ 103,194**	**$ 231,821**	**$ 54,951**	**$ 231,455**	**$ 23,229**	**$ 16,701**	**$ 8,313**	**$ 366**
Change in Obligated Balance:								
Unpaid Obligations								
Unpaid Obligations, Brought Forward, October 1	$ 52,645	$ 78,116	$ 19,286	$ 77,880	$ 14,950	$ 8,835	$ 9,574	$ 236
New Obligations and Upward Adjustments	90,802	216,342	44,567	216,152	22,316	16,540	7,379	190
Outlays (Gross) (-)	(88,452)	(196,787)	(43,449)	(196,596)	(21,584)	(15,959)	(7,460)	(191)
Recoveries of Prior Year Unpaid Obligations (-)	(746)	(21,047)	(188)	(21,047)	(368)	(88)	(102)	-
Unpaid Obligations, End of Year	**$ 54,249**	**$ 76,624**	**$ 20,216**	**$ 76,389**	**$ 15,314**	**$ 9,328**	**$ 9,391**	**$ 235**
Uncollected Payments								
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ (3)	$ (26)	$ -	$ (4)	$ -	$ -	$ (3)	$ (22)
Change in Uncollected Payments, Federal Sources (+ or -)	1	22	-	-	-	-	1	22
Uncollected Payments, Federal Sources, End of Year (-)	$ (2)	$ (4)	$ -	$ (4)	$ -	$ -	$ (2)	$ -
Memorandum (Non-add) Entries								
Obligated Balance, Start of Year (+ or -)	**$ 52,642**	**$ 78,090**	**$ 19,286**	**$ 77,876**	**$ 14,950**	**$ 8,835**	**$ 9,571**	**$ 214**
Obligated Balance, End of Year (+ or -)	**$ 54,247**	**$ 76,620**	**$ 20,216**	**$ 76,385**	**$ 15,314**	**$ 9,328**	**$ 9,389**	**$ 235**
Budget Authority and Outlays, Net:								
Budget Authority, Gross (Discretionary and Mandatory)	$ 88,446	$ 221,032	$ 42,418	$ 220,859	$ 22,148	$ 16,493	$ 7,387	$ 173
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(721)	(114,123)	(653)	(113,986)	-	-	(68)	(137)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	1	22	-	-	-	-	1	22
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(516)	(1)	(516)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 87,725**	**$ 106,415**	**$ 41,764**	**$ 106,357**	**$ 22,148**	**$ 16,493**	**$ 7,320**	**$ 58**
Outlays, Gross (Discretionary and Mandatory)	$ 88,452	$ 196,787	$ 43,449	$ 196,596	$ 21,584	$ 15,959	$ 7,460	$ 191
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(721)	(114,123)	(653)	(113,986)	-	-	(68)	(137)
Outlays, Net (Discretionary and Mandatory)	87,731	82,664	42,796	82,610	21,584	15,959	7,392	54
Distributed Offsetting Receipts (-) (Note 12)	(10,766)	-	(10,684)	-	-	-	(82)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 76,965**	**$ 82,664**	**$ 32,112**	**$ 82,610**	**$ 21,584**	**$ 15,959**	**$ 7,310**	**$ 54**

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

(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Unobligated Balance, Brought Forward, October 1	$ 14,837	$ 10,109	$ 12,642	$ 9,857	$ 836	$ 309	$ 1,050	$ 252
Recoveries of Prior Year Unpaid Obligations	1,978	20,727	921	20,727	643	271	143	-
Other Changes in Unobligated Balance (+ or -)	(679)	(23,984)	(194)	(23,978)	(210)	(140)	(135)	(6)
Unobligated Balance from Prior Year Budget Authority, Net	$ 16,136	$ 6,852	$ 13,369	$ 6,606	$ 1,269	$ 440	$ 1,058	$ 246
Appropriations (Discretionary and Mandatory)	100,701	904	55,798	904	21,575	16,201	7,127	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	171,807	-	171,624	-	-	-	183
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	381	52,897	502	52,823	3	(184)	60	74
Total Budgetary Resources	**$ 117,218**	**$ 232,460**	**$ 69,669**	**$ 231,957**	**$ 22,847**	**$ 16,457**	**$ 8,245**	**$ 503**
Status of Budgetary Resources:								
New Obligations Incurred and Upward Ajdustments (Total) (Note 12)	$ 102,444	$ 218,023	$ 56,950	$ 217,721	$ 22,047	$ 16,184	$ 7,263	$ 302
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	11,806	550	10,473	550	677	33	623	-
Unapportioned, Unexpired Accounts	1,771	13,887	1,771	13,686	-	-	-	201
Unexpired Unobligated Balance, End of year	**$ 13,577**	**$ 14,437**	**$ 12,244**	**$ 14,236**	**$ 677**	**$ 33**	**$ 623**	**$ 201**
Expired Unobligated Balance, End of Year	1,197	-	475	-	123	240	359	-
Unobligated Balance, End of Year (Total)	**$ 14,774**	**$ 14,437**	**$ 12,719**	**$ 14,236**	**$ 800**	**$ 273**	**$ 982**	**$ 201**
Total Status of Budgetary Resources	**$ 117,218**	**$ 232,460**	**$ 69,669**	**$ 231,957**	**$ 22,847**	**$ 16,457**	**$ 8,245**	**$ 503**
Change in Obligated Balance:								
Unpaid Obligations								
Unpaid Obligations, Brought Forward, October 1	$ 56,219	$ 80,316	$ 21,466	$ 80,104	$ 15,948	$ 8,921	$ 9,884	$ 212
New Obligations and Upward Adjustments	102,444	218,023	56,950	217,721	22,047	16,184	7,263	302
Outlays (Gross) (-)	(103,847)	(199,496)	(58,209)	(199,218)	(22,402)	(15,806)	(7,430)	(278)
Actual Transfers, Unpaid Obligations (Net) (+ o -)	(193)	-	-	-	-	(193)	-	-
Recoveries of Prior Year Unpaid Obligations (-)	(1,978)	(20,727)	(921)	(20,727)	(643)	(271)	(143)	-
Unpaid Obligations, End of Year	**$ 52,645**	**$ 78,116**	**$ 19,286**	**$ 77,880**	**$ 14,950**	**$ 8,835**	**$ 9,574**	**$ 236**
Uncollected Payments								
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ (1)	$ (26)	$ -	$ (4)	$ -	$ -	$ (1)	$ (22)
Change in Uncollected Payments, Federal Sources (+ or -)	(2)	-	-	-	-	-	(2)	-
Uncollected Payments, Federal Sources, End of Year (-)	$ (3)	$ (26)	$ -	$ (4)	$ -	$ -	$ (3)	$ (22)
Memorandum (Non-add) Entries								
Obligated Balance, Start of Year (+ or -)	**$ 56,218**	**$ 80,290**	**$ 21,466**	**$ 80,100**	**$ 15,948**	**$ 8,921**	**$ 9,883**	**$ 190**
Obligated Balance, End of Year (+ or -)	**$ 52,642**	**$ 78,090**	**$ 19,286**	**$ 77,876**	**$ 14,950**	**$ 8,835**	**$ 9,571**	**$ 214**
Budget Authority and Outlays, Net:								
Budget Authority, Gross (Discretionary and Mandatory)	$ 101,082	$ 225,608	$ 56,300	$ 225,351	$ 21,578	$ 16,017	$ 7,187	$ 257
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(713)	(122,387)	(647)	(122,283)	-	-	(66)	(104)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	(2)	-	-	-	-	-	(2)	-
Recoveries of Prior Year Unpaid Obligations (Discretionary and Mandatory) (+ or -)	(2)	(542)	(2)	(542)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 100,365**	**$ 102,679**	**$ 55,651**	**$ 102,526**	**$ 21,578**	**$ 16,017**	**$ 7,119**	**$ 153**
Outlays, Gross (Discretionary and Mandatory)	$ 103,847	$ 199,496	$ 58,209	$ 199,218	$ 22,402	$ 15,806	$ 7,430	$ 278
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(713)	(122,387)	(647)	(122,283)	-	-	(66)	(104)
Outlays, Net (Discretionary and Mandatory)	103,134	77,109	57,562	76,935	22,402	15,806	7,364	174
Distributed Offsetting Receipts (-) (Note 12)	(13,105)	-	(12,957)	-	-	-	(148)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 90,029**	**$ 77,109**	**$ 44,605**	**$ 76,935**	**$ 22,402**	**$ 15,806**	**$ 7,216**	**$ 174**

Required Supplementary Stewardship Information

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

Stewardship Expenses

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

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

With its relatively small role in total education funding, the Department strives to create the greatest number of favorable program outcomes with a limited amount of taxpayer-provided resources. This is accomplished by targeting areas in which funds will go the furthest in doing the most good. Namely, federal funding is used to provide grant, loan, loan-forgiveness, work-study, and other assistance to more than 20 million postsecondary students. The majority of the Department's $285 billion in gross outlays during FY 2016 were attributable to Direct Loan disbursements administered by FSA. Grant-based activity under discretionary, formula, and need-based formats primarily accounted for the remainder of the outlays.

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

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

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

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

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

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

Further details on financial figures and program-level goals can be viewed in the Department's *2016 Budget Summary*.

Investment in Human Capital

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

Departmentwide strategic goals are formed around the agency mission of promoting student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department drives toward accomplishing this mission by establishing priority areas. For 2016, the following six elements of focus were enumerated in the Department's Budget Request:

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

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

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

Summary of Human Capital Expenses
(Dollars in Millions)

	2016	2015	2014	2013	2012
Federal Student Aid Expense					
Direct Loan Subsidy	$ 16,119	$ (892)	$ 8,126	$ (39,557)	$ (10,720)
Federal Family Education Loan Program Subsidy	10,234	(3,856)	(6,585)	(8,753)	(14,381)
Perkins Loans, Pell and Other Grants	30,671	31,400	33,098	33,542	34,310
Program Operational Costs	308	242	206	222	192
Subtotal	**57,332**	**26,894**	**34,845**	**(14,546)**	**9,401**
Departmental Programs					
Elementary and Secondary Education	22,155	22,146	22,832	22,221	22,137
Special Education and Rehabilitative Services	15,944	15,751	15,948	15,919	16,139
American Recovery and Reinvestment Act and Education Jobs Fund	-	-	-	2,623	7,651
Other Departmental Programs	6,349	6,494	6,938	6,175	6,211
Program Operational Costs	625	511	667	703	481
Subtotal	**45,073**	**44,902**	**46,385**	**47,641**	**52,619**
Grand Total	**$ 102,405**	**$ 71,796**	**$ 81,230**	**$ 33,095**	**$ 62,020**

Further detail regarding the nature of expenses and the recipient(s) of payments can be seen in the Department's financial statement footnotes (starting on page 50) and at the Department's *USA Spending Agency Profile Page*.

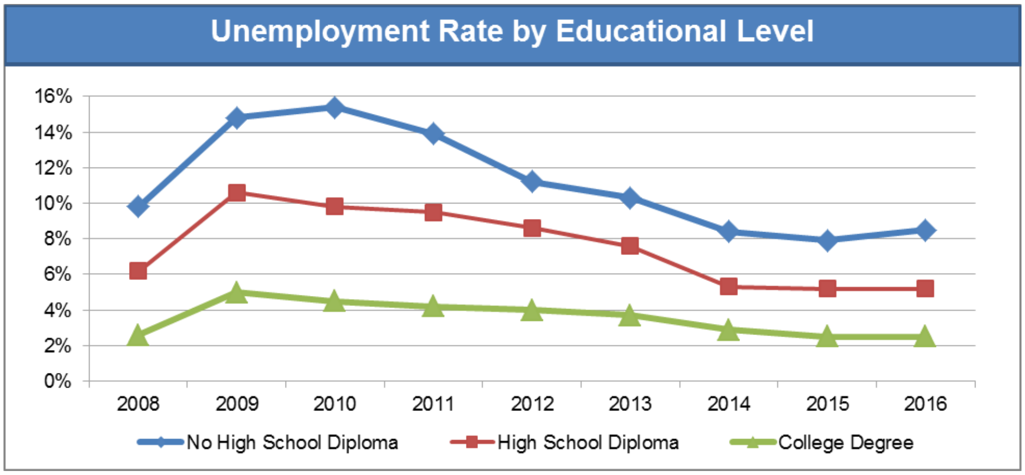
Program Outcomes

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

Interesting data regarding U.S. unemployment rates and average incomes published by the Department of Labor in September 2016 are illustrated in the graphs below.

An inverse relationship is evident where persons who completed lower levels of education experienced higher rates of unemployment. For example, as of September 2016, men and women together had the following unemployment rates:

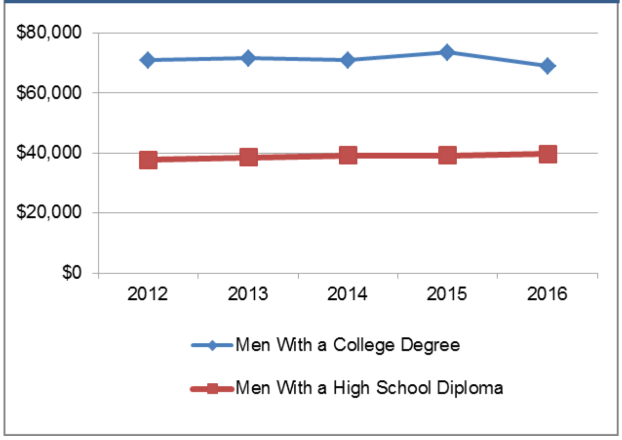
- 8.5 percent for those who had not completed high school,
- 5.2 percent for those who had completed high school, and
- 2.5 percent for those who had completed a bachelor's degree or higher.



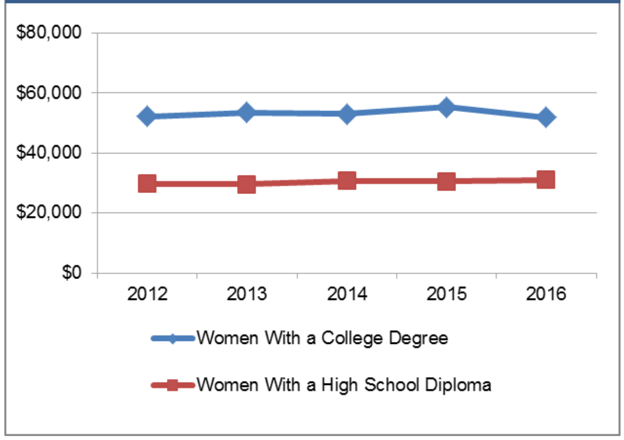
Another relationship clearly exists for the effect on income based on whether an individual has a high school education or a college education. For example, as of September 2016, men and women had the following average incomes:

- $40,000 annually for men with a high school diploma,
- $69,000 annually for men with a college degree,
- $31,000 annually for women with a high school diploma, and
- $52,000 annually for women with a college degree.

MEN
Average Income
(25 Years Old and Over), 2012–2016



WOMEN
Average Income
(25 Years Old and Over), 2012–2016



For further details on this data, please visit the U.S. Department of Labor's Bureau of Labor Statistics, Table A-4 for employment status or Table 5 for median income.
Nationally, progress is being made from early education, expanding through the time college graduates enter the workforce, as well as later in life when they are repaying student loan debt incurred for postsecondary education. Broad improvements to the system increase equitable opportunities for every child to have the privilege to learn, develop life skills, and succeed over the course of their adult life. These improvements certainly accelerate the attainment of national educational goals.

Successful outcomes like these in early-focus areas lead to elementary school students who continue to outperform their predecessor classes. This is shown in the fact that 4th and 8th grade metrics for aptitude tests in math and reading, presented by the National Assessment of Educational Progress, are at their highest ever.

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

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

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

Although a direct and proven linkage does not exist between the two variables, the Department feels strongly about its ability to mitigate the risk of default through various efforts. Stewardship expenses for this postsecondary goal include those incurred to increase borrower awareness of repayment options, encouraging third-party loan servicers to work more effectively in helping students avoid default by devising viable repayment plans, and by working with financial aid offices around the country to help them improve the loan counseling provided to students who have yet to graduate or enter repayment.

Default statistics for the FY 2013 cohort of borrowers entering repayment were released at the end of FY 2016. Of the 5.2 million borrowers entering repayment from October 1, 2012, to September 30, 2013, 593,000 defaulted on their loan before September 30, 2015. This borrower default rate of 11.3 percent across all institution types showed a decline from the prior year rate of 11.8 percent for the 2012 cohort. It is important to note that this metric is unadjusted for loan program facets, such as consolidations and forbearance.

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

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 14, 2016

The Honorable John B. King, Jr.
Secretary of Education
Washington, D.C. 20202

Dear Secretary King:

The enclosed report presents the results of the audit of the U.S. Department of Education's (Department) financial statements for fiscal years 2016 and 2015 to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CliftonLarsonAllen) to audit the financial statements of the Department as of September 30, 2016 and 2015, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements*.

Results of the Independent Audit

CliftonLarsonAllen found:

- The fiscal years 2016 and 2015 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- Two significant deficiencies in internal control over financial reporting:
    - Controls over the Department's Modeling Activities Need Improvement, and
    - Department and Federal Student Aid Management Need to Mitigate Persistent Information Technology Control Deficiencies; and
- One instance of reportable noncompliance with Federal law related to referring delinquent student loan debts to Treasury.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the audit standards

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

Page 2 – The Honorable John B. King, Jr.

established by the Comptroller General. In that regard, we evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CliftonLarsonAllen's reports and related audit documentation; and inquired of its representatives.

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

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

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

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

CliftonLarsonAllen

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Education

Secretary
United States Department of Education

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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INDEPENDENT AUDITORS' REPORT (Continued)

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

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Education as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. require that the information in the Department's Management Discussion and Analysis (MD&A), other Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) included in the U.S. Department of Education FY 2016 Agency Financial Report, be presented to supplement the financial statements. Such information, although not a part of the 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, other RSI, and RSSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Secretary, Message from the Chief Financial Officer, and the Other Information in the U. S. Department of Education FY2016 Agency Financial Report are presented for purposes of additional analysis and are not a required part of the financial statements or RSI. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control or on management's statement of assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control or on management's assertion on internal control included in the MD&A.

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

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

Controls over the Department's Modeling Activities Need Improvement

The Department maintains various models that apply mathematical techniques or statistical methods to historical student loan event data to estimate future loan performance and calculate the cost or value of the various student loan programs on a present value basis. We identified deficiencies in the controls over the Department's processes for model design and development, risk assessment, model operation and validation, and oversight. The Department does not have a comprehensive framework for risk management and fully developed internal controls for its modeling activities, which could impact the reliability of its estimates used for financial reporting, budgetary formulation and management analysis.

INDEPENDENT AUDITORS' REPORT (Continued)

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

The Department oversees a large portfolio of Department and contractor-owned business systems and applications that requires an effective and comprehensive information system security program. Prior audits have identified numerous control deficiencies at the Department, Federal Student Aid (FSA), and application level. While the Department has made progress in some areas to address these issues in recent years, we continued to identify control deficiencies in the Department's information security program relating to policies and procedures, compliance monitoring, personnel management, and security incident response as well as the management of various application level security, configuration and access controls. These deficiencies increase the risk of unauthorized access to the Department's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of its data and information.

Report on Compliance

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

The results of our tests, exclusive of those discussed below, disclosed one instance of noncompliance, described below and in Exhibit B, which is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02.

As of September 30, 2016, FSA is not in compliance with the legal requirement for referring 120 day delinquent student loan debts to Treasury. In 2014, Federal law[1] was amended[2] to require agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset (i.e. collection through the reduction of future Federal payments). Due to the number of entities and systems involved in handling student loan debts, FSA is not yet capable of meeting this accelerated timeline.

We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of these provisions disclosed no instances in which the Department's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, or (3) the USSGL at the transaction level.

[1] 31 U.S. Code Section 3716(c)(6)
[2] Public Law 113-101 (DATA Act) Section 5

INDEPENDENT AUDITORS' REPORT (Continued)

Management's Responsibility for Internal Control and Compliance

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

Auditors' Responsibilities

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

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

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

Management's Response to Findings

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

Status of Prior Year's Control Deficiency and Noncompliance Issue

We have reviewed the status of the Department's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 13, 2015. The status of prior year findings is presented in Exhibit D.

INDEPENDENT AUDITORS' REPORT (Continued)

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 14, 2016

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Controls over the Department's Modeling Activities Need Improvement

The Department does not have a comprehensive framework for risk management and fully developed internal controls over its critical modeling activities, including model development, risk assessment, operation, and validation.

The Cost Estimation and Analysis Division (CEAD) within the Office of Planning, Evaluation and Policy Development's Budget Service is responsible for developing estimates of the subsidy cost of the Department's direct and guaranteed loan programs. These estimates are used to support budget estimates, policy decisions and financial reporting. CEAD has developed a set of complex financial and economic models that apply mathematical techniques and statistical methods to historical loan level data to develop student loan program performance assumptions and estimate the value and cost of the Department's various loan programs. These models also support management's estimate of the net present value of cash flows related to nearly $1.3 trillion in direct, defaulted, and guaranteed student loans as of September 30, 2016.

An effective controls structure is generally defined through appropriately documented, approved, and implemented policies and procedures that outline requirements for ensuring all modeling and related control activities are performed and documented in accordance with the intent of management. A proper governance structure involves input from program management and multiple layers of review, approval, and oversight from CEAD management, the Department and FSA Offices of the Chief Financial Officer, and senior agency management over modeling activities. Our audit identified the following:

Model development
The Department does not have a formalized process for managing critical model development activities, which should include documenting the objectives of the model, applicable program attributes and requirements affecting the planned model, evaluation of available data, proposed design, potential design alternatives, and model testing and approval.

Our audit found the Department maintained limited documentation supporting the initial design, evaluation, justification and testing of the model for:

- selecting a sample of borrowers from the National Student Loan Data System (NSLDS) used for calculating program performance assumptions
- estimating future incomes for borrowers under income-dependent repayment plans
- projecting future cash flows for borrowers under income-dependent repayment plans
- calculating specific performance assumptions
- projecting overall program level cash flows (Student Loan Model)

During FY2016, the Department made concerted efforts to enhance the documentation of two models updated during the year, including the modeling of recoveries on defaulted loans and documentation related to the NSLDS sampling process. The revised documentation represented a substantial improvement in explaining the methodology and its basis but was not sufficiently detailed to be fully effective guide for an independent reviewer to follow the procedures performed.

CEAD is comprised of a small team of experienced economists and analysts responsible for performing its modeling activities, but thoroughly documenting such design requirements may

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

be onerous for the current team. Given the size, growth and changes of the Direct Loan Program in recent years, ineffective controls over the design of new models can impact the reliability of their estimates, as noted in our review of the Department's modeling for income driven repayment (IDR) plans.

<u>IDR modeling:</u> The Department's model for estimating future cash flows from student loan borrowers with IDR plans was updated in 2015, following the announcement of the new income-dependent Pay As You Earn program. The previous update to the Department's IDR model was in 2004. Due to recent growth in the number of borrowers using IDR plans, this model now supports a significant portion of the Direct Loan Program's subsidy cash flow estimates.

The process used to estimate these cash flows is performed outside the Student Loan Model and requires the Department to estimate borrowers' future incomes in order to estimate the amount and timing of the principal the borrower will repay. The Department obtained "synthetic" income data from the Department of the Treasury's Office of Technical Assistance (OTA), which CEAD used to estimate future incomes and project the corresponding future income-based loan repayments. CEAD found the format and nature of the data provided by OTA was not well suited for their purposes, but was nevertheless used due to time limitations to complete the forecasts.

We found the methodology used for imputing borrower incomes was also not well suited based on the nature of the OTA data, and could result in unreliable or inappropriate income forecasts. The Department did not have a process to document and communicate their concerns and the risks to their estimates as a result of these limitations.

The Department did not have formalized documentation for their justification of the overall IDR modeling approach selected, potential alternatives and their evaluation, testing plans, and formal approval for the implementation of the new model. Further, the Department did not have formalized documentation describing the process for imputing borrowers incomes and calculating other IDR related assumptions.

We also found the current methodology did not take into account inflation or forecasted macroeconomic data such as found in the President's Economic Assumptions. We also found deficiencies in the methodology for forecasting defaults from IDR borrowers. Although management indicated it plans to enhance the model, the Department has not documented the basis for its conclusion to not update this model immediately once the risk to the estimates were identified.

The Department is also currently developing a new model to be used for estimating the subsidy cost for the Direct Loan Program; however, there is limited documentation regarding the specifications, requirements, evaluation, or testing plan relating to the development of the model.

<u>Model risk assessment</u>
CEAD maintains over 18 different economic and financial modeled assumptions used within the calculation of the Allowance for Subsidy for the just the Direct Loan Program. Some of the assumptions are updated annually, while others are updated biannually. The Department does not have a formalized process for compiling and maintaining the Department's model inventory, assessing and documenting modeling risks, and monitoring the implementation of corrective

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

actions. This risk assessment process should be independent of the agency-level risk assessment process performed in connection with the agency level management controls review process required by OMB Circular A-123. The Department also does not have a documented risk-based process for obtaining an independent, external validation review of its models.

Model operation
The Department's documentation of the control activities performed for operating approved models is not formalized. We identified deficiencies in the documentation of control activities over the Department's model operations relating to data accumulation and validation, assumption development, and model execution. As a result we were unable to ensure certain control activities were performed. The Department has initiated the development of a number of policy manuals and desk guides to support the proper operation of current models but these manuals are incomplete and not readily used.

Model validation
Model validation refers to the initial and ongoing review and approval of the design of the model and its ability to properly correlate historical data into estimated future program performance. The Department performs a number of critical procedures to monitor the performance of its models and validate the overall reasonableness of its outputs, including backcasts, actuals to estimates review, cohort analysis, and sensitivity analysis. However, the Department does not have a process to comprehensively evaluate the results of these procedures and document their conclusion as to whether the models, in aggregate, continue to be adequate for forecasting the future performance of the student loan programs. Further, the Department's sensitivity analysis did not address key components of the program known to have a significant impact on its cost, including IDR plan participation rates, borrower incomes, or Public Service Loan Forgiveness participation rates.

Governance and guidance
The Department does not have a formalized process for engaging and involving senior leadership from FSA and the Department in their governance capacity over critical decisions relating to various modeling activities, including model development, risk assessment, assumption development and review and model validation. Given the pervasive impact of the credit activities on the Department budget estimates, policy decisions, and financial reporting, estimation (or model) risk should be one of the key enterprise risks to be managed by the Department and its components, with a fully developed governance framework and control structure.

The Department does maintain a Credit Reform Working Group that brings together members of FSA and Department management periodically with CEAD staff to discuss estimation and modeling issues; however, the Department has not formally defined the roles and responsibilities of the members of this group within a comprehensive model risk management framework.

The Department has also not established a formalized structure or process for other critical model risk management activities, including maintaining the inventory of models with a corresponding assessment of risks, known deficiencies, and planned corrective actions, and performing or overseeing independent validations of the Department's models.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Summary
Without a fully effective risk management and control structure over its modeling activities, estimation errors or modeling risks may go undetected, increasing the potential for improper reporting and program decisions.

GAO's *Standards for Internal Controls in the Federal Government* requires that agencies:

- design controls activities in response to objectives and risks
- define and delegate responsibilities
- document internal controls and "all transactions and other significant events"
- evaluate and document the results of ongoing monitoring evaluations to identify internal control issues

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, updated in July 2016, requires agencies to take steps to integrate risk management into the internal controls over their business operations.

Industry specific guidance from federal regulators regarding model risk management, model governance and related controls is also provided by the Federal Reserve and the Office of the Comptroller of the Currency in SR 11-7 *Supervisory Guidance on Model Risk Management*, and by the Federal Housing Finance Agency in their AB 2013-07 *Model Risk Management Guidance*.

Recommendations:

We recommend the Deputy Secretary:

1a. Perform a comprehensive evaluation of the impact of the Department's modeling on the Department's mission in connection with the development of its enterprise risk management program.

We recommend the Department Chief Financial Officer, in conjunction with the Director, Budget Service:

1b. Document the Department's process, policies and procedures for the design, development, testing and authorization of new models.
1c. Compile an inventory of the Department's models, and regularly document management's assessment of risks related to each model and how that assessment impact's the Department's level of controls, validation and monitoring over each model.
1d. Document the Department's process, policies, procedures and related controls for the periodic review, validation and approval of the Department's models at the model and program level.
1e. Document the overall review and conclusions drawn related to the evaluation of the results of model performance reviews and validation procedures performed.

We recommend the Director, Budget Service and the Department and FSA Chief Financial Officers:

1f. Document the Department's process, policies, procedures and related controls for managing the operation and use of approved models.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

1g. Design, document and implement a modeling governance structure that specifically and separately addresses the roles and responsibilities for the oversight of critical modeling activities, including model risk assessment, model development, model operation, and model validation activities, as well as defining standards for policies, procedures and internal controls for these activities.

We recommend the Department Chief Financial Officer:

1h. Ensure the agency's management controls program fully evaluates the Department's modeling activities commensurate with the materiality of the impact of the process to the agency's reporting activities.

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

The Department oversees a large portfolio of Department and contractor-owned business systems and applications that requires an effective and comprehensive information system security and privacy program. According to OMB Circular A-130, *Managing Information as a Strategic Resource*, key elements of an effective security program include 1) agency-wide and system-level policies and procedures; 2) properly designed, implemented and monitored information system controls to protect Department information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction; and 3) cost effective risk management.

Prior audits have identified numerous control deficiencies at the Department and application level. While the Department has made progress in some areas to address these issues in recent years, we continued to identify control deficiencies in the Department's information security program relating to policies and procedures, compliance monitoring, personnel management, security incident response and management of various application level security, configuration management, and access controls.

Effective system security starts with strong governance, including agency level oversight, policies and procedures, entity-wide controls, and controls monitoring. We have reported for several years that the Department's agency level information technology policies are outdated or did not fully address specific controls required by NIST Special Publication (SP) 800-53, revision 4, *Recommended Security and Privacy Controls for Federal Information Systems and Organizations*. Designing and implementing effective agency level policies is the responsibility of the Department's Chief Information Officer (CIO). While the CIO has revised the Department's Information Assurance/Cybersecurity Policy, it has not been approved by the Office of Management. In addition, the associated guidance has not been completed, according to management, due to limited resources.

Managing the information and system security program across the Department is primarily the responsibility of the Department's Chief Information Security Officer (CISO), in conjunction with FSA's CISO. The Department and FSA CISOs have enhanced their efforts to monitor the system security control activities over their agency systems in recent years and have initiated several multi-year corrective actions that should aid in addressing many of the long standing weaknesses that affect the Department and FSA systems. For example, the FSA CISO has

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

implemented a security program based on continuous monitoring that includes regular updates to security documentation, routine security control assessments and vulnerability assessments, and risk analysis. The outcomes of these system security activities are reviewed and evaluated by the CISO in support of an ongoing authorization to operate. Monitoring of remediation activities associated with identified control deficiencies in FSA's systems is fostered by regular update meetings held with management within the Technology Office and Business Operations, the Office of Inspector General (OIG) and the financial statement auditors.

However, agency-level security controls also require the efforts of other offices across the Department, including the Office of Security, Facilities and Logistics Services. We continue to find a large number of Department employees and contractors with overdue reinvestigations, incorrect levels of background investigations for privileged users, and lack of investigation information. In addition, the CIO has not ensured Department system owners adopt the Office of Personnel Management Position Designation Tool in order to determine and document suitability and investigation requirements for each system's roles/responsibilities. Furthermore, the Office of the Chief Financial Officer has not implemented service level agreements for contractor employee clearance monitoring, as recommended last year.

We also found the CIO's centralized controls for responding to security incidents were not always in accordance with agency policy. The entire population of sixteen sampled security and privacy incidents did not have documentation of the remediation actions and closure date of the incidents.

The Department's agency-level information security controls are required to be evaluated annually by the OIG, in accordance with the Federal Information Security Modernization Act (FISMA). The FY2015 OIG review involved testing financial and non-financial systems' controls and identified control deficiencies in four of ten reporting areas related to configuration management, continuous monitoring, incident response and reporting, and remote access management. The review also determined that the Department's Identity and Access Management programs and practices would be generally effective if implemented properly.

Although FSA had implemented a governance structure for managing agency-level system security risk, the tactical execution of remediating system level control weaknesses and ensuring compliance with information security requirements still needs improvement.

Managing the system security controls at the application or system level is the responsibility of the system owners, in conjunction with system level information security officers. Our audit identified application, or system, specific control deficiencies in the areas of security management, access controls, and configuration management in one or more of the five financial systems we tested this year. We continued to identify configuration management issues with the Department's general support system, but noted substantial improvement in the remediation of information security control weaknesses for the Department's core financial management system.

At FSA, we tested four systems and our audit continued to identify control deficiencies in security management, access controls and configuration management across these systems. The agency is developing a new system for user access management to address various access control deficiencies, but this system will not be fully implemented until FY2017.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Specifically, we identified system specific issues in the following areas:

Security management
- One system security plan was incomplete
- Plans of Action and Milestones (POA&Ms) missed estimated completion dates and were not always updated for three systems
- Security awareness training for new system users was not always completed
- Role based security awareness training for users with significant system security responsibilities was not always completed
- Authorization decision documents were not signed by the new Authorizing Official (AO)
- Interconnection agreements were not in place or current
- Evidence to validate Department assets were returned for separated employees was not always provided

Access controls
- User access was not always approved for all users or for all roles granted
- Termination of system access for separated employees and contractors was not always completed timely
- Inactive accounts were not always disabled
- Certain users had access to directly implement system changes to the production environment
- User access was not always recertified and some user accounts that were recertified had either never used the system, or had not logged in for an extended period of time

Configuration management
- System configuration settings were not always compliant with Department policy
- Computer security configurations were inadequate and software was not patched or was unsupported
- System security impact assessment was not always conducted

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

Security management
An organization–wide information security program sets the framework for addressing risk through developing and implementing effective information security procedures, monitoring the effectiveness of those procedures, providing appropriate security training and remediating control weaknesses through the Plan of Action and Milestones (POA&M) process. Security policies and procedures also include employee hiring, transfer and termination practices. We

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
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noted that the POA&Ms for three FSA systems had passed their scheduled dates of completion without updated milestone information.

Overall, we found improvement in the level of compliance with security awareness training requirements this year. For three of the four systems tested, we found system users did not always complete the required security awareness training. Also, contractors with significant system security responsibilities had not always completed role based training for two of the four FSA systems tested.

When the AO changed in FY2015 for all 4 systems tested, the new AO did not sign the new authorization decision documents to explicitly accept the risk and formally transfer responsibility and accountability for the information systems. Upon notification of this issue to management, the new AO signed new authorization decision documents in September 2016 to explicitly accept the risk and formally transfer responsible and accountability for the information systems.

In addition, a *Clearance of Personnel for Separation or Transfer Form* was not provided to validate that Department assets were returned for ten from a sample of twenty-one Department terminated employees. For one of five FSA terminated employees we tested, the form did not contain all required signatures validating that Department assets were returned.

Access Controls
Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Standards require that entities use a properly executed Memorandum of Understanding (MOU) to document the terms and conditions for sharing data and information resources in a secure method. An Interconnection Security Agreement (ISA) identifies the technical and security requirements for establishing, operating, and maintaining the interconnection. Consistent with previous years, we identified expired MOUs, one MOU that was not reviewed in accordance with the requirements of the ISA, and instances in which interconnections were not detailed in the corresponding System Security Plan.

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

- Accounts for terminated Department, FSA, and/or loan servicer employees, were not disabled for the Department's general ledger system and three of the four FSA systems tested
- Inactive accounts were not disabled for one FSA system
- For one FSA system, eighteen from a sample of 25 new users did not have evidence that their access was approved and one individual was granted a role that was not approved
- For another FSA system, five from a sample of 25 new users had user roles that were modified from the original access level with no evidence that the modified role was approved

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
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- User access was not always recertified, and some user accounts that were recertified had either never used the system, or had not logged in for an extended period of time
- One user had inappropriate access to directly implement changes to the production environment

Configuration Management
Configuration management ensures changes to systems are tested and approved, and systems are configured securely in accordance with policy. In our audit, we found one FSA system with configuration settings that did not adhere to Department policy. Additionally, we found security impact assessments were not conducted for one FSA system. Furthermore, our testing identified insecure configurations as well as unpatched and unsupported software in both the Department and FSA systems.

The 2015 FISMA review determined that the Department's and FSA's information technology security programs were generally effective in key aspects of three metric areas—Risk Management, Security Training, Contingency Planning—but further improvements were needed. For the Department and FSA's corrective action process, the review determined that, if implemented as intended, it should be effective. The review also found that the Department's controls over access to FSA's mainframe environment need improvement. Overall, eight of the ten reporting metrics contained repeat or modified repeat findings identified from 2011 through 2014.

According to NIST SP 800-39, *Managing Information Security Risk - Organization, Mission, and Information System View*, the information system owner, in coordination with the information system security officer, is responsible for ensuring compliance with information security requirements.

The information system security officer is an individual responsible for ensuring that the appropriate operational security posture is maintained for an information system and as such, works in close collaboration with the information system owner. The information system security officer also serves as a principal advisor on all matters, technical and otherwise, involving the security of an information system. The information system security officer has the detailed knowledge and expertise required to manage the security aspects of an information system and, in many organizations, is assigned responsibility for the day-to-day security operations of a system.

OMB Circular A-130, *Managing Information as a Strategic Resource*, July 28, 2016, Appendix 1 states agencies are to:

- Implement policies and procedures to ensure that all personnel are held accountable for complying with agency-wide information security and privacy requirements and policies.

- Implement security and privacy controls, and verify that they are operating as intended, and continuously monitored and assessed; put procedures in place so that security and privacy controls remain effective over time, and that steps are taken to maintain risk at an acceptable level within organizational risk tolerance.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

- Correct deficiencies that are identified through information security and privacy assessments, information system continuous monitoring and privacy continuous monitoring programs, or internal or external audits and reviews, to include OMB reviews.

In order to appropriately manage risk from an organization-wide structure, individuals with responsibility for information system security need clear expectations in the form of agency level information security policies and procedures that address all NIST and OMB requirements. Therefore, it is essential that the Department complete, approve and disseminate the Information Assurance/Cybersecurity Policy and associated guidance. In addition, due to the continuance of persistent IT control deficiencies across multiple systems, the CISOs need to hold accountable those individuals responsible for ensuring that persistent IT control deficiencies are remediated and the appropriate security posture is maintained for Department and FSA information systems.

Recommendations:

We recommend the Department CIO:

2a. Ensure the update, review, approval and dissemination of the Information Assurance/ Cybersecurity Policy and associated guidance is completed in order to comply with NIST standards and OMB guidance.
2b. Design and implement controls over the handling of Department security and privacy incidents to ensure their resolution is properly documented.

We recommend the Principal Deputy Assistant Secretary, Office of Management:

2c. Implement a monitoring process over the personnel security activities to ensure investigations and reinvestigations are prioritized for personnel with sensitive system access within the Department.

We recommend the Department CISO work with the FSA CISO to:

2d. Strengthen and refine the process for holding system owners and information system security officers accountable for remediation of control deficiencies and ensuring that the appropriate security posture is maintained for Department and FSA information systems.

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

Requirement for Referring Delinquent Student Loan Debts to Treasury

In 2014, Federal law[3] was amended[4] to require agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset (i.e. collection through the reduction of future Federal payments). Due to the number of entities and systems involved in handling student loan debts, FSA is not yet capable of meeting this accelerated timeline. Accordingly, as of September 30, 2016, the Department and FSA are not in compliance with the new timing requirement for referring delinquent student loan debts to Treasury.

To meet this requirement, the Department has been able to obtain legal clarification of how certain specific requirements of the amended law apply to the Direct Loan Program and other Department programs, improve delinquent debt reporting procedures, increase the frequency of some debt referrals and modify its defaulted loan management system to accommodate this change. The Department is also evaluating the impact of defining defaulted loans earlier on schools' performance reporting and has developed a long-term project plan to incorporate the new referral requirements into various servicer contracts and guaranty agency agreements, so they can initiate the required system programming changes. FSA is also working with the Department in evaluating certain options for other requirements needed to achieve compliance.

Recommendation:

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

3. Continue to execute the corrective actions as outlined in FSA's project plan to comply with the timing requirement for the referral of delinquent non-tax debts.

[3] 31 U.S. Code Section 3716(c)(6)
[4] Public Law 113-101 (DATA Act) Section 5

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

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202-______

MEMORANDUM

TO: Kathleen S. Tighe
Inspector General

FROM: Tim Soltis
Delegated the Duties of Chief Financial Officer

Jason Gray
Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT
Fiscal Years 2016 and 2015 Financial Statements
U.S. Department of Education
ED-OIG/A17Q0001

Please convey the Department's sincere thanks to everyone on your staff who worked diligently on this financial statement audit. We extend our appreciation for the professionalism and commitment by all parties, including the Office of the Inspector General and CliftonLarsonAllen, throughout the audit process.

We have reviewed, and concur and agree with, the draft Independent Auditors' Report. We are pleased to have received an unmodified "clean" audit opinion with no material weaknesses. The Department takes the two significant deficiencies reported, in the areas of controls over modeling activities and information technology controls, very seriously and we are dedicated to resolving the issues identified. We will share the final audit results with responsible senior officials, other interested program managers, and staff who will begin preparing corrective action plans to be used in the resolution process.

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

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

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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

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

Fiscal Year 2015 Recommendation	Fiscal Year 2016 Status
CLA recommended the Department CISO work with the FSA CISO to:	
1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization wide information security program, at both the agency and system level.	Repeat finding; see Significant Deficiency
1b. Strengthen and refine the process to ensure accountability for individuals responsible for remediating the identified control deficiencies in the Department and FSA's systems, including cooperation between the Technology Office and Business Operations.	Modified Repeat finding; see Significant Deficiency
1c. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in the Department and FSA's systems.	Repeat finding; see Significant Deficiency
Noncompliance with Laws and Regulations	
CLA recommended that the Secretary of Education and FSA Chief Operating Officer:	
2. Modify their loan servicing systems, procedures and internal processes to comply with the legal timing requirement for referring delinquent non-tax debts to Treasury.	Repeat finding; see Instance of Noncompliance

Other Information

About the Other Information Section

The Other Information section includes:

- improper payments reporting details,
- the schedule of spending,
- a summary of assurances,
- a summary of the Office of Inspector General's (OIG's) view on the Department's management and performance challenges for fiscal year (FY) 2017,
- freeze the footprint information, and
- civil monetary penalty inflation adjustment information.

Improper Payments Reporting Details

The Improper Payments Reporting Details summarize the Department's efforts to prevent, detect, and recover improper payments. It includes data regarding the Department's high risk programs, estimates of improper payments, root causes and corrective actions to mitigate improper payments and recoveries of improper payments.

Combined Schedule of Spending

The Schedule of Spending (SOS) presents what money was available to spend, how the money was spent, and who the money went to for the fiscal years ended September 30, 2015 and 2016. More information on the Department's spending can be found at USAspending.gov, a searchable website that provides information on federal awards and is accessible to the public at no cost.

Summary of Financial Statement Audit and Management Assurances

The Summary of Financial Statement Audit and Management Assurances provides information on any material weaknesses reported by the agency or through the audit process. The Department reported that it had not identified any material weaknesses in FY 2016.

Office of Inspector General's Management and Performance Challenges

The OIG's Management and Performance Challenges Report summarizes the Department's challenges for FY 2017. The OIG identified the following five challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, (4) Data Quality and Reporting, and (5) Information Technology System Development and Implementation. The full report is available at the OIG website.

Freeze the Footprint

The Freeze the Footprint summarizes the Department's efforts to comply with Office of Management and Budget (OMB) Management Procedures Memorandum 2013-02, the *Freeze the Footprint policy* implementing guidance. That guidance directs that all *Chief Financial Officers Act of 1990* departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to an FY 2012 baseline.

Improper Payments Reporting Details

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

The Department determined that the Pell Grant and Direct Loan programs were susceptible to significant improper payments risk based on the OMB Circular A-123, Appendix C, definition. The Department also determined these two programs were susceptible to improper payments risk based on the last risk assessments performed in FY 2014, as described in the Risk Assessment subsection. In FY 2016, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments. Furthermore, the Pell Grant and Direct Loan programs were designated by OMB as high-priority programs in 2011 and 2015, respectively. The Department continues to address the requirements to comply with reporting on the Pell Grant and Direct Loan programs as risk susceptible and high-priority programs. Details on improper payment estimates and reduction targets for both programs are included within the Improper Payment Reporting subsection.

As described in the Analysis of Systems, Controls, and Legal Compliance section, despite a robust internal controls framework, including controls intended to estimate, prevent, detect, and recover improper payments, the OIG reported that the Department was not compliant with IPERA because the FY 2015 improper payment rate did not meet the annual reduction target for the Direct Loan program. The full report, including the Department's response, is available for review at the OIG website. The Department convened a workgroup with OIG and OMB participation to evaluate and recommend improvements to the FY 2016 estimation methodology, and develop proposed corrective actions in response to the FY 2015 IPERA Compliance Audit Report. The outcome of the workgroup included revisions to the FY 2016 estimation methodology to address the findings, and to make additional enhancements to the methodology as described in the Improper Payment Sampling and Estimation Methodology subsection.

Programs Description

Pell Grant

The 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 postbaccalaureate students to promote access to postsecondary education.

Direct Loan

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.

Title I

The Title I program, authorized by the *Elementary and Secondary Education Act of 1965*, as amended by the *No Child Left Behind Act of 2002* and the *Every Student Succeeds Act of 2015*, ensures that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging state academic achievement standards and state academic assessments.

Risk Assessment

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

Risk Assessment Results

Program	Last Risk Assessment	Risk-Susceptible?
Federal Student Aid-Managed Programs		
Federal Pell Grant	FY 2014	Yes
The Teacher Education Assistance for College and Higher Education Grant	FY 2014	No
Federal Supplemental Educational Opportunity Grant	FY 2014	No
Iraq and Afghanistan Service Grant	FY 2014	No
Federal Perkins Loan Program	FY 2014	No
Federal Direct Loan Program	FY 2014	Yes
Federal Family Education Loan Program	FY 2014	No
Federal Work-Study Program	FY 2014	No
Health Education Assistance Loan Program	FY 2015	No
Other Department Programs		
Title I	FY 2016	No
Other Grant Programs	FY 2016	No
Contract Payments	FY 2016	No
Administrative Payments	FY 2014	No

Federal Student Aid-Managed Programs

During FY 2014, a risk assessment was performed on all Federal Student Aid (FSA)-managed programs, with the exception of the Health Education Assistance Loan (HEAL) program. The HEAL program was transferred from the U.S. Department of Health and Human Services to FSA on July 1, 2014, and a risk assessment was subsequently performed in FY 2015.

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

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

Process owners assigned a rating to each risk factor based on their detailed understanding of the programs and risk of improper payments. Weighted percentages were assigned to each risk factor rating based on a judgmental determination of the direct or indirect impact on improper payments. An overall risk score was then computed for each program, calculated by the sum of the weighted scores for each risk factor and overall rating scale. Based on risk assessments conducted in FY 2014 and FY 2015, the Department determined that the Pell Grant and Direct Loan programs were susceptible to risk of significant improper payments.

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

In FY 2016, it was confirmed that there were no significant changes in legislation and/or increases in funding necessitating reassessment of programs' risk susceptibility. As a result, risk assessments for FSA-managed programs will next be performed in FY 2017.

Other Department Programs

In 2014, the Department completed a risk assessment on administrative payments to employees in accordance with IPERIA. These payments were inclusive of FSA. The areas of administrative payments that were examined include: Salary/Locality Pay, Travel, Purchase Cards, and Transit Benefits. The analysis included a review of actual recaptured payments versus total outlay for each of the related payment areas and the likelihood of payment errors. The Department determined that administrative payments to employees were not susceptible to significant improper payments. Administrative payments risk assessment will next be performed in FY 2017.

The Department conducted a risk assessment of contract payments in FY 2013. During FY 2016, the Department reassessed the risk of improper payments on contract payments, including contracts managed by FSA, as required by OMB Circular A-123, Appendix C. Given robust internal controls, the Department continues to experience an extremely low volume of improper payments in contracts; as such, the assessment found contract payments are not susceptible to significant improper payments.

The Department conducted risk assessments of all non-FSA managed grant programs in FY 2013. During FY 2016, the Department reassessed the risk of improper payments on all non-FSA-managed grant programs. While there is inherent risk that grant recipients may fail to adequately document expenditures or expend funds on unallowable activities, the FY 2016 assessments determined that none of the other grant programs were susceptible to significant improper payments. The analysis included a quantitative review of questioned costs from Single Audit findings versus total program expenditures, as well as a qualitative review of other risk factors including changes in legislation or regulations and history of audit findings. The list of all programs assessed in FY 2016 can be located here.

The non-FSA grant programs assessed in FY 2016 include Title I, which was not found to be susceptible to significant improper payments. During FY 2016, the Department requested relief, with OIG's concurrence, from reporting Title I estimates on improper payments since it demonstrated that the program had more than two consecutive years of improper payments reporting below the IPERA thresholds. OMB approved the Department's request on March 4, 2016, with the caveat that a risk assessment be conducted in both FY 2016 and FY 2017 to ensure that the enactment of the *Every Student Succeeds Act* has not caused the Title I program to become susceptible to significant improper payments. Given the Department's plan and timeline for implementing the *Every Student Succeeds Act*, the Department did not find the new legislation to increase the risk of improper payments for Title I in FY 2016 to a significant level.

Sampling and Estimation Methodology

On September 17, 2014, the Department obtained approval from OMB to use an alternative methodology for estimating improper payments for the Pell Grant and Direct Loan programs. The alternative methodology leverages data collected through FSA Program Reviews, which include procedures such as determining whether schools properly performed verification of students' self-reported income, identifying conflicting applicant data, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. The alternative methodology, although it does not use statistical sampling techniques, provides for a more efficient allocation of resources by integrating the estimation methodology into core FSA monitoring functions. The Department determined that it would be too costly and inefficient, and significantly increase the burden on schools and students, to develop a rigorous statistical sampling methodology that would provide a very tight precision rate (such as providing no more than 0.1 percent over the established target as prescribed by OMB). The methodology, including updates to address findings from the OIG's FY 2015 IPERA Compliance Audit Report, is described in detail on the Department's improper payments website.

On June 30, 2016, the Department submitted updates to the alternative sampling plan and estimation methodology to OMB for approval in response to findings from the OIG's FY 2015 IPERA *Compliance Audit Report, U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2015*. In its report, OIG noted that the prior estimation methodology did not include all improper payments in the calculation of the estimates, such as improper payments resulting from recipients submitting inaccurate self-reported income on the Free Application for Federal Student Aid (FAFSA), all improper payments resulting from schools disbursing Pell Grant and Direct Loan funds to students enrolled in ineligible programs or students attending ineligible locations, and other improper payments not identified in Program Reviews. The OIG also noted that the prior estimation methodology was susceptible to volatility and potential inordinate impact of a single improper payment finding, and does not account for Program Reviews that do not reach the Program Review Report stage in time for inclusion in the estimated improper payment rates. The Department updated its methodology for FY 2016 to address these findings and to make additional enhancements. These updates include: incorporation of misreported income over- and under-payment estimates from the FAFSA/IRS Data Statistical Study into the Pell Grant improper payment rate to address improper payments associated with inaccurate self-reported income on the FAFSA; inclusion of Pell Grant and Direct Loan funds improperly disbursed to students enrolled in ineligible programs or at ineligible locations within the Pell Grant and Direct Loan improper payment rates; and expansion of the population of Program Reviews eligible for review. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on October 14, 2016.

The Department acknowledges that its alternative estimation methodology can lead to volatile improper payment estimates. Although the sample size has increased year-over-year, there continues to be variability in the improper payment estimates. This is largely due to fewer program reviews being conducted at lower-risk schools. This category of schools accounts for a large portion of the Direct Loan and Pell Grant program disbursements. As a result, the potential exists for student-level test results of a single observation (such as a single student or school) at lower-risk schools to significantly influence the improper payment estimates, resulting in volatility of the model.

Improper Payment Reporting

Table 1. Improper Payment Reduction Outlook
(Dollars in Millions)

Program or Activity	PY Outlays (1)	PY IP % (2)	PY IP $ (2)	CY Outlays (3)	CY IP % (4)	CY IP $ (4)	CY Overpayment $	CY Underpayment $	CY + 1 Est. Outlays (5)	CY + 1 Est. IP % (6)	CY + 1 Est. IP $	CY + 2 Est. Outlays (5)	CY + 2 Est. IP % (6)	CY + 2 Est. IP $	CY + 3 Est. Outlays (5)	CY + 3 Est. IP % (6)	CY + 3 Est. IP $
Pell Grant	29,909.28	1.88	562.29	28,188.55	7.85	2,212.80	2,025.27	187.53	26,553	7.85	2,084.41	29,288	7.85	2,299.11	30,428	7.85	2,388.60
Direct Loan	98,771.65	1.30	1,284.03	97,182.77	3.98	3,867.87	3,771.26	96.61	100,105	3.98	3,984.18	105,039	3.98	4,180.55	110,514	3.98	4,398.46
Title I (7)	15,715.00	.127	19.95	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL (8)	**144,395.93**	**1.29**	**1,866.27**	**125,371.32**	**4.85**	**6,080.67**	**5,796.53**	**284.14**	**126,658**	**4.79**	**6,068.59**	**134,327**	**4.82**	**6,479.66**	**140,942**	**4.82**	**6,787.06**

(1) The source of FY 2015 outlays for all programs is FSA's Financial Management System (FMS) as presented in the FY 2015 AFR.
(2) The PY improper payment estimates reported in the table above reflect the improper payment estimates for FY 2015 as reported in the FY 2015 AFR. FSA has published recalculated FY 2015 improper payment rates in response to the FY 2015 IPERA Compliance Audit Report published by OIG on May 10, 2016. The updated improper payment rates are prepared in accordance with OMB-approved methodologies. The estimated improper payment rate and improper payment total for the Direct Loan program as recalculated are 2.63% and $2,597.69 million, respectively. The estimated improper payment rate and improper payment total for the Pell Grant program as recalculated are 1.52% and $454.62 million, respectively. These estimates are reported using the alternative sampling and estimation methodology approved as of October 20, 2015.
(3) The source of FY 2016 outlays for all program amounts is FMS.
(4) In FY 2016, the Pell Grant and Direct Loan program improper payment estimates are reported using the updated alternative sampling and estimation methodology approved by OMB on October 14, 2016. FY 2016 rates are based on program reviews performed in FYs 2014–16 for award year 2013–14 data. Under the updated methodology, two new sources were incorporated into the FY 2016 improper payment estimates, which impacted the estimates for both programs. For the Pell Grant program, incorporating improper payment estimates resulting from recipients submitting inaccurate self-reported income on the FAFSA impacted the estimate by approximately 1.34% while incorporating improper payment estimates resulting from schools disbursing funds to students enrolled in ineligible programs/locations impacted the estimate by approximately 0.13%. For the Direct Loan Program, incorporating improper payment estimates resulting from schools disbursing funds to students enrolled in ineligible programs/locations impacted the Direct Loan estimate by approximately 1.15%.
(5) The source of FYs 2017–19 Pell Grant and Direct Loan outlay amounts is the FY 2017 President's Budget at the Mid-Session Review.
(6) The Department uses an OMB-approved alternative estimation methodology to estimate improper payments for the Pell Grant and Direct Loan programs. These estimates lack the precision of other estimates developed using random, statistical methodologies. As disclosed above, although the sample size has increased year over year, there continues to be both imprecision and variability in the improper payments estimates that limit management's confidence in using these results to establish out-year reduction targets. Accordingly, out-year targets are set to the CY IP% until the methodology is stabilized and the precision and volatility constraints are addressed. In FY 2017, the Department will continue to work with relevant stakeholders to consider ways to increase precision and decrease volatility in future year methodologies and estimates. Increases in the improper payment rates over the prior year and failure to meet the targets can be attributed to changes to and the imprecision of the alternative methodology, as opposed to a control failure or increase in actual improper payments in the underlying programs.
(7) Title I has historically been included in this table because it is a former Section 57 program and OMB A-11, dated 2002, Section 57, Exhibit 57B required agencies to report on programs deemed at risk for erroneous payments. However, in FY 2016, the Department requested relief, with OIG's concurrence, from reporting Title I estimates on improper payments since it demonstrated that the program had more than two consecutive years of improper payments reporting below the IPERA thresholds. OMB approved the Department's request on March 4, 2016, with the caveat that a risk assessment be conducted in FY 2016 and FY 2017 to ensure the enactment of the *Every Student Succeeds Act* has not caused the Title I program to become susceptible to significant improper payments.
(8) The total of the estimates for the agency does not represent a true statistical estimate for the agency.

High-Priority Programs

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

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

The supplemental measure for the Pell Grant program is based on the total number of Pell Grant-eligible applicants who transferred tax data from the IRS to their FAFSA as a percentage of the total number of Pell Grant-eligible applicants who were determined to be eligible to use the Internal Revenue Service Data Retrieval Tool (IRS DRT) to transfer tax data.

For the Direct Loan program, a similar supplemental measure is in place based on the total number of Direct Loan recipients who transferred tax data from the IRS to the FAFSA as a percentage of the total number of Direct Loan recipients who were determined to be eligible to use the IRS DRT to transfer tax data.

The supplemental measures for the Pell Grant and Direct Loan programs focus on the higher risk area of misreported income by the student/parent on the FAFSA. Use of the IRS DRT to directly transfer tax information from IRS to the online FAFSA verifies applicants' income, and as applicable their parents' income, to determine how much aid they are eligible to receive. Errors in income on an application is one of the root causes of improper payments for both the Direct Loan and Pell Grant programs; transferring tax data to the FAFSA with the IRS DRT helps ensure that the income is more accurate and therefore reduces the likelihood of an improper payment being made. The Department continues to focus on efforts to increase the population of applicants eligible to use the IRS DRT as described in the Improper Payment Corrective Actions section below.

The Pell Grant and Direct Loan supplemental measure rates for award year 2015–16 are 61.99 and 59.26, respectively. The Pell Grant and Direct Loan supplemental measure targets for award year 2016–17 are also 61.99 and 59.26, respectively. The supplemental measures, current FY supplemental measure rates, and supplemental measure targets are reported annually on PaymentAccuracy.gov for both programs.

On May 10, 2015, the Federal Student Aid PIN was replaced with FSA ID, improving the security and customer experience for the Department's student- and borrower-based websites. Students, parents, and borrowers are required to use an FSA ID, made up of a username and password, to access certain Department websites and tools, including the IRS DRT. As a result of the transition, IRS DRT usage dropped from previous levels. IRS DRT usage is expected to remain at award year 2015–16 levels through award year 2016–17. FSA continues to work to ensure that the transition to the FSA ID is as seamless as possible for its customers. The Department also continues to encourage students and parents to use the IRS DRT to import data from their tax return and not change it. It is the fastest, easiest, and most secure method of meeting income verification requirements. FSA has modified FAFSA on the Web to encourage all eligible applicants and parents to use the IRS DRT, including displaying new messages to explain the advantages to using the IRS DRT on the initial student and parent finances pages, and directing eligible applicants and parents who do not opt to link to the IRS from these pages to a new page that recommends IRS DRT use.

Measures to Ensure Program Access

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

On February 4, 2013, FSA's Customer Experience group announced a partnership alliance between FSA and the IRS. The partnership focuses on reaching more individuals in low- to moderate-income communities with the goal of providing them with information, assistance, and access to relevant IRS and FSA services. The partnership is expected to contribute to increased awareness of FSA programs and create opportunities for increased access to the FAFSA.

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

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

Improper Payment Root Cause Categories

Our analysis indicated that the underlying root cause of improper payments for the Pell Grant and Direct Loan program in FY 2016 was failure to verify financial data and administrative or process errors made by other parties. The root causes were identified through improper payment testing and categorized using categories of error as defined in the October 2014 update to OMB Circular A-123, Appendix C (OMB Memorandum M-15-02). Specific root causes associated with the "Failure to Verify – Financial Data" category include, but are not limited to, ineligibility for a Pell Grant or Direct Loan and incorrect self-reporting of an applicant's income that leads to incorrect awards based on Expected Family Contribution. Specific root causes associated with the "Administrative or Process Errors Made by – Other Party" category include, but are not limited to, incorrect processing of student data by institutions during normal operations; student account data changes not applied or processed correctly; satisfactory academic progress not achieved; incorrectly calculated return records by institutions returning Title IV student aid funds; and processing errors at the servicer level. Table 2 below, Improper Payment Root Cause Category Matrix, summarizes the root cause categories for the Pell Grant and Direct Loan programs.

Table 2. Improper Payment Root Cause Category Matrix (Dollars in Millions)

Reason for Improper Payment		Direct Loan		Pell Grant	
		Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue					
Inability to Authenticate Eligibility					
Failure to Verify:	Death Data				
	Financial Data	$92.39	$0	$328.28	$24.41
	Excluded Party Data				
	Prisoner Data				
	Other Eligibility Data (explain)				
Administrative or Process Error Made by:	Federal Agency				
	State or Local Agency				
	Other Party (e.g., participating lender, health care provider, or any other organization administering federal dollars)	$3,678.87	$96.61	$1,696.99	$163.12
Medical Necessity					
Insufficient Documentation to Determine					
Other Reason (a) (explain)					
Other Reason (b) (explain)					
TOTAL		**$3,771.26**	**$96.61**	**$2,025.27**	**$187.53**

Improper Payment Corrective Actions

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

Corrective Actions – Root Cause Category: Failure to Verify Data

Error Cause	Corrective Actions	Completion Timeline
Failure to Verify Financial Data	Final Program Review Determinations indicate the action(s) institutions are required to take in order to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. FSA continues to utilize and promote the IRS DRT, which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online FAFSA. For the 2017–18 award year, applicants are able to complete their FAFSA using "prior-prior year" tax data. For the 2017–2018 FAFSA, students and families provide income information from calendar year 2015 and not from calendar year 2016. This is in contrast with the "prior year" process previously employed where many applicants submitted their FAFSAs before tax returns were completed, resulting in the need to estimate income and tax information that subsequently needed to be corrected once the tax return was filed; or worse, waited to complete their FAFSA until after the tax return had been filed. Additionally, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. As with prior years' verification selection, data-based statistical analysis will continue to be used by the Department to select for verification the 2017–2018 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts.	Completion dates for findings identified via the Program Review process vary. Overall, FSA requires that all findings identified during the FSA Program Reviews are tracked through resolution via the Postsecondary Education Participants System (PEPS). This corrective action process is further described in the FY 2012 AFR. Promotion of the IRS DRT will continue in FY 2017 and beyond. On October 1, 2016, the 2017–18 FAFSA became available, as opposed to January 1, 2017, with the ability to use "prior-prior year" tax data. Both of these changes will assist in preventing improper payments as it provides greater access to IRS DRT and there is more time for effective verification procedures. Enhancements to verification procedures is a continuous process that is reviewed each award year.

Corrective Actions – Root Cause Category: Administrative or Process Errors

Error Cause	Corrective Actions	Completion Timeline
Administrative or Process Errors by Other Party	Final Program Review Determinations indicate the action(s) the institution is required to take in order to make the Title IV, HEA programs, or the recipients whole for any funds that were improperly managed and to prevent the same problems from recurring.	Completion dates for findings identified via the Program Review process vary. Overall, FSA requires that all findings identified during the FSA Program Reviews are tracked through resolution via PEPS. This corrective action process is further described in the FY 2012 AFR.
Administrative or Process Errors by Other Party (Improper FFEL to Direct Loan Consolidations)	FSA is coordinating with the respective Title IV Additional Servicers (TIVAS) and Not-For-Profit (NFP) servicers to develop and implement corrective action plans to address consolidation errors, such as funds returned due to duplicate funding or multiple Loan Verification Certificates (LVCs), inclusion of student loans that the borrower desired to exclude or were determined to be ineligible, and payoffs sent to the wrong address. FSA will work to reevaluate the current LVC processing procedures and will consider improvements in system edits to prevent the processing of duplicate LVCs and ineligible loans. Additionally, management will consider additional trainings on processing LVCs to ensure the correct account, lender, and loan information is processed in an effort to reduce the risk of potential improper payments.	Improper payments identified through testing of Direct Loan Consolidations for FY 2016 were remediated or are in the process of being remediated during FY 2017.
Administrative or Process Errors by Other Party (Improper Direct Loan Refunds)	FSA is coordinating with the respective TIVAS and NFP servicers to develop and implement corrective action plans to address refund errors, such as refunds made to ineligible lenders and borrowers, made for ineligible purposes, made in the incorrect amount, and/or sent to the incorrect payee. FSA will also consider additional trainings on refund processing to help ensure refunds are made in a manner consistent with FSA guidance.	Improper payments identified through testing of Direct Loan Refunds for FY 2016 were remediated or are in the process of being remediated during FY 2017.

Additional Corrective actions are described in the FY 2012 AFR. These include actions the Department continues to take to prevent improper payments, such as activities to improve institutional level administration of Title IV Aid through development and dissemination of information, resources, and tools to institutions.

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

Internal Control Over Payments

The Department developed robust internal controls to prevent, detect, and recover improper payments. In designing controls, the Department strives to strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that the controls are not too costly and burdensome to fund recipients. Additionally, the Department must rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational authority and present higher risks, as evidenced by OIG work identifying instances of questioned costs and restitution payments along with the fact that the majority of the estimated improper payments in FY 2016 are attributed to root causes associated with these third parties.

The Department's controls over improper payments are an essential part of the Department's internal control framework described in the Analysis of Systems, Controls, and Legal Compliance section. As described above, the Department uses an alternative methodology to estimate the improper payment rates for the Pell Grant and Direct Loan programs. The Department continues to assess and enhance its controls over student aid payments. For example, the Department routinely analyzes application and payment data and considers other factors, such as program reviews and audit reports, to inform control enhancements and to devise ways to further reduce the risk of improper payments. For any deficiencies identified, root causes are identified and corrective action plans established and tracked to resolution.

Table 3 below summarizes FSA's self-assessment on the status of its internal control over payments for these programs.

Table 3. Status of Internal Controls

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

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

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

- **Control Environment.** FSA has a robust entity-level controls framework that provides discipline and structure to help FSA achieve its objectives. Part of this framework is a governance structure that includes an Improper Payment Working Group, a body of accountable stakeholders that informs decisions related to improper payment requirements, estimation, and control.
- **Risk Assessment.** FSA uses a risk assessment approach to target high-risk areas and focus resources. FSA's Office of Program Compliance, School Eligibility Service Group performs annual risk assessments to inform decisions on where and how to target each year's program reviews. As a function of its A-123 program, FSA performs annual risk assessment of business processes and systems, including Pell Grant and Direct Loan payment processes, to determine where to focus control testing. FSA performs a qualitative risk assessment at least once every three years to identify FSA programs susceptible to significant improper payments.
- **Control Activities.** In FY 2016, FSA identified 328 controls related to improper payments prevention or detection through its A-123A assessment. As an example, FSA annually conducts approximately 250–300 Program Reviews of the approximately 6,000 eligible schools to assess institutions' compliance with Title IV regulations.
- **Information and Communication.** FSA's internal control framework supports quality information management and communication. FSA has an incident reporting process to collect information, such as high-dollar overpayment on a quarterly basis. FSA reports an estimate of the annual amount and rate of improper payments for all programs and activities susceptible to significant improper payments. In addition, FSA provides guidance to third parties through Federal Register notices, Dear Colleague Letters, and the Information for Financial Aid Professionals website, among others.
- **Monitoring.** FSA has a set of activities to monitor program performance, identify instances of improper payments, and promptly resolve findings of audits and other reviews related to improper payments. As an example, upon completion of Program Reviews, FSA monitors appropriate corrective action and resolution of improper payments.

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

Accountability

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

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

Agency Information Systems and Other Infrastructure

Audit Follow-up

The Department gathers and manages thousands of audits of grantees. Audit records are managed and maintained in an Audit Accountability and Resolution Tracking System for non-FSA-managed programs and an EZ Audit system for FSA-managed programs. Audits are a key risk management tool, and the Department has demonstrated great success working with grant recipients to resolve audit findings in a timely manner. Data from these audit systems are analyzed to determine trends in audit findings and resolution, allowing the Department to search for and better understand commonalities. This effort is assisting the Department in reducing improper payments by strengthening audit resolution and grants management.

Barriers

For FSA programs, the Department does not see significant barriers in taking corrective action in reducing improper payments. A detailed discussion of program-specific barriers can be found in the FY 2012 Report on the Department of Education's Payment Recapture Audits.

Recapture of Improper Payments Reporting

Agencies are required to conduct recovery audits for contract payments and programs that expend $1 million or more annually if conducting such audits would be cost effective. The Department performed a cost-benefit analysis and determined that a payment recapture audit program would not be cost effective for FSA programs, other grant programs, and contracts. OMB was notified on October 30, 2014, that it was not cost effective to conduct a payment recapture audit and the programs/activities would be excluded from a payment recapture audit program. OMB sent their concurrence to the Department on September 21, 2015. A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's FY 2012 Report on the Department of Education's Payment Recapture Audits.

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

In addition, for the Pell Grant program, recoveries also occur when overpayments to students are assigned to FSA for collection. Pell Grant amounts recovered through student debt collection were approximately $9.25 million in FY 2016, and $10.3 million in FY 2015. While all programs may have student debts transferred to debt collection, the categorization of resulting collections as an improper payment recovery is unique to the Pell Grant program. Unlike loans, Pell Grant payments transferred to debt collection commonly indicate a potential improper payment at time of disbursement.

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

Table 4, Improper Payment Recaptures without Audit Programs, below provides estimates of the amounts identified and recovered through Compliance Audits, OIG Audits, and Program Reviews for FY 2016.

Table 4. Overpayment Recaptures without Recapture Audit Programs[(1)]
(Dollars in Millions)
Overpayments Recaptured outside of Payment Recapture Audits

Program or Activity[(2)]	Amount Identified	Amount Recaptured
All Department programs (including FSA)	118.71	20.35
TOTAL	**118.71**	**20.35**

[(1)] The Department's cost-benefit analysis determined that a payment recapture audit program would not be cost-effective for FSA programs, other grant programs, and contracts. As a result, OMB A-136 Guidance Table 5, Disposition of Funds Recaptured Through Payment Recapture Audits, and Table 6, Aging of Outstanding Overpayments Identified in the Payment Recapture Audits, have been omitted.
[(2)] The Department is unable to show the breakdown of amount identified and recaptured by program due to system restraints. A system change was put in place during 2016 that will allow the Department to capture the data by program for FY 2017.

Additional Comments

Continuous Monitoring and Data Analytics

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

Risk Management

The Department took measures to prevent improper payments through the use of the Decision Support System to run Entity Risk Review reports for non-FSA grant awards. Using data drawn from the Department's grants business system, the Federal Audit Clearinghouse, the Institutes of Higher Education accreditation reporting, and Dun & Bradstreet, this report identifies financial, programmatic, and controls risks posed by award to the prospective grantee. Grant officers and awarding officials use the Entity Risk Review reports in the preaward stage of the grant process to assess grantees' risk and assist in the determination of special conditions for grant awards. They also apply these reports in devising monitoring plans for the life of the grant, strengthening them as the Department's first line of defense against improper payments by grantees.

In FY 2016, 100 percent of Department's discretionary grants awards were assessed for risk prior to award in the areas of: financial stability; adequacy of management systems to meet applicable standards; performance history; and compliance with applicable laws and regulations, including those related to Suspension and Debarment. This work successfully demonstrated the Department's early compliance with 2 C.F.R. Section 205, *Federal Awarding Agency Review of Risk Posed by Applicants.*

Payment Integrity Workgroup

The Department has an internal workgroup intended to demonstrate payment integrity as opposed to being focused solely on improper payments. The workgroup includes representatives from different offices that are working collaboratively to evaluate the Department's framework for assessing the risk of improper payments and for strengthening the controls on estimating, preventing, detecting, and recovering improper payments. The workgroup is intended to identify, categorize, assess, and improve controls, as well as to train staff on their responsibilities with respect to ensuring the integrity of Department payments.

The Department also participates in the Improper Payments Federal Community of Practice group organized by the Social Security Administration. The workgroup is focused on the prevention of improper payments and sharing best practices between federal agencies. The group's vision is to increase interagency relationships, collaboration, and cooperation; share ideas and best practices to map knowledge and find solutions; and use the combined leadership to foster innovation.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

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

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate[3]	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases[1]	1,357,920	187,815.45	0	0	851	.247781
Reviews with databases not listed in IPERIA[2]	168,787	1,564.60	0	0	171	.505709

(1) IPERIA databases used for payment screening include the Death Master File and the System for Award Management. Data for the period October 1, 2015, to September 30, 2016.
(2) Reviews with databases not listed in IPERIA include payments reviewed through the Department's Continuous Controls Monitoring System (CCMS). This system applies a series of integrity checks to the Department's grant (non-FSA) payments and flags anomalous transactions for follow-up analysis. Examples of issues that can be detected include duplicate or incorrect drawdowns and unusual refunds and adjustments by grantees. The Department continues upgrading this system to expand the transactions being evaluated, improve the relevance of the checks with improved algorithms, and integrate new sources of comparative data. A key objective of this initiative is development of predictive modeling to prevent improper payments to the maximum degree possible. Data for the period October 1, 2015, to September 30, 2016.
(3) Payments requiring further review and identified as proper.

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center portal as required by IPERIA. During FY 2016, 1,357,920 payments, totaling $187.8 billion, were reviewed for possible improper payments through the DNP portal. A total of 851 payments, totaling $247,781, were further reviewed and determined to be accurate. The Department validated that potential improper payments identified were adjudicated and reported to Treasury in a timely manner. The Department also reviewed 168,787 payment refunds, totaling $1.6 billion, for potential improper payments through the Continuous Controls Monitoring System. A total of 212 transactions were further reviewed for potential improper payments and 171 transactions, totaling $505,709, were determined to be accurate.

The Department is also looking at ways to partner with the Treasury Department's DNP Business Center to enhance data analytics capabilities, reduce gaps, and improve processes to ensure payments are proper.

Combined Schedule of Spending

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

United States Department of Education
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016		FY 2015	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Section I: What Money Is Available to Spend?				
This section presents resources that were available to spend by the Department.				
Total Resources	$ 103,245	$ 231,821	$ 117,218	$ 232,460
Amount Available but Not Agreed to be Spent	(10,280)	-	(11,806)	(550)
Amount Not Available to be Spent	(2,163)	(15,479)	(2,968)	(13,887)
Total Amounts Agreed to be Spent	**$ 90,802**	**$ 216,342**	**$ 102,444**	**$ 218,023**
Section II: How Was the Money Spent?				
This section presents services and items purchased, is grouped by major program, and is based on outlays.				
Increase College Access, Quality, and Completion				
Credit Program Loan Disbursements and Claim Payments	$ 12,608	$ 196,012	$ 25,249	$ 198,431
Grants	33,880	-	35,569	-
Personnel Compensation and Benefits	291	-	273	-
Contractual Services	1,351	775	1,248	1,065
Other [1/]	36	-	37	-
Total Program Spending	**47,626**	**196,787**	**62,376**	**199,496**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs				
Grants	21,523	-	22,322	-
Personnel Compensation and Benefits	74	-	73	-
Contractual Services	87	-	106	-
Other [1/]	13	-	15	-
Total Program Spending	**21,697**	**-**	**22,516**	**-**
Ensure Effective Educational Opportunities for All Students				
Grants	16,691	-	16,474	-
Personnel Compensation and Benefits	151	-	148	-
Contractual Services	43	-	49	-
Other [1/]	23	-	23	-
Total Program Spending	**16,908**	**-**	**16,694**	**-**
Enhance the Education System's Ability to Continuously Improve				
Grants	1,659	-	1,661	-
Personnel Compensation and Benefits	94	-	94	-
Contractual Services	451	-	491	-
Other [1/]	17	-	15	-
Total Program Spending	**2,221**	**-**	**2,261**	**-**
Total Spending	**$ 88,452**	**$ 196,787**	**$ 103,847**	**$ 199,496**
Amounts Remaining to be Spent[2/]	2,350	19,555	(1,403)	18,527
Total Amounts Agreed to be Spent	**$ 90,802**	**$ 216,342**	**$ 102,444**	**$ 218,023**
Section III: Who Did the Money Go To?				
This section identifies with whom the Department is spending money based on obligations incurred.				
Nonfederal Obligations	$ 90,323	$ 216,341	$ 101,977	$ 218,023
Federal Obligations	479	1	467	-
Total Amounts Agreed to be Spent	**$ 90,802**	**$ 216,342**	**$ 102,444**	**$ 218,023**

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

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

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

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

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditor's report can be found beginning on page 92 and the Department's management assurances on pages 30–40.

Summary of Financial Statement Audit

Audit Opinion: Unmodified
Restatement: No

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

Summary of Management Assurances

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

Statement of Assurance: Unmodified

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

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

Effectiveness of Internal Control over Operations—FMFIA 2

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

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

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

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

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

The Inspector General

October 14, 2016

TO: The Honorable John B. King Jr.
Secretary of Education

FROM: Kathleen S. Tighe Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2017

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

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2017.

The FY 2017 management challenges are:

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

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2017 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2017 Executive Summary

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

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. On September 22, 2016, the Office of the Deputy Secretary announced an initiative to review the identified management challenges, assigned senior managers to be accountable for each, and assembled a workgroup of other senior managers throughout the Department to address the noted challenges. The Department further noted that this effort is intended to help identifying systemic root causes and ensure that Department's actions are impactful and produce results. We consider this initiative to be a positive step towards addressing long-standing management challenges and encourage the Department to continue to explore approaches that result in targeted focus within each of these areas. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2017.

The FY 2017 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring,

(4) Data Quality and Reporting, and

(5) Information Technology System Development and Implementation.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2017 Management Challenges Report is available at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

Management Challenge 1—Improper Payments

Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments. In addition, the Office of Management and Budget (OMB) has designated these programs as high-priority programs, which are subject to greater levels of oversight.

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and to intensify its efforts to successfully prevent and identify improper payments. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies.

In May 2016, we reported that the Department's published improper payment estimates for both the Pell Grant and Direct Loan programs were inaccurate and unreliable because they used incorrect formulas in performing calculations and deviated from OMB-approved methodologies. We concluded that the Department did not comply with IPERA because it did not meet the annual reduction target for the Direct Loan program. The Department's recalculated FY 2015 improper payment rate (2.63 percent) for the Direct Loan program to correct for formula execution errors we identified did not meet its reduction target (1.49 percent).

Our semiannual reports to Congress from April 1, 2013, through March 31, 2016, included more than $2.3 million in questioned or unsupported costs from audit reports and more than $59 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

The Department stated that it had developed internal controls that are intended to prevent, detect, and recover improper payments. The Department stated that it strives to provide timely and accurate payments to grant recipients and students while ensuring that the related controls are not too costly or burdensome to fund recipients. The Department further noted that it also relies on controls established by fund recipients who make payments on behalf of the Department.

In response to OIG recommendations, the Department stated that it developed and implemented corrective actions to improve the accuracy and completeness of its 2016 improper payment estimates. This included the establishment of a working group with OIG and OMB participation to review changes to the Department's alternative improper payment estimation methodology to resolve identified risks. The Department also convened a senior level working group to identify and evaluate estimation methodology options for 2017 that would ensure IPERA compliance going forward. The Department added that it had revised its 2016 estimation methodology to decrease the volatility of the estimate and to address the other issues noted by the OIG.

The Department reported that it continues to assess and enhance its controls over student aid payments. The Department stated that it routinely analyzes application and payment data and considers other factors, such as program reviews and audit reports, to inform control enhancements and to devise ways to further reduce the risk of improper payments. The Department added that it has implemented an internal control framework intended to prevent or detect improper payments and has established processes to annually assess the design and operating effectiveness of these controls. The Department also stated that when weaknesses are identified, it identifies root causes and establishes corrective action plans.

What Needs to Be Done

The Department's efforts to revise its estimation methodology are a good step forward to better identifying improper payments, so that corrective actions can be developed and tracked. The OIG will continue to review the Department's efforts, with a focus on assessing how the new methodology is functioning to identify potential sources of improper payments. Ultimately, the ability of the Department to address this management challenge hinges on its ability to identify root causes, develop corrective actions, and demonstrate that its efforts have resulted in reductions in improper payments. While the Department correctly acknowledges that it relies on the internal controls of fund recipients who make payments on behalf of the Department, it is important that the Department's efforts to reduce improper payments includes processes to identify high-risk recipients and ensure that those recipients have effective systems of internal control.

Management Challenge 2—Information Technology Security

Why This Is a Challenge

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. Department systems contain or protect an enormous amount of sensitive information, such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning.

Progress in Meeting the Challenge

The Department stated that it has taken a number of steps to strengthen the cybersecurity posture of the Department's networks and systems over the past fiscal year, including:

- Working to identify and protect high value information and assets that resulted in a better understanding of the potential impact from a cyber incident and helped to ensure that physical and cybersecurity protections were in place for the Department's high value assets.

- Strengthening its capability to respond to cybersecurity incidents and identifying a plan for future action to establish a mature incident response capability.
- Establishing daily integrated Security Operations Center calls to communicate events or requirements with all necessary stakeholders.
- Deploying enhanced capabilities for the detection of cyber vulnerabilities and protection from cyber threats.
- Strengthening its partnership with the Department of Homeland Security to accelerate the deployment of continuous diagnostics and mitigation capabilities.

The Department expected that recent actions would sustain and improve the advances seen over the past fiscal year. The Department stated that it had completed a significant step toward improving overall cybersecurity by requiring all privileged users use hardware-based Personal Identity Verification cards or alternative forms of strong authentication. The Department added that other significant activities included leveraging existing capabilities to perform independent verification and validation of contractor submitted data, reviewing contractual requirements and assessments for contractor abilities to provide infrastructure services and malware detection, continuing employee awareness training, and developing IT security staff skills and competencies.

What Needs to Be Done

The Department reported significant progress towards addressing long-standing IT security weaknesses in the past fiscal year. However, we continue to identify significant weaknesses in our annual FISMA audits despite the Department's reported corrective actions to address our prior recommendations. While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of IT security controls. Our FISMA audits will continue to assess the Department's efforts and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes.

Management Challenge 3—Oversight and Monitoring

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended and programs are achieving goals and objectives. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Two subareas are included in this management challenge—Student Financial Assistance (SFA) program participants and grantees.[1]

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the *Higher Education Act of 1965*, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. The Department's FY 2017 budget request includes 139.7 billion in new grants, loans, and work study assistance to help an estimated 12.1 million students and their families pay for college.

The growth of distance education has added to the complexity of the Department's oversight of SFA program participants. The management of distance education programs presents challenges to the Department and school officials because little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the federal student aid laws and regulations and creates new opportunities for fraud, abuse, and waste in the SFA programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to obtain federal student aid.

Our audits and inspections, along with work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. Our audits of individual SFA program participants frequently identified noncompliance and waste and abuse of SFA program funds.

Progress in Meeting the Challenge

Overall, the Department reported that FSA remains committed to use more innovative and efficient methods to bolster its oversight and compliance efforts. This included efforts intended to expand the Department's ability to perform these activities in a more proactive and preemptive fashion. The Department reported that it focused on three priority areas in its efforts to improve the oversight and monitoring of SFA program participants during FY 2016; (1) bolstering capacity to provide adequate Title IV enforcement; (2) enhancing oversight of contracts, loan servicing activities, and schools; and (3) expanding *Clery Act* and borrower defense work.

As part of this effort, the Department created the Enforcement Office within FSA to respond more quickly and efficiently to allegations of illegal actions by higher education institutions.

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[1] This area includes two changes from our previous Management Challenges report. In FY 2016 we included *Distance Education* as a distinct management challenge; however it is included as an element of *Oversight and Monitoring – SFA Program Participants* in this report. The change was made after consideration of the Department's feedback to our prior report. Our FY 2016 report also included *Oversight and Monitoring – Contractors* as a subpart to this section. That element was removed because our current body work does not support its continued reporting as a challenge to the Department.

FSA also noted accomplishments in enhancing its oversight activities made by its multiregional review team, Program Compliance unit, and Clery team.

With respect to the challenges presented by distance education, the Department stated that FSA's Program Compliance unit enhanced the Recipient Data Sheet that is used to determine which students are receiving a portion or all of their education via distance education. The Department added that in FY 2016, Program Compliance developed and delivered a training program for program reviewers on the process to evaluate distance education. The training program included three components: a lecture on distance education requirements, case studies, and a question-answer session. In addition, a recommended work tool was created to assist reviewers in evaluating distance education courses. The Department believed that enhanced outcomes were evidenced in subsequent reviews of distance education programs. FSA plans to conduct continuous training to current and new reviewers to reinforce distance education review requirements and plans to monitor program reviews for distance education outcomes. The Program Compliance team also plans to work with other parts of FSA to offer training to institutions on distance education requirements through conference sessions, webinars, and other trainings.

What Needs to Be Done

The Department identified several important accomplishments that are intended to collectively improve its ability to provide effective oversight. We recognize the progress being made and the need to balance controls with both cost and the ability to provide necessary services effectively. However, our audits and investigations involving FSA programs continue to identify numerous instances of noncompliance and fraud.

Overall, the Department needs to ensure that the activities of its Program Compliance office result in effective processes to monitor FSA program participants and reduce risk. It also should work to ensure that its program review processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure that development and implementation of its Enforcement Office effectively provides the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of FSA programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 18,200 public school districts and 50 million students attending more than 98,000 public schools and 32,000 private schools. Key programs administered by the Department include Title I of the *Elementary and Secondary Education Act*, which under the President's 2017 request would deliver $15.4 billion to help more than 24 million students in high-poverty schools make progress toward State academic standards. Another key program is the *Individuals with Disabilities Education Act*, Part B Grants to States, which would provide about $11.9 billion to help States and school districts meet the special educational needs of 6.7 million students with disabilities.

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

Progress in Meeting the Challenge

To further improve monitoring and promote effective grant oversight, the Department has issued guidance to offices that manage formula and discretionary grant programs, provided training for staff, and engaged in technical assistance to both staff and external stakeholders to enhance business operations in the area of grant award monitoring and oversight. In addition, some program offices have piloted new processes to improve coverage, efficiency, and consistency in fiscal monitoring across programs.

What Needs to Be Done

The Department's issuance of new grant management guidance to its program offices should provide an improved basis for their monitoring activities. However, the Department still needs to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable federal education programs. We acknowledge that the Department has worked to enhance the knowledge and capabilities of its existing employees. However, given the Department's generally limited staffing in relation to the amount of federal funding it oversees, it is important for the Department to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. This could include methods to use the single audit process and updates to the OMB 2 CFR 200, Subpart F—Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs.

Management Challenge 4—Data Quality and Reporting

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department uses data to make certain funding decisions, evaluate program performance, and support a number of management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department, SEA, and LEA level. This included weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

Progress in Meeting the Challenge

The Department stated that it continues to work to promote SEA controls over data, improve its own controls over data submitted by grantees, and ensure the transparency of data quality. The Department's efforts to improve the data that it collects, publishes, and uses to inform grant management are coordinated by senior officials who are members of the Department's Data Strategy Team and the ED*Facts* Governing Board. The Department also reported that in the past year it had taken steps to promote grantee awareness of data quality issues and strengthen its review of grantee data.

The Department further stated that it has multiple initiatives underway to improve data quality and help strengthen the accuracy and reliability of data reported by the Department. These included (1) strengthening the procedures for tracking issues with grantee data, (2) communicating the importance of grantee internal controls over data quality in monitoring, (3) strengthening the language in the certifications that grantees sign when submitting data to the Department, (4) improving the process for following up and resolving questions about grantee data submitted to ED*Facts,* and (5) supporting State agencies in improving their own data quality procedures.

The Department added that it continues to include information about data limitations when reporting data in the Annual Performance Report and other publications and was implementing a corrective action plan in response to the OIG's recommendation that the Department improve its data quality through monitoring efforts.

What Needs to Be Done

The Department continues to complete significant work that is intended to improve the overall quality of data that it collects and reports. This work should remain a priority, as data quality contributes to effective program management and helps ensure the credibility of information published by the Department. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge.

Our recent audits have found weaknesses in grantees' internal controls over the accuracy and reliability of program performance data and student testing data. Overall, the Department needs to ensure that it is providing effective oversight and monitoring to grantees regarding their controls over data quality. Of note, the Department's efforts to strengthen its procedures for tracking issues with grantee data could serve as a basis for sharing information across its program offices and identify entities for enhanced monitoring and support. The Department should also continue its efforts to provide appropriate technical assistance to grantees as necessary. Overall, the Department must continue to work to implement effective controls at all applicable levels to of the data collection and review processes to ensure that accurate and reliable data are reported.

Management Challenge 5—Information Technology System Development and Implementation

Why This Is a Challenge

The President's budget for FY 2017 stated that ensuring the efficiency, effectiveness, and security of federal IT has never been more central to how Americans are served by their government. It further notes that the current administration has focused on driving efficiencies in the way the government buys, builds, and delivers IT solutions to provide improved services to citizens. It adds that with the ongoing evolution of technology, the federal government has an unprecedented opportunity to accelerate the quality and timeliness of services delivered to the American people.

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with declining staffing levels. The Department reported that it has the smallest staff but the third-largest discretionary budget among the 15 Cabinet agencies. The Department further reported that between 2005 and 2015 it experienced a 6 percent decrease in full-time equivalent usage. This makes effective information systems development and implementation and the greater efficiencies such investments can provide critical to the success of the Department's activities and the achievement of its mission.

The Department's current IT investments include systems that support business processes such as student application processing and eligibility determination for federal student financial assistance; grant and loan award processing; procurement and acquisition; and the collection, storage, and reporting on Title IV aid disbursements and aid recipients. According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2015 was $689 million, with FSA's IT spending accounting for more than $458 million of the total.

Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments.

Progress in Meeting the Challenge

The Department reported that it had made progress in the overall program management and oversight of IT systems. This included developing a Lifecycle Management Methodology at FSA, conducting Independent Validation and Verification of a high risk system, and establishing a formal contract monitoring plan. The Department stated that it planned to continue its progress within this area by further educating project owners of lifecycle processes, enhancing program management oversight capabilities, and providing additional guidance to new IT system contracts.

In addition, the Department stated that it continues to execute its *Federal Information Technology Acquisition Reform Act* (FITARA) implementation plan and at the time of this report was on track to meet internal CIO and external OMB commitments in the FITARA areas of budget formulation and planning, acquisition planning, acquisition execution, and organization and workforce. The Department reported that of the 44 baseline tasks, 33 have been completed and 11 are in progress and scheduled for completion by December 31, 2016. Finally the Department stated that its FITARA working group continues to meet and address challenges that include improving planning and execution processes.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that system deficiencies are corrected and that system performance fully supports the Department's financial reporting and operations. The Department further needs to enhance its management and oversight of system modifications and enhancements and ensure that appropriate expertise to manage system contracts is in place. While Lifecycle Management Methodology was established in FSA, management needs to ensure it is implemented and followed.

Looking forward, the Department also needs to continue implementing the requirements of the *Federal Information Technology Acquisition Reform Act* and the revised OMB Circular A-130, "Managing Information as a Strategic Resource."

Freeze the Footprint

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

The Department Challenges are:

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

The Department Strategy is to:

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

Freeze the Footprint Baseline Comparison

	FY 2012 Baseline	2015	Change (FY 2012 Baseline–2015)
Square Footage	1,563,641	1,548,425	15,216

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

Civil Monetary Penalty Adjustment for Inflation

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

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	October 2, 2012	August 1, 2016	$36,256
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	October 2, 2012	August 1, 2016	$30,200
Violation of Title IV of the HEA	20 USC 1082(g)	October 2, 2012	August 1, 2016	$53,907
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	October 2, 2012	August 1, 2016	$53,907
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	October 2, 2012	August 1, 2016	$1,591
Improper lobbying for government grants and contracts	31 USC 1352 (c)(1)	October 2, 2012	August 1, 2016	$18,936 to $189,261
False claims and statements	31 USC 3802(a)(1)	October 2, 2012	August 1, 2016	$10,781

Appendices

Appendix A: Selected Department Web Links and Education Resources

College Completion Toolkit

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

College Cost Lists

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

College Navigator

College Navigator consists primarily of the latest data from the Integrated Postsecondary Education Data System, the core postsecondary education data collection program for the National Center for Education Statistics. http://nces.ed.gov/collegenavigator/

College Preparation Checklist

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

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

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

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

College Scorecards

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

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

Government Accountability Office

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

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 planned for later announcement, for new awards organized according to the Department's principal program offices. http://www2.ed.gov/fund/grant/find/edlite-forecast.html

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

National Assessment of Educational Progress

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

Office of Inspector General

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

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

One-Stop Shopping for Student Loans

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

Open Government Initiative

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

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, such as financial grant information, within the Department to enable better analysis and use in policy development, planning, and management.
http://www.ed.gov/about/inits/ed/edfacts/index.html

Practice Guides for Educators

The Department offers guides that help educators address everyday challenges faced in classrooms and schools. Developed by a panel of nationally recognized experts, practice guides consist of actionable recommendations, strategies for overcoming potential roadblocks, and an indication of the strength of evidence supporting each recommendation. The guides themselves are subjected to rigorous external peer review. Users can sort by subject area, academic level, and intended audience to find the most recent, relevant, and useful guides. http://ies.ed.gov/ncee/wwc/Product#/ContentTypeId:3

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* (DATA Act) requiring new public reporting requirements, which impact the definition of program used in this guidance. OMB is currently working with agencies to merge the implementation of the DATA Act and the Federal Program Inventory requirements to the extent possible to avoid duplicative efforts. While OMB and agencies determine the right implementation strategy, the initial Federal Program Inventory remains available on performance.gov or at http://www2.ed.gov/programs/inventory.pdf.

Projections of Education Statistics to 2023

For the 50 states and the District of Columbia, the tables, figures, and text in this report contain data on projections of public elementary and secondary enrollment and public high school graduates to the year 2023. The report includes a methodology section that describes the models and assumptions used to develop national and state-level projections. http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2015073

Resources for Adult and Career and Technical Education

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

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

Appendix B: Glossary of Acronyms and Abbreviations

ABCP	Asset-Backed Commercial Paper
AFR	*Agency Financial Report*
APG	Agency Priority Goals
APR	*Annual Performance Report*
CAT	Core Assessment Team
CCMS	Continuous Controls Monitoring System
CHAFL	College Housing and Academic Facilities Loan Program
CPSS	Contracts and Purchasing Support System
DATA	*Digital Accountability and Transparency Act of 2014*
DCIA	*Debt Collection Improvement Act of 1996*
DNP	Do Not Pay
DOL	U.S. Department of Labor
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDCAPS	Education Central Automated Processing System
ERM	Enterprise Risk Management
FAFSA	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FISMA	*Federal Information Security Modernization Act of 2014*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FMSS	Financial Management Support System
FSA	Federal Student Aid

FY	Fiscal Year
G5	Grants Management System
GAAP	Generally Accepted Accounting Principles
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*
HEA	*Higher Education Act of 1965*
HEAL	Health Education Assistance Loans
IDEA	*Individuals with Disabilities Education Act*
IES	Institute of Education Sciences
IHE	Institutions of Higher Education
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IRS	Internal Revenue Service
IRS DRT	IRS Data Retrieval Tool
IT	Information Technology
LEA	Local Educational Agency
LINCS	Literacy Information and Communication Systems
NFP	Not-for-profit
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement

OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSERS	Office of Special Education and Rehabilitative Services
PAYE	Pay as You Earn
PEPS	Postsecondary Education Participants System
PIV	Personal Identity Verification
SAFRA	*Student Aid and Fiscal Responsibility Act (SAFRA Act)*
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SEA	State Educational Agency
SFA	Student Financial Assistance
SOC	Security Operations Center
SOS	Schedule of Spending
TEACH	Teacher Education Assistance for College and Higher Education Grant
TIVAS	Title IV Additional Servicers
Treasury	U.S. Department of Treasury

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

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

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

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Office of the Chief Financial Officer

An electronic version is available on the World Wide Web at
http://www2.ed.gov/about/reports/annual/index.html

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