U.S. Department of Education
Office of Inspector General

The Department's Communication Regarding the Costs of Income-Driven Repayment Plans and Loan Forgiveness Programs

January 31, 2018
ED-OIG/A09Q0003

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.

January 31, 2018

TO: Kent D. Talbert
Senior Official Delegated the Duties of the Deputy Secretary

FROM: Patrick J. Howard /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "The Department's Communication Regarding the Costs of Income-Driven Repayment Plans and Loan Forgiveness Programs," Control Number ED-OIG/A09Q0003

Attached is the subject final audit report that covers the results of our review of the U.S. Department of Education's (Department) communication regarding the costs of income-driven repayment plans and loan forgiveness programs. We have provided an electronic copy to your audit liaison officers. We considered your comments on the finding and recommendations in our draft report.

Department policy requires that you develop a final corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the finding and recommendations contained in this final audit report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact Mr. Raymond Hendren, Regional Inspector General for Audit, Sacramento Audit Region, at (916) 930-2399 or ray.hendren@ed.gov.

Attachments

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Results in Brief

What We Did

The objective of our audit was to determine whether the Department's communication related to the costs of Federal student loan programs' income-driven repayment (IDR) plans and loan forgiveness programs was informative to decision makers and the public. Our review covered cost information for the IDR plans, including Pay as You Earn (PAYE) and Revised Pay as You Earn (REPAYE), and the Public Service Loan Forgiveness (PSLF) and Teacher Loan Forgiveness (TLF) programs that the Department communicated in budget and financial documents from February 2015 through November 2016.

What We Found

Based on our review and assessment of certain Department publications, the Department should have enhanced its communications regarding cost information related to the Federal student loan programs' IDR plans and loan forgiveness programs to make it more informative and easier to understand. Specifically, the Department could have provided more detailed information on specific IDR plans, such as PAYE and REPAYE, and its loan forgiveness programs to fully inform decision makers and the public (including advocacy groups) about current and future program management and financial implications of these plans and programs. Decision makers and others may not be aware of the growth in the participation in these IDR plans and loan forgiveness programs and the resulting additional costs. They also may not be aware of the risk that, for future loan cohorts, the Federal government and taxpayers may lend more money overall than is repaid from borrowers. For this audit, we reviewed financial reports and budget documents that the Department and Federal Student Aid (FSA) office prepared between February 2015 and November 2016.[1] We focused on the sections of these documents in which the Department and FSA had discretion to present detailed information about the cost of IDR plans and loan forgiveness programs. In FSA's Strategic Plan for fiscal years (FYs) 2015–2019, FSA stated that as more borrowers select IDR plans that allow for student loan forgiveness, the cost of this form of nonpayment could be a major issue for the Federal government. In addition, FSA stated that the

[1] We also reviewed other documents, including the Department performance report, Federal Registers, and responses to inquiries from external parties such as Congressional and Senate staff and concluded that they were not relevant to our audit. The performance report is designed to provide information related to the Department's strategic objectives and performance measures to achieve the objectives; Federal Registers contain net impacts on the budget but are not updated annually; and responses to inquiries were only provided to parties who requested the information.

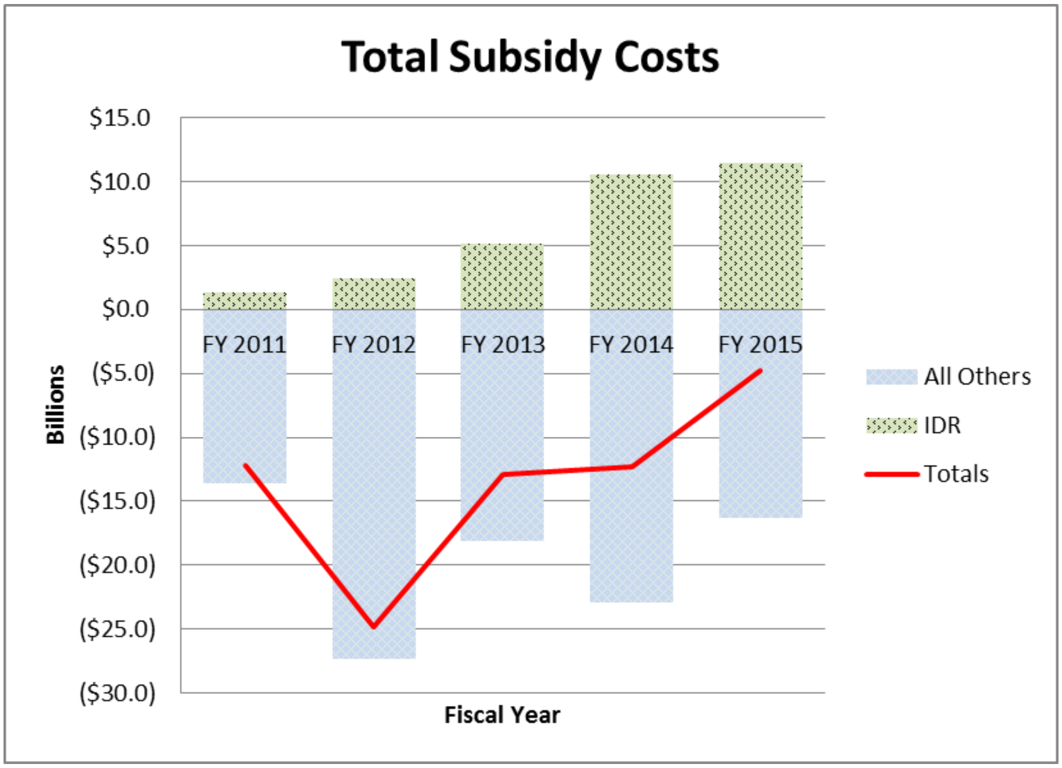
timing and potential magnitude of loan forgiveness programs create uncertain repayment terms that could pose significant challenges in managing its student loan portfolio.

Borrowers have been signing up for IDR plans, such as PAYE and REPAYE, at a substantial rate. We calculated that the portion of total Direct Loan volume being repaid through IDR plans has increased 625 percent from the FY 2011 loan cohort ($7.1 billion) to the FY 2015 loan cohort ($51.5 billion).[2] For IDR plans, the Federal government is expected to lend more money than borrowers repay. From the FY 2011 through FY 2015 loan cohorts, the total positive subsidy cost (net cash outflow) for student loans being repaid through IDR plans has increased 748 percent (from $1.4 billion to $11.5 billion). On other types of repayment plans, borrowers are expected to repay more money than the Federal government lends.[3] From the FY 2012 to FY 2015 loan cohorts, the data show the total costs for all loans (IDR and all other repayment plans) approaching an overall positive subsidy cost, as shown in Figure 1. Further increases in students using IDR plans could result in the Federal government and taxpayers lending more money overall than is being repaid by borrowers in future cohorts. The financial documents that we reviewed did not provide any information on the rate at which borrowers elect to repay loans through an IDR plan, the corresponding increased costs resulting from more borrowers selecting IDR plans, or the trend toward a positive subsidy cost for future loan cohorts.

[2] The amounts and calculations in this paragraph and Figure 1 are from subsidy cost and gross loan volume information for FY 2011 loan cohort through FY 2015 loan cohort in the Budget Appendix (published by the Office of Management and Budget (OMB) and based on information from the Department).

[3] Other types of repayment plans include the standard, extended, and graduated repayment plans.

Figure 1. Direct Loan Program Total Subsidy Cost for FYs 2011 to 2015 Cohorts



In the FY 2016 AFR, the Department reported that more than 5 million borrowers have enrolled in IDR plans, an increase from 700,000 borrowers in 2011. The Department further stated that it has a goal of enrolling an additional 2 million borrowers in IDR plans in FY 2017. The FY 2017 Budget Summary Document describes a proposal to expand the amount of loan forgiveness under the TLF program. In response to an inquiry from an accreditation organization, the Department has estimated that 600,000 borrowers will be eligible for PSLF through 2025. However, the AFR, FSA's annual report, and the budget documents did not contain information about the financial impact that the growth in the use of IDR plans and loan forgiveness programs has had or could have in the future.

What We Recommend

We recommend that the Department enhance its communications regarding cost information related to the Federal student loan program's IDR plans and loan forgiveness programs to make it more informative to decision makers and the public.

We provided a draft of this report to the Department for comment. In its response, the Department did not explicitly state whether it agreed with our finding and recommendations. We did not make any changes to the finding or recommendations based on the Department's comments. We summarized the Department's comments and provided our response at the end of the finding. We also included the full text of the comments as Appendix F to this report.

Introduction

Background

Title IV of the Higher Education Act of 1965, as amended, authorizes various programs that provide financial aid, typically in the form of grants or loans, to eligible students enrolled in eligible programs at eligible postsecondary schools. The William D. Ford Federal Direct Loan (Direct Loan) program is currently the largest Federal student loan program. Under this student loan program, the Department is the lender. Before July 1, 2010, most Federal student loans were originated under the Federal Family Education Loan (FFEL) program. Under the FFEL program, the Department guaranteed loans made by commercial and nonprofit lenders. The Student Aid and Fiscal Responsibility Act, included in the Health Care and Education Reconciliation Act (Public Law 111 152), mandated that no new Federal student loans be originated under the FFEL program after June 30, 2010. Both student loan programs are funded under mandatory funding, which means that the loan programs have permanent, indefinite funding authority provided by the Higher Education Act of 1965, as amended.[4] The FSA office within the Department is responsible for managing the Federal student loan programs.

The outstanding principal balance of the Department's student loan portfolio of direct and guaranteed loans nearly doubled in the last 7 years, from $687 billion at the end of FY 2009 to $1.209 trillion at the end of FY 2016. As of September 30, 2016, 42 million borrowers had outstanding student loans that were either held or guaranteed by the Department. In FY 2016, the Department disbursed about $140.5 billion in Direct Loans to eligible students and their parents. Student loan debt is currently the second largest form of household debt in the nation, behind only home mortgages.

Federal Student Loan Types

The Department offers four types of loans under the Direct Loan program, which were also offered under the FFEL program.[5]

[4] Permanent authority is budget authority that is available as the result of previously enacted legislation and is available without further legislative action. Indefinite authority is budget authority that, at the time of enactment of legislation, is for an unspecified amount. In contrast to mandatory funding, discretionary funding is budget authority provided by annual appropriations acts.

[5] The Federal student loan programs also include the Federal Perkins Loan program for students who demonstrate financial need, where the school is the lender. Federal Perkins Loans are eligible for IDR plans if they are included in a Direct Consolidation Loan.

- Subsidized Loans—loans made to eligible undergraduate students with financial need.
- Unsubsidized Loans—loans made to eligible undergraduate and graduate students regardless of financial need.
- PLUS Loans—loans made to graduate students and parents of dependent undergraduates.
- Consolidation Loans—loans that result from borrowers combining their eligible Federal student loans into a single loan.[6]

Loan Repayment Options

As shown in Table 1, borrowers have several options for repaying their Federal student loans, including standard, graduated, extended, and multiple IDR plans. Under the standard, graduated, and extended repayment plans, the borrower is expected to repay the balance of the loan by the end of the repayment period. Under the IDR plans, the borrower's monthly payments would be based on his or her income and would typically be lower than payments under the standard repayment plan. Additionally, under the IDR plans, any remaining loan balance is forgiven at the end of the repayment period.

[6] Repayment periods can be extended up to 30 years, which can reduce a borrower's monthly payment when compared to the total of minimum monthly payments on previously unconsolidated loans. The interest rate on a consolidated loan equals the weighted average of the previously unconsolidated loans rounded up to the nearest one eighth of one percent.

Table 1. Federal Student Loan Repayment Options

Repayment Plan	Description	Eligible Loans	Maximum Repayment Period
Standard (available since 1965)	Monthly payments are a fixed amount of at least $50. Unless a borrower is eligible for and actively selects a different plan, he/she will be assigned the standard repayment plan.	All Direct Loan and FFEL program borrowers and all loan types are eligible.	10 years (10–30 years for consolidation loans depending on the initial loan balance)
Graduated (available since 1998)	Monthly payments start low and typically increase every 2 years. The payments will never be less than the amount of interest that accrues between payments, and will not be more than three times greater than the maximum payment under any other repayment plan.	All Direct Loan and FFEL program borrowers and all loan types are eligible.	10 years (10–30 years for consolidation loans depending on the initial loan balance)
Extended (available since 1998)	Monthly payments are fixed or graduated amounts and are generally lower than payments made under the Standard and graduated repayment plans. To be eligible, the borrower must have at least $30,000 in outstanding student loans.	All Direct Loan and FFEL program borrowers and all loan types are eligible.	25 years
Revised Pay As You Earn (REPAYE) (a) (available since 2015)	Generally monthly payments are 10 percent of the borrower's discretionary income.	Borrowers with eligible loan types under the Direct Loan program. • Subsidized and Unsubsidized • PLUS loans made to students • Consolidation Loans that do not include PLUS loans made to parents	20 years if all loans being repaid were received for undergraduate study 25 years if any loans being repaid were received for graduate or professional study

Pay As You Earn (PAYE) (a) (available since 2012)	Monthly payments are capped at 10 percent of the borrower's discretionary income, but never more than the 10-year Standard repayment plan amount.	Borrowers with eligible loan types under the Direct Loan program. • Subsidized and Unsubsidized • PLUS loans made to students • Consolidation Loans that do not include PLUS loans made to parents	20 years
Income-Based Repayment (a) (available since 2009)	Monthly payments are capped at 10 percent of the borrower's discretionary income if a new borrower on or after July 1, 2014, but never more than the 10-year Standard repayment plan amount. Monthly payments are capped at 15 percent of the borrower's discretionary income if not a new borrower on or after July 1, 2014, but never more than the 10-year Standard repayment plan amount.	Borrowers with eligible loan types under the Direct Loan or FFEL programs. • Subsidized and Unsubsidized • PLUS loans made to students • Consolidation Loans that do not include PLUS loans made to parents	20 years if a new borrower on or after July 1, 2014 25 years if not a new borrower on or after July 1, 2014
Income-Contingent Repayment (a) (available since 1994)	Monthly payments are the lesser of the following: 1. 20 percent of the borrower's discretionary income or 2. a fixed payment over the course of 12 years, adjusted according to the borrower's income.	Borrowers with eligible loan types under the Direct Loan program. • Subsidized and Unsubsidized • PLUS Loans made to students • Consolidation Loans	25 years

(a) Repayment plan under the income-driven repayment plans.

According to the Department's FY 2016 Agency Financial Report (AFR), as of September 30, 2016, more than 5 million borrowers were enrolled in IDR plans.[7] This represents an increase of more than 600 percent since 2011, while enrollment in other repayment options has decreased. The IDR plans (including the most recently implemented PAYE and REPAYE plans) are commonly selected repayment plans for Federal student loan borrowers.

Student Loan Forgiveness Programs

In addition to the lower monthly payments and loan forgiveness features inherent in IDR plans, the Department offers two loan forgiveness programs linked to certain careers.

Public Service Loan Forgiveness Program

Created in 2007, the PSLF program forgives the remaining loan balance on Direct Loans after the borrower has made 120 qualifying monthly payments after October 1, 2007, under a qualifying repayment plan while working full-time for a qualifying employer.[8] A qualifying employer includes:

- Government organizations (Federal, State, local, or tribal);
- not-for-profit organizations that are tax-exempt under Section 501(c)(3) of the Internal Revenue Code;
- other not-for-profit organizations that provide specific types of qualifying public service; and
- AmeriCorps or Peace Corps.

Teacher Loan Forgiveness Program

Created in 1998, the TLF program forgives up to $17,500 in qualified student loans for borrowers who teach for 5 complete and consecutive academic years at qualifying schools or agencies that serve low-income families. Qualifying loans include Direct Loans and FFEL. If the borrower has only PLUS loans, the borrower is not eligible for this type of forgiveness.

[7] The Department's AFR is designed to inform the President, Congress, and the public 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.

[8] A borrower who received loans from other Federal student loan programs such as the FFEL program may be eligible for the PSLF if the borrower consolidates the loans under the Direct Loan program. Only qualifying payments that the borrower makes on the new consolidation loan can be counted toward the 120 required payments. Qualifying repayment plans include the IDR plans.

Student Loan Subsidy Costs

The Federal Credit Reform Act of 1990, enacted as part of the Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508), changed the budgetary measurement of the costs of direct loans and loan guarantees. For loans obligated before FY 1992, the costs represent the cash flows into or out of the U.S. Treasury at the time such cash flows occur. For loans obligated after FY 1991, the costs represent the estimated long-term costs to the Federal government on a present value basis. This estimated cost is called a subsidy cost.

The subsidy cost of Federal student loans is the estimated present value of the cash outflows (excluding administrative expenses) less the estimated present value of the cash inflows resulting from a direct loan or loan guarantee, discounted to the time when the loan was disbursed. For the Direct Loan program, cash outflows consist of loan disbursements to borrowers and default collection costs and cash inflows consist of default recoveries, payments of origination and other fees, and borrower loan repayments. A positive subsidy cost means that the Federal government is expected to lend more money than it receives on its student loan portfolio. In this case, the present value of cash outflows is estimated to exceed the present value of cash inflows. A negative subsidy cost means that the student loan portfolio is expected to provide the Federal government with more money than it lends, excluding administrative costs. In this case, the present value of cash inflows is estimated to exceed the present value of cash outflows. The net present value is the present value of the estimated future cash inflows minus the present value of the cash outflows.

Subsidy cost is accounted for according to individual loan cohorts. A loan cohort is determined based on the fiscal year that either Direct Loans are made or FFEL loans are guaranteed by the Federal government. Agencies are required to reestimate the subsidy cost throughout the life of each loan cohort to account for differences between the original assumptions of cash flows and actual cash flows or revised assumptions about future cash flows. These reestimates can increase or decrease the estimated subsidy cost of each loan cohort and the total student loan portfolio each year and thus represent adjustments to the estimated cost or savings to the Federal government. The subsidy costs of each loan cohort and subsequent annual reestimates are recorded in the Federal budget and the Department's financial statements.

Subsidy cost can also be affected by modifications to a student loan program. A modification stems from any government action that changes the original baseline assumptions and affects the subsidy cost, such as the introduction of a new IDR plan for existing student loans (a change in loan terms). The cost of a modification is the difference between the net present value of the remaining cash flows before and after the modification.

Financial Reporting and Budgets

The Department communicates information on the costs of the Federal student loan programs through Department and FSA annual financial reporting and annual budget documents. The Department issues an AFR and FSA issues an annual report that details FSA's financial and program performance. The OMB assists the President in overseeing the preparation of the Budget of the U.S. Government (President's Budget) and the Department publishes specific budget documents annually. We focused our review on the sections of these documents in which the Department and FSA have discretion to present detailed information about the cost of IDR plans and loan forgiveness programs.

Financial Reporting

The Department issues an AFR and FSA issues an annual report every November to inform the President, Congress, and the public about how the Department used its resources. The Department's AFR contains a Management's Discussion and Analysis (MD&A) section, a financial section including the audited financial statements and related notes to the financial statements (financial statements), and other required information. The Department also issues an annual performance report every February. FSA's annual report contains the results of its financial and program performance throughout the past year. The annual report includes an MD&A section, a performance report, a financial section including FSA's audited financial statements and accompanying notes (financial statements), and other required information.

The Department's and FSA's financial statements are audited annually by an independent public accounting firm. The independent auditor has reported for several years that the financial statements of the Department and FSA, including for FYs 2015 and 2016, are fairly presented in accordance with generally accepted accounting principles.

OMB Circular A-136, "Financial Reporting Requirements," provides the Federal financial, performance, and accountability reporting guidance for all executive branch departments and agencies, including FSA. The MD&A section is a required component of the AFR and annual report, and it is independent of the financial statements.

OMB Circular A-136 also provides guidance for the presentation of notes to the financial statements for Federal agencies. The circular establishes the format and content of notes to financial statements pertaining to direct loan and loan guarantee programs. It states that the notes should provide an analysis of the agency's direct loans and loan guarantees including loans receivable, allowance for subsidy costs, liability for loan guarantees, modifications, reestimates, and administrative costs. The notes should also include narratives and discussions describing the characteristics of the loan programs, events that have had a significant and measurable effect on the subsidy rates, subsidy expense and subsidy reestimates, and an explanation of the nature of any modifications.

The Department and FSA presented notes in the FY 2015 and FY 2016 financial statements pertaining to Direct Loan and loan guarantee programs. In Note 5 "Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees" for the FY 2016 AFR, the Department presented a description of the Federal student loan programs and the amount of credit program receivables. For the Direct Loan program, the Department presented a reconciliation between the beginning and ending balances of the allowance for subsidy amounts, the program's interest expense and interest revenue amounts, a summary of the program's subsidy expense amounts, a description of the reestimated subsidy expenses for existing loan cohorts, a description of the $9.9 billion FY 2015 modification associated with the REPAYE plan, a breakdown (by interest differential, defaults, fees, and other categories) of the subsidy rates for the FY 2016 loan cohort, and a breakdown of the disbursements by loan type (subsidized and unsubsidized, PLUS, and consolidation). For the FFEL program, the Department presented a reconciliation between the beginning and ending balances of the liability for loan guarantees, a reconciliation between the beginning and ending balances of the allowance for subsidy amounts, and a description of the $175 million FY 2016 modification associated with increasing guaranty agencies' maximum reinsurance percentages on default claims. Note 5 in FSA's FY 2016 annual report contained information similar to that in the Department's Note 5.

We excluded Note 5 of the Department's AFRs and FSA's annual reports for FY 2016 and Note 6 for FY 2015 from our detailed review because OMB Circular A-136 does not require agencies to discuss trends or expected costs associated with future loan cohorts in the note.

Budgets

The Federal budget represents a financial plan that establishes the nation's spending priorities and program expenditure levels, and it describes how program expenditures will be financed. The Federal budget process is initiated in the executive branch with budget formulation. OMB Circular A-11, "Preparation, Submission and Execution of the Budget," provides guidance to Federal agencies about how to prepare and submit materials required for budget formulation. The Department prepares information for the President's Budget and OMB reviews and approves it.[9]

[9] We did not determine whether the budget documents that the Department submitted to OMB complied with requirements contained in OMB Circular A-11 or OMB's formatting guidelines because OMB is responsible for approving the documents prepared and submitted to Congress.

For FYs 2016 and 2017, the Appendix from the President's Budget (Budget Appendix), the Education Budget Summary and Background Information (Budget Summary Documents), and the Justifications of Appropriations Estimates to the Congress (Budget Justification) from the Department's Budget Request contained cost information for either the IDR plans or loan forgiveness programs or both.[10] Section 25.3 of OMB Circular A-11 requires that agencies obtain advanced approval from OMB regarding the form and content of justification materials. Further, Section 95.4 of the circular says that OMB will review the material in the Budget Appendix and make changes as necessary.

The Budget Appendix from the President's Budget contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the appropriations committees. The Budget Appendix contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. The Budget Summary Documents contain a summary of the Department's budget, budget requests for program areas and Departmental management, programs proposed for elimination, and an appendix including mandatory funding for the Department and detailed budget tables by program. The Budget Justification contains information such as program descriptions, budget proposals by fiscal year (including program changes), program output measures, and program performance information.

Strategic Plans

The Department and FSA discussed college affordability and IDR plans in their most recent strategic plans when reporting objectives, measures, and risks. One objective in the Department's FYs 2014–2018 Strategic Plan is to increase access and improve college affordability (Goal 1 and Objective 1.1). The Department indicated that one measure to achieve this objective is to provide borrowers with IDR plans. FSA's Strategic Plan for FYs 2015–2019 (November 2015, updated November 2016) included objectives for identifying and mitigating risks (Goal B) and providing accurate, relevant, and timely

[10] The Summary Tables section of the President's FYs 2016 and 2017 Budgets contained Table S-9: Mandatory and Receipt Proposals and the Mid-Session Review contained Table S-8: Mandatory and Receipt Proposals that provided limited IDR plan and TLF program (FY 2017 only) projected cost information. We did not consider these documents (tables) relevant to our audit because the projections are for proposed policies that have not been enacted and the projections are limited to the costs for, or savings from, implementing proposed reforms for the IDR plans and TLF programs. The Analytical Perspectives section of the FY 2017 President's Budget also contained another table (Table 25-12 Baseline: Net Budget Authority By Function, Category, and Program) that projected costs for the FFEL and Direct Loan programs but did not project costs specific to the IDR plans.

information on its programs and operations to Congress and other stakeholders who rely on such information to make decisions (Goal D). FSA identified the emerging trend of borrowers' increased use of IDR plans as a challenge in managing the student loan portfolio. It further stated that as more borrowers select IDR plans and loan forgiveness options, costs could become a major issue for the Federal government.

Government Accountability Office Audit Report

In November 2016, the United States Government Accountability Office (GAO) reported that the Department had not published sufficient information about its estimates for policymakers to readily assess expected IDR plan costs.[11] The report listed the types of information that the Department has not published and that could be useful to policymakers including (1) total expected costs for all loans in IDR plans, (2) trends in estimates, (3) sensitivity analysis results of the estimates, (4) limitations in the estimates, and (5) estimated loan forgiveness amounts. GAO recommended that the Department publish more detailed IDR plan cost information, beyond what is regularly provided through the President's Budget. The Department generally agreed with GAO's recommendation.

[11] GAO-17-22, "FEDERAL STUDENT LOANS: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates," November 2016.

Finding. The Department Should Enhance Communication Regarding the Costs of IDR Plans and Loan Forgiveness Programs

The Department should have communicated more informative and easier to understand cost information on the Federal student loan programs' IDR plans and PSLF and TLF programs to decision makers and the public. Because participation in IDR plans such as PAYE and REPAYE is increasing rapidly and loan forgiveness programs are also expanding, communicating detailed information is necessary to achieving the Department's and FSA's objectives and identifying and managing potentially significant program challenges. We concluded that specific sections of Department and FSA financial reports and Department budgets and related documents issued between February 2015 and November 2016 contained limited cost information related to IDR plans and contained no cost information related to the PSLF program. The budgets and budget related documents also contained limited cost information on the TLF program and Department and FSA financial reports contained no cost information for this program. Decision makers and the public should have been provided more information to fully assess whether the Department is meeting the objectives and goals of the student loan programs and properly managing program risks as more borrowers select IDR plans and loan forgiveness programs. Additionally, as stated earlier, FSA indicated that as more borrowers choose IDR plans and loan forgiveness options, costs could become a major issue for the Federal government and could pose significant challenges in managing the student loan portfolio.

OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" states that agency management is responsible for establishing and maintaining internal controls.[12] In addition, agency management must evaluate the effectiveness of internal controls annually using GAO's "Standards for Internal Control in the Federal Government" (Standards for Internal Control). Since 1999, the GAO's Standards for Internal Control has identified the reliability of reporting for internal and external use as one of three objectives that an agency has to achieve.[13] The Standards for Internal Control specify that agency management should externally communicate

[12] OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004. Superseded by OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

[13] The GAO's "Standards for Internal Control in the Federal Government," November 1999, and revised September 2014.

necessary, quality information to achieve the entity's objectives. Quality information is appropriate, current, complete, accurate, accessible (easy to understand and locate), and timely.

To assist agency management in assessing an agency's internal control structure, GAO issued its "Internal Control Management and Evaluation Tool" (Evaluation Tool) that is based on GAO's Standards for Internal Control. The Evaluation Tool specifies that agency management should ensure that it communicates effectively with external groups that can have an impact on its programs, operations, budgeting, and financing.[14] According to the Evaluation Tool, agency management might consider that its communication with Congress and the public is relevant to their needs and informs them about the agency's objectives and goals, as well as risks the agency faces. Agency management might consider that it also continually monitor the quality of the information it communicates and measure information quality according to factors such as appropriateness, accuracy, accessibility, and timeliness. The Standards for Internal Control also state that agency management should consider a variety of factors in selecting an appropriate method of communication, such as the audience, the nature of the information to be communicated, and whether the information is readily available to the audience. OMB Circular A-123, the Standards for Internal Control, and the Evaluation Tool should be used collectively when assessing an agency's internal control.

OMB Circular A-136 requires that an AFR contain an MD&A section. The circular specifies that for the MD&A to be useful, it must be easy to read and use visual references to present summary information. Specifically, Section II.2.1 of OMB Circular A-136 states

> [t]he MD&A should provide a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. To be useful, the MD&A must be concise and readable to a non-technical audience, focus on the most important matters, and provide a balanced analytical assessment of key program and financial performance that includes both positive and negative information.

According to Section II.2.2 of OMB Circular A-136, the MD&A includes matters that, in part, could be "significant to the managing, budgeting, and oversight functions of

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[14] The GAO's Internal Control Management and Evaluation Tool, August 2001, "Information and Communications" section.

Congress and the Administration; or significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.” Section II.2.7 of OMB Circular A-136 states that the MD&A “should include a discussion of key financial-related measures emphasizing financial trends and forward-looking information and should assess financial operations.” Further, Section II.2.4 requires that “[i]n the discussion of forward-looking information, details about the possible effects of the most important existing performance and financial demands, events, conditions, and trends should be disclosed.”

OMB Circular A-11 describes the preparation, submission, and execution of the President’s Budget. According to Section 95.12 of the circular, the budget narratives for Federal credit programs should address the significant factors in developing subsidy estimates, such as default rates and interest rates. Section 51.1 states that the initial budget submission to OMB should include a thorough discussion of the evidence, both positive and negative, for major proposed policies.

Department Financial Reports

The MD&A section of the Department’s FY 2015 and FY 2016 AFRs discussed activities that the Department was taking to make student loan payments more manageable. However, the Department included limited information on the corresponding costs of these activities in the MD&A sections, where a more detailed presentation could have better informed decision makers and the public. The FY 2016 MD&A section provided information on increased enrollment in IDR plans but did not discuss the potential future impact of such increased enrollment. Similarly, the FY 2015 MD&A section disclosed the cost of a modification due to the implementation of the REPAYE plan; however, it did not discuss the total financial impacts of the increasing use of IDR plans. The Department should have presented a more balanced analytical assessment to decision makers and the public about the costs, benefits, and long-term implications of IDR plans. Additionally, neither year’s MD&A section provided any information related to costs of the two loan forgiveness programs.[15]

The FY 2015 MD&A section listed some of the factors that the Department used to calculate subsidy cost, including interest rates charged to borrowers and interest rates

[15] The Department issued its FY 2017 AFR after we had issued our draft report in August 2017. Even though this event was beyond the scope of our audit, we compared the MD&A section of the FY 2017 AFR to the FY 2016 AFR that was covered by our review. The FY 2017 MD&A section did not provide enhanced communications regarding the past and future costs of current IDR plans or loan forgiveness programs.

on Treasury debt. However, the section did not list the IDR plans, which are also a factor in calculating subsidy cost. As a result, decision makers and the public may not be aware of the financial impact of the rapid growth in the number of borrowers choosing the IDR plans, such as PAYE and REPAYE. The Department's FY 2015 MD&A section also included a discussion of the REPAYE plan that was implemented in FY 2015. The implementation of the REPAYE plan was characterized as a modification to the Direct Loan program. The MD&A section explained that borrowers who were not eligible for the PAYE plan (implemented in FY 2012) were eligible for REPAYE. Further, the Department included its estimate of this policy change by increasing the subsidy cost by $9.9 billion to account for the lower principal payments made on student loans under the REPAYE plan. However, the Department communicated the effect this modification would have only on existing loan cohorts in accordance with OMB Circular A-11. To help decision makers and the public understand the long term impact, the MD&A section could include an estimate of the financial impact that REPAYE would have on the subsidy costs for future loan cohorts (loan cohorts after FY 2015). Except for the $9.9 billion subsidy cost resulting from the modification, the MD&A section did not break down the costs of any of the factors in the calculation of subsidy cost, such as interest rates charged to borrowers, interest rates on Treasury debt, or the drivers behind the higher costs of the IDR plans relative to other repayment plans, such as reduced payments or estimates of loan forgiveness.

The Department enhanced its presentation in the MD&A section of the FY 2016 AFR by providing explanations of the Direct Loan program and subsidy cost through narrative and charts. Information presented in the Department's MD&A section included the following:

- Borrowers have more repayment options to reduce their monthly student loan payments. Subsidy costs have increased since FY 2013 because of higher participation in the new IDR plans (PAYE and REPAYE), which are more advantageous to borrowers.
- The Direct Loan program's reestimated subsidy cost increased by $21.8 billion in FY 2016, partly because a greater than expected percentage of borrowers chose IDR plans. IDR plan selection increased the reestimated subsidy cost by $8.1 billion.

The "Forward-Looking Information" subsection of the MD&A for FY 2016, which was also new, included information related to the Direct Loan program and contained specific issue areas ("Managing Student Loan Debt" and "Managing Risks and Uncertainty Facing the Direct Loan Program"). Under "Managing Student Loan Debt," the Department discussed the traditional 10-year repayment schedules, PAYE, REPAYE, and other IDR plans. The Department discussed the significant increase in Direct Loan borrowers enrolled in IDR options and the Department's goal of enrolling an additional 2 million borrowers in IDR plans in FY 2017. However, to better inform decision makers and the public, this subsection could have discussed the cost impacts of the increased future enrollment in IDR plans.

Under "Managing Risks and Uncertainty Facing the Direct Loan Program," the Department discussed the difficulty in estimating loan program costs and identified the following risks: (1) legislative, regulatory, and policy risk including IDR plans, PSLF, and a borrower's defense to repayment on a loan;[16] (2) estimation risk, where actual student loan outcomes may differ from estimated loan outcomes given the life of the loan; and (3) macroeconomic risk including interest rates, unemployment rates, and wage growth. However, this subsection did not provide any estimates of the cost of the IDR plans or loan forgiveness programs.

Even though the MD&A section of the FY 2016 AFR provided significantly more information than in past years, as in FY 2015, the MD&A section did not address the estimated subsidy costs resulting from borrowers in future loan cohorts choosing the PAYE and REPAYE IDR plans. As stated above, the MD&A section provides management with an opportunity to highlight important issues that could affect current or future operations. Thus, including the estimated subsidy costs in this section would better inform decision makers and the public of the cost impacts of increased future enrollments in IDR plans. In addition, it did not disclose any costs of the PSLF or TLF programs.

According to the Department's Deputy Chief Financial Officer, the Financial Management Operations unit within the Office of the Chief Financial Officer decides what information to include in the MD&A section based on the previous AFRs, review of other agencies' AFRs, and consideration of the external auditors' comments. Further, the Deputy Chief Financial Officer stated that during FY 2016, his staff analyzed subsidy cost to help ensure its presentation in the MD&A was balanced. As stated earlier, we concluded the MD&A sections for FY 2015 and FY 2016 should have provided a more balanced analytical assessment regarding the cost impacts of the increased future enrollment in IDR plans and the costs of the loan forgiveness programs.

The Deputy Chief Financial Officer informed us that his office does not reach out directly to Congress or the public when preparing the AFR. He stated that they have an extensive internal coordination process, which includes feedback from multiple offices

[16] On November 1, 2016, the Department published final regulations, referred to as the "borrower defense regulations" in the Federal Register. [81 FR 75926]

throughout the Department. He also stated that his office provides OMB an opportunity to comment on the draft AFR and that the AFR includes contact information, including a Web site should the public wish to comment on the information presented. Additionally, he stated that his office benchmarks its report against other Federal agencies' reports.

The Deputy Chief Financial Officer also stated that his office is cautious about including forward-looking information in the AFR because it cannot estimate future interest rates or the number of borrowers who would enroll in an IDR plan. Further, he stated that the Under Secretary or FSA determines what forward-looking information the Department should include in the MD&A section.

Estimating costs for future student loan cohorts has certain inherent risks and uncertainties. However, the Department was able to present estimates of subsidy costs for future loan cohorts in the Federal Register when introducing the PAYE and REPAYE plans but did not include such information in the MD&A section. The Federal Register notices generally provided net budget impact for IDR plans (i.e., PAYE, REPAYE, and income-based) and loan forgiveness programs (PSLF and TLF) for periods covering from 5 years to about 20 years. The following are two examples of these estimates.

- On November 1, 2012, the Department published final regulations in the Federal Register establishing the PAYE repayment plan and included an estimated net budget impact of $2.1 billion in subsidy cost for the 2012 to 2021 loan cohorts. [77 FR 66088]
- On October 30, 2015, the Department published final regulations in the Federal Register establishing the REPAYE plan and included an estimated net budget impact of $15.4 billion in subsidy cost for implementing REPAYE. The notice explained that $8.3 billion was for modifications for the 1994 through 2015 loan cohorts and $7.1 billion was for the 2016 through 2025 loan cohorts. [80 FR 67204]

FSA Annual Reports

The MD&A section of FSA's FY 2015 annual report used technical terms such as subsidy cost, reestimated subsidy cost, and loan modifications and the MD&A section of FY 2016 used subsidy cost without explaining or defining the meaning of these terms. However, this information should have been presented so that it was more easily understood because a nontechnical reader would likely not understand some or all of these terms. Section II.2.1 of OMB Circular A-136 requires the MD&A section to be concise and readable by a nontechnical audience. The MD&A also should have discussed the IDR plans and loan forgiveness programs' effect on the cost of future loan cohorts. As stated above, Section II.2.4 requires that "[i]n the discussion of forward-looking information, details about the possible effects of the most important existing performance and financial demands, events, conditions, and trends should be disclosed."[17]

According to the director of FSA's Financial Reporting and Analysis Division and FSA's Chief Financial Officer, the MD&A section focuses on the most important matters based on an analytical review performed by the Financial Reporting and Analysis Division and the judgment of FSA's Chief Financial Officer. The director also stated that he has not had any discussions about including cost information on the Federal student loan programs' IDR plans and the PSLF and TLF programs in the MD&A. Further, the director and FSA's Chief Financial Officer stated that in the FY 2016 annual report, the MD&A section would address the loan programs' subsidy cost at a high level, including one or two factors impacting the subsidy cost estimate. Additionally, the director stated that his office does not perform public outreach when preparing the FSA annual report. FSA's Financial Reporting and Analysis Division relies on input from the Department and FSA senior management to ensure that the annual report is responsive in addressing the areas the Department and FSA senior management deem important. Lastly, the director stated that the FSA's Chief Financial Officer prepares the Financial Management Risks section of the MD&A and the Secretary's office reviews the entire MD&A section before issuance.

FSA should have provided more informative and easier to understand IDR plan and loan forgiveness program cost information in the MD&A section. Instead, FSA provided additional information on the IDR plans and TLF program through its Data Center on the Department's Web site. For example, the Data Center on the Department's Web site included the quarterly report "Direct Loan Portfolio by Repayment Plan," which contained the outstanding principal and interest balances and number of borrowers for the student loan portfolio by repayment plan. The source of the information for this report was the Department's National Student Loan Data System. In December 2016, FSA published a report on TLF through the Data Center. This report identified the annual principal and interest balances for loans forgiven and the number of borrowers receiving loan forgiveness from the Direct Loan and FFEL programs. Although the FSA Data Center provides information on the student loan portfolio formerly unavailable to

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[17] FSA issued its FY 2017 annual report after we had issued our draft report in August 2017. Even though this event was beyond the scope of our audit, we compared the MD&A section of the FY 2017 annual report to the FY 2016 annual report that was covered by our review. With the exception of an expanded and easier to understand discussion of the estimated subsidy, the FY 2017 MD&A section did not provide enhanced communications regarding the past and future costs of IDR plans or loan forgiveness programs.

decision makers and the public, it does not include information on the cost of the student loan portfolio, such as the costs attributed to individual IDR plans or loan forgiveness programs, that could help decision makers and the public understand the future impact that IDR plans and loan forgiveness could have on the student loan portfolio. Also, FSA should have performed public outreach on the usefulness of its external communication, which would include obtaining feedback from external users on the usefulness of the information they receive in the FSA annual report.

Budget Documents

The costs for IDR plans and TLF program are contained in several different budget documents the Department prepares. In the narratives for the FY 2016 and FY 2017 budgets, the Department did not describe whether and to what extent borrowers' choice of an IDR plan was a factor in developing the subsidy estimates and did not describe the expected costs and trends associated with the IDR plans or the loan forgiveness programs.[18] The Office of Planning, Evaluation and Policy Development's Budget Service, Cost Estimation and Analysis Division director told us that the division has some discretion for the presentation of information in the Budget Summary Documents and the Budget Justification, but OMB has final approval.

Budget Appendix

The Budget Appendix provided descriptions of the student loan programs, multiple tables on the loan programs, and proposals for changes to the student loan programs.[19] The Budget Appendix also provided subsidy rates and loan volume by the four repayment plan types (standard, extended, graduated, and IDR) and loan types (subsidized and unsubsidized, PLUS, and consolidation), but did not provide each fiscal year's total subsidy cost by repayment plan (see Appendix B for the relevant page from the FY 2017 Budget Appendix). To obtain the total subsidy cost of each repayment plan type or the subsidy cost for all plans combined, readers would first have to identify the necessary data elements (subsidy rate and loan volume contained in two different tables) for calculating the subsidy cost and perform their own calculations. The Budget

[18] We also reviewed similar documents for FY 2018 (Budget Appendix, the Budget Summary Document, and the Budget Justification) because the information was published before we issued our draft report. The narratives for the FY 2018 budget also did not describe whether and to what extent borrowers' choice of an IDR plan was a factor in developing the subsidy estimates and did not describe the expected costs and trends associated with IDR plans or loan forgiveness programs.

[19] The Budget Appendix tables for loan programs include budget authority and outlays, default rates, selected program costs, program and financing, status of loans, balance sheet, and object classifications.

Appendix contained TLF program costs charged to the FFEL program but did not include TLF program costs or future forgiveness amounts associated with the Direct Loan program. Similarly, the Budget Appendix did not contain PSLF program costs or costs associated with future loan forgiveness.

According to a Budget and Financial Analyst from the Cost Estimation and Analysis Division, the division has provided OMB with alternate ways to present subsidy information in the Budget Appendix but these alternative ways did not include presenting cost totals for repayment plans or further breaking down IDR costs by individual repayment plans (e.g., PAYE and REPAYE). However, OMB did not approve the alternate presentations.

Budget Summary Documents

The Budget Summary Documents for FY 2016 and FY 2017 contained an overview of student financial assistance, multiple tables specifying the subsidy cost amounts for the loan programs, and proposals for changes to the student loan programs. The documents generally covered 3 fiscal years. However, the documents did not describe the expected costs and trends associated with the IDR plans and loan forgiveness programs or include cost information for either loan forgiveness program. As a result, these documents did not communicate informative and easy to understand cost information on the Federal student loan programs' IDR plans and loan forgiveness programs to decision makers or the public.

The tables containing IDR cost information in these documents specified the subsidy cost amounts (sometimes broken down for subsidies for new loans, reestimates for existing loans, and modifications for existing loans) for the loan programs for 3 fiscal years and included footnotes indicating that a portion of the reported subsidy costs for the Direct Loan program were associated with the IDR plans (see Appendices C and D). The footnotes did not provide enough detailed information, including specific amounts for reestimates, related to IDR plans, to determine the total costs for the IDR plans for a fiscal year. For example, a footnote to a table in the FY 2017 document provides the reestimates for FYs 2015 and 2016. However, it does not provide a separate amount for the reestimates related to the IDR plans.

> The 2015 amount [of $17.3 billion] includes a net upward reestimate of $12.3 billion, primarily related to revised interest rates and increased participation in income-driven repayment plans, and a net upward modification of $9.3 billion, to reflect the budgetary impact of the proposed changes to PAYE. The 2016 amount [of negative $672 million] includes a net upward reestimate of $7.7 billion, primarily related to revised prepayment assumptions and increased participation in income-driven repayment plans. [Appendix C, footnote 5]

The Budget Summary Documents described proposals for reforming the student loan programs. However, the documents did not describe the specific costs associated with each reform proposal. For the FY 2017 budget, proposed reforms included streamlining the IDR plans by creating a single IDR plan for new loans; capping each borrower's PSLF at $57,500; applying only payments made under IDR plans toward PSLF; and strengthening and streamlining the TLF program (for example, increasing the loan forgiveness amount to $25,000). The FY 2016 budget document described similar reform proposals but excluded the proposal to strengthen and streamline the TLF program.

Another table in the FY 2016 and FY 2017 Budget Summary Documents presented cost information for the FFEL and Direct Loan programs for 3 fiscal years (current, prior, and budget years), and broke down the information to show amounts for subsidies for new Direct Loans, net reestimates for existing loans, and net modifications for existing loans used to calculate total costs for the loan programs.[20] The Department provided footnotes to the tables for both student loan programs that discussed costs related to IDR plans. For example, the Department noted that the FY 2015 Direct Loan total subsidy cost of $17.3 billion included an estimated upward modification of $9.3 billion for expanding and reformulating the PAYE repayment plan. However, neither the table nor the footnotes identified the amount of the costs for the IDR plans included in the amounts for subsidies for new loans or net reestimates for existing loans in FY 2015 (see Appendix D, footnote 1, for the FFEL and Direct Loans table from the FY 2017 Budget Summary Document).

Budget Justification

Two sections in the Department's Budget Justification contained cost information related to IDR plans: "Student Loans Overview" and "Student Aid Overview." These two sections contained information similar to that contained in the Budget Summary Document, such as overviews of the student loan programs, the subsidy cost amounts for the loan programs, and reform proposals for the student loan programs.

However, the Budget Justification and their tables which some are similar to the ones in the Budget Summary Document did not describe the expected costs and trends associated with the IDR plans and loan forgiveness programs. The cost information in

[20] The fiscal year's total costs for the Direct Loan program are the sum of new net loan subsidies, net reestimate of existing loans, and net modification of existing loans. The total costs for the FFEL program are calculated the same as the Direct Loan program except that there are no new net loan subsidies because no new loans are originated under the FFEL program.

these sections was not specific to the IDR plans and loan forgiveness programs, generally covered a period of 2 or 3 fiscal years, and did not describe the costs associated with the reform proposals.

Even though the student loan programs operate under permanent, indefinite funding authority pursuant to the HEA and are not funded under annual appropriations acts that would require an added level of Congressional approval, it is still critical that aspects of these programs that pose potential risks are communicated to the Congress and other interested parties.[21] Communicating informative and easy to understand cost information on the Federal student loan programs' IDR plans and forgiveness programs to decision makers and the public is necessary to achieving the Department's and FSA's objectives and to identifying and managing potentially significant program risks. The director of the Cost Estimation and Analysis Division stated that Congress is interested in how the student loan programs operate and how proposed amendments to the HEA could impact the costs of the student loan programs. Lastly, other interested parties, including advocacy groups and the public, should have access to important information about how these programs operate and the challenges that may arise when significant policy changes occur.

Recommendations

We recommend that the Senior Official Delegated the Duties of the Deputy Secretary —

1. Ensure the Chief Financial Officer for the Department, Chief Operating Officer for FSA, and Principal Deputy Assistant Secretary, Delegated the Duties of Assistant Secretary for the Office of Planning, Evaluation and Policy Development, annually publish in the AFR, FSA annual report, budget, or other report, as applicable, additional information for decision makers and the public regarding the historical costs and future estimated costs for each IDR plan and the PSLF and TLF programs, as well as the assumptions, methodology, and limitations underlying the calculation of estimated costs.
2. Ensure the Chief Financial Officer for the Department, Chief Operating Officer for FSA, and Principal Deputy Assistant Secretary, Delegated the Duties of Assistant Secretary for the Office of Planning, Evaluation and Policy

[21] In the "Student Loans Overview" section of the FY 2018 Budget Justification, the Department does state that it will provide more detailed information on the costs of the IDR plans, including sensitivity analysis results, through the FY 2017 AFR. The Department further stated that this was in response to recommendations from Congressional staff, GAO, the Department's Office of Inspector General, and external policymakers to publish more detailed cost information on IDR plans.

Development, include additional information in the MD&A section of the financial reports that is easily understood by a nontechnical audience and that fully informs decision makers and the public of the actual and expected future costs associated with the increased use of IDR plans and loan forgiveness programs. The MD&A section should also provide a balanced analytical assessment of the costs, benefits, and long-term implications of the IDR plans and loan forgiveness programs.

3. Ensure the Chief Financial Officer for the Department and Chief Operating Officer for FSA establish a process to obtain feedback, on the usefulness of their communications in AFRs or annual reports, from external users.

Department Comments

The Department stated that it is committed to the transparent communication of Federal student loan program costs, including describing trends in repayment options that may impact future estimated costs. The Department agreed that (1) the AFR, FSA annual report, and annual budget documents should include clear summary information for decision makers and the public regarding the historical costs and future estimated costs of the student loan portfolio and related programs, (2) information in the MD&A sections of the Department and FSA financial reports should be written so it can be easily understood by a nontechnical audience and fully inform decision makers and the public, and (3) feedback on the usefulness of its communications is important. The Department said that the AFR and FSA annual reports are intended primarily to focus on current costs and performance, whereas the annual budget is intended to be forward-looking.

OIG Response

Considering the rapid growth in enrollment in IDR plans and the adverse impact on the subsidy cost, it is imperative that the Department publish additional information on both historical and future estimated costs and the associated assumptions, methodologies, and limitations of the information. Likewise, information on the future costs of loan forgiveness programs should be readily available to policymakers and the public. The costs of IDR plans and loan forgiveness programs are currently dispersed among several Department and FSA publications—decision makers and the public would have to compile this information before being able to analyze it.

The MD&A sections of the AFR and FSA annual report appear to be the most appropriate means for communicating detailed information about historical and future IDR plan and loan forgiveness program costs. OMB Circular A-136 states that the MD&A should discuss key financial-related measures emphasizing financial trends and forward-looking information. The discussion of forward-looking information should include details about the possible effects of the most important existing performance and financial demands, events, conditions, and trends. Additionally, the information must be presented so that a nontechnical person will be able to easily understand what it means and provide a balanced analytical assessment of key program and financial performance, whether positive or negative. Based on our comparison of the FY 2017 and FY 2016 AFRs and FSA annual reports, the MD&A sections in the FY 2017 reports did not provide enhanced communications regarding the past and future costs of IDR plans or loan forgiveness programs. However, the FSA annual report provided an expanded and easier to understand discussion of how the estimated subsidy was calculated.

Appendix A. Scope and Methodology

The original objective of our audit was to determine whether the Department's disclosures related to costs of the Federal student loan programs, IDR plans, and loan forgiveness programs were informative to decision makers and the public. We revised the objective to ensure that it was clear that our audit scope covered all communication related to costs of the IDR plans and loan forgiveness programs and not disclosures related to the administrative costs of the Federal loan programs. We also replaced the term "disclosures" with "communication" in the objective, so as to include all communications related to the costs of IDR plans and loan forgiveness programs and not just required disclosures.

To achieve our audit objective and to gain an understanding of the Department's controls over communication related to the costs of Federal student loan programs' IDR plans and loan forgiveness programs, we performed the following procedures:

- Reviewed the Higher Education Act of 1965, as amended, and the Plain Writing Act of 2010 (Public Law 111-274).
- Reviewed OMB Circular A-11, "Preparation, Submission, and Execution of the Budget" (July 2013 and June 2015); OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 2016); OMB Circular A-123, "Management's Responsibility for Internal Control" (December 2004); OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables" (January 2013); OMB Circular A-136, "Financial Reporting Requirements" (August 2015 and October 2016); the GAO's "Standards for Internal Control in the Federal Government" (November 1999 and September 2014) and "Internal Control Management and Evaluation Tool" (August 2001) to gain an understanding of the requirements and controls for Federal agencies' communication of financial and budget information with decision makers and the public.
- Reviewed the following notice of proposed rulemaking regulations and final regulations published in the Federal Register for communication of costs related to IDR plans and loan forgiveness programs:
    - final regulations at 73 FR 63232 (October 23, 2008) establishing the income-based repayment plan;
    - final regulations at 74 FR 55972 (October 29, 2009) establishing the statutory changes for teacher loan forgiveness, loan discharges, and income-based repayment plan;

- notice of proposed rulemaking 77 FR 42086 (July 17, 2012) and final regulations at 77 FR 66088 (November 1, 2012) establishing the PAYE repayment plan;
  - final regulations at 78 FR 65768 (November 1, 2013) for the TLF program; and
  - notice of proposed rulemaking 80 FR 39608 (July 9, 2015) and final regulations at 80 FR 67204 (October 30, 2015) establishing the REPAYE repayment plan.

- Interviewed officials and staff from the Department's Performance Improvement Office; Cost Estimation and Analysis Division in Budget Service; Federal Student Aid; and Office of the Chief Financial Officer to gain an understanding of policies and procedures for communicating costs related to IDR plans and loan forgiveness programs.
- Reviewed written policies and procedures from the Cost Estimation and Analysis Division regarding communicating costs related to IDR plans and loan forgiveness programs.
- Reviewed the President's Budget and related documents and the Department's Budget Request documents for FY 2016 and FY 2017, issued in February 2015 and 2016, respectively, identified the documents that communicated costs related to IDR plans and loan forgiveness programs, and determined whether the communications were informative to decision makers and the public. Subsequent to our review of the above budget and related documents, we also reviewed the Budget Appendix, the Budget Summary Document, and the Budget Justification from the Department's Budget Request for FY 2018, issued in May 2017, to determine whether the communications related to the costs of IDR plans and loan forgiveness programs were informative to decision makers and the public.
- Reviewed the Department's AFRs and FSA's annual reports for FY 2015 and FY 2016, issued in November 2015 and 2016, respectively, identified sections that communicated costs related to IDR plans and loan forgiveness programs, and determined whether the communications were informative to decision makers and the public. Subsequent to the completion of fieldwork and issuance of our draft report in August 2017, we also compared the MD&A sections of the Department's AFR and FSA's annual report for FY 2017, issued in November 2017, to the same section of the prior year reports.
- Reviewed the Department's FY 2014 Annual Performance Report and FY 2016 Annual Performance Plan (consolidated report published in February 2015), and the Department's FY 2015 Annual Performance Report and FY 2017 Annual

Performance Plan (consolidated report published in February 2016) to obtain background information and understand the context of these publications.

- Reviewed the Department's Strategic Plan for FYs 2014–2018 and FSA's Strategic Plan for FYs 2015–2019, issued in November 2015, to obtain background information and understand the context of these publications.
- Reviewed FSA Data Center reports to identify reports that might communicate IDR plan and loan forgiveness program cost information to decision makers and the public.
- Obtained inquiries submitted from outside parties to the Department's Cost Estimation and Analysis Division from February 2015 through March 2016 to determine whether Departmental responses contained any information related to IDR plans and loan forgiveness programs.
- Using the subsidy rates and loan volumes from the President's Budget Appendix for FY 2013 through FY 2017, compared subsidy rates for IDR plans to subsidy rates for all other repayment rates, compared loan volumes for IDR plans to loan volumes for all other repayment rates, and calculated total subsidy costs for IDR plans and all other repayment plans using the published data.
- Reviewed the Department's Office of the Chief Financial Officer project plan for collecting, reviewing, and monitoring timelines for sections of the AFR completed by various offices in the Department.

We did not assess the completeness and reliability of the data in the budget documents, Department AFRs, FSA annual reports, and other reports that we reviewed because our audit objective was focused only on communication related to costs of the Federal student loan programs' IDR plans and loan forgiveness programs. For our purposes, we relied on the data contained in the published documents and reports we reviewed for our audit period. We did not assess computer-generated data from the Department.

We held an entrance conference with the Department and FSA officials and performed initial audit work at their offices in Washington, D.C., in March 2016. We performed additional audit work at our regional office in Sacramento, CA, from March 2016 through August 2017. We held an exit briefing with Department officials on February 28, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix B. Budget Appendix

the life of the loan cohort. To the degree actual conditions differ from projections, estimated subsidy rates will change.

The Federal Credit Reform Act of 1990 requires the cost of existing loan cohorts to be reestimated to reflect changes in actual and assumed borrower behavior, interest rates, and other factors. The following table shows the impact of these reestimates in FFEL and Direct Loans.

Loan Disbursement and Subsidy Costs

(in billions of dollars)

	FFEL	Direct Loans
Original Subsidy Costs	+$77.1	-$105.3
Cumulative Reestimates	-$53.1	+$25.3
Net Subsidy Costs	+$24.0	-$80.0
Total Disbursements	+$898.7	+$1,072.4

Changes in interest rate projections are a significant factor in FFEL and Direct Loan reestimates; recent declines in interest rates below historical averages have been a major driver in changes to program costs. In addition, the number of borrowers enrolled in income-based repayment plans has begun to increase which reflects program costs.

Direct Loan Repayment Options

(expressed as percentages)

Subsidies by Repayment Option	2015 actual[1]	2016 est.	2017 est.
Stafford:			
Standard	7.25	2.59	3.64
Extended	6.84	–0.17	–0.82
Graduated	7.61	0.59	0.14
IDR[2]	26.10	23.52	17.60
Unsubsidized Stafford:			
Standard	–14.64	–23.91	–21.41
Extended	–25.50	–34.04	–38.86
Graduated	–20.55	–34.19	–34.41
IDR	25.72	23.17	24.46
PLUS:			
Standard	–29.69	–31.46	–33.72
Extended	–40.02	–49.41	–51.93
Graduated	–39.87	–50.91	–51.87
IDR	22.48	17.10	21.38
Consolidated:			
Standard	–30.36	–22.04	–17.66
Extended	–36.70	–26.16	–23.54
Graduated	–37.32	–25.58	–23.50
IDR	20.32	26.80	28.09

Direct Loan Repayment Options

(gross volumes in millions of dollars)

Volumes by Repayment Option	2015 actual[1]	2016 est.	2017 est.
Stafford:			
Standard	$20,059	$20,160	$19,838
Extended	278	240	279
Graduated	2,700	2,497	2,671
IDR[2]	3,820	3,311	3,806
Unsubsidized Stafford:			
Standard	37,175	40,794	39,712
Extended	2,003	1,651	2,227
Graduated	6,483	6,575	7,003
IDR	13,450	11,209	14,765
PLUS:			
Standard	14,083	15,414	16,000
Extended	1,050	1,210	1,195
Graduated	2,573	2,721	2,922
IDR	3,512	3,392	4,061
Consolidated:			
Standard	10,283	10,106	9,865
Extended	1,906	1,282	1,892
Graduated	3,269	2,623	3,173
IDR	30,762	35,096	33,753

[1] 2015 rates are current; these include actual executed rates for 2015 and the effect of re-estimates on those rates.

[2] All income-driven plans are included in the IDR category

FEDERAL DIRECT STUDENT LOAN PROGRAM ACCOUNT

(Legislative proposal, subject to PAYGO)

Summary of Loan Levels, Subsidy Budget Authority and Outlays by Program (in millions of dollars)

Identification code 091–0243–4–1–502	2015 actual	2016 est.	2017 est.
Direct loan subsidy (in percent):			
132001 Stafford	0.00	0.00	–1.04
132002 Unsubsidized Stafford	0.00	0.00	–1.68
132003 PLUS	0.00	0.00	–1.22
132004 Consolidation	0.00	0.00	-.30
132999 Weighted average subsidy rate	0.00	0.00	–1.09
Direct loan subsidy budget authority:			
133001 Stafford	....	....	–277
133002 Unsubsidized Stafford	....	....	–1,070
133003 PLUS	....	....	–295
133004 Consolidation	....	....	–146
133999 Total subsidy budget authority	....	....	–1,788
Direct loan subsidy outlays:			
134001 Stafford	....	....	–172
134002 Unsubsidized Stafford	....	....	–655
134003 PLUS	....	....	–179
134004 Consolidation	....	....	–145
134999 Total subsidy outlays	....	....	–1,151

FEDERAL DIRECT STUDENT LOAN PROGRAM FINANCING ACCOUNT

Program and Financing (in millions of dollars)

Identification code 091–4253–0–3–502	2015 actual	2016 est.	2017 est.
Obligations by program activity:			
0301 Consolidation loans-Payment of Orig. Services	25	62	60
0401 Payment of contract collection costs	896	1,200	1,319
Credit program obligations:			
0710 Direct loan obligations	162,312	158,278	163,161
0713 Payment of interest to Treasury	27,593	38,876	42,979
0740 Negative subsidy obligations	4,333	8,365	6,505
0742 Downward reestimate paid to receipt account	1,727	1,471	....
0743 Interest on downward reestimates	297	714	....
0791 Direct program activities, subtotal	196,262	207,704	212,645
0900 Total new obligations	197,183	208,966	214,024
Budgetary resources:			
Unobligated balance:			
1000 Unobligated balance brought forward, Oct 1	4,622	5,481	....
1021 Recoveries of prior year unpaid obligations	20,079	21,083	22,137
1023 Unobligated balances applied to repay debt	–7,896	–5,481	....
1024 Unobligated balance of borrowing authority withdrawn	–15,808	–21,083	–22,137
1050 Unobligated balance (total)	997	....	....
Financing authority:			
Appropriations, mandatory:			
1200 Appropriation	904	....	....
Borrowing authority, mandatory:			
1400 Borrowing authority	168,953	168,828	169,666
Spending authority from offsetting collections, mandatory:			
1800 Collected	92,936	81,575	84,565
1820 Capital transfer of spending authority from offsetting collections to general fund	–275	....	....
1825 Spending authority from offsetting collections applied to repay debt	–60,851	–41,437	–40,207
1850 Spending auth from offsetting collections, mand (total)	31,810	40,138	44,358
1900 Budget authority (total)	201,667	208,966	214,024
1930 Total budgetary resources available	202,664	208,966	214,024
Memorandum (non-add) entries:			
1941 Unexpired unobligated balance, end of year	5,481	....	....
Change in obligated balance:			
Unpaid obligations:			
3000 Unpaid obligations, brought forward, Oct 1	77,328	75,628	71,594
3010 Obligations incurred, unexpired accounts	197,183	208,966	214,024
3020 Outlays (gross)	–178,804	–191,917	–198,455

SOURCE: PAGE 381 OF THE FY 2017 BUDGET APPENDIX

Appendix C. Student Aid Summary Tables

Budget Authority (dollars in millions)	2015	2016	2017 Request
Pell Grants			
Discretionary funding	$22,475.4	$22,475.4	$22,475.4
Mandatory funding	5,152.9	5,804.4[1]	7,629.0[1]
Subtotal, Pell Grants	27,628.3	28,279,8	30,104.4
Supplemental Educational Opportunity Grants	733.1	733.1	733.1
Work-Study	989.7	989.7	989.7
TEACH Grants[2]	-15.3	10.6	12.3
Iraq and Afghanistan Service Grants	0.4	0.5	—[3]
Federal Family Education Loans	-3,293.6[4]	-1,074.7[4]	—
Federal Direct Loans	17,303.2[5]	-671.6[5]	-8,292.5[5]
Unsubsidized Perkins Loans	—	—	-640.3[6]
Total	43,345.8	28,267.3	22,906.6

[1] Amounts appropriated for Pell Grants for 2016 and 2017 include mandatory funding provided in the Higher Education Act, as amended, to fund both the base maximum award and add-on award.

[2] For budget and financial management purposes, this program is operated as a credit program under the Federal Credit Reform Act of 1990. Budget authority reflects the estimated net present value of future Federal non-administrative costs for awards made in a given fiscal year. The 2015 amount includes a net downward reestimate of $31.2 million. The 2016 amount includes a net downward reestimate of $1.8 million. The amount for 2017 reflects new loan subsidy.

[3] Budget authority for the Iraq and Afghanistan Service Grants (IASG) program is displayed as part of the Pell Grant program, reflecting Budget policy to moving IASG into the Pell Grant program. In 2017, budget authority for this program is projected to be $495,000.

[4] FFEL budget authority does not include the Liquidating account. The 2015 amount includes a net downward reestimate of -$3.3 billion primarily related to revised deferment assumptions. The 2016 amount includes a net downward reestimate of -$1.2 billion primarily related to updated deferment assumptions and an upward modification of $152 million to reflect the increase in guaranty agency reinsurance from 95 percent to 100 percent as included in the Consolidated Appropriations Act, 2016. These reestimates and modifications reflect the impact of changes on an outstanding FFEL portfolio of over $253 billion.

[5] The 2015 amount includes a net upward reestimate of $12.3 billion, primarily related to revised interest rates and increased participation in income-driven repayment plans, and a net upward modification of $9.3 billion, to reflect the budgetary impact of the proposed changes to PAYE. The 2016 amount includes a net upward reestimate of $7.7 billion, primarily related to revised prepayment assumptions and increased participation in income-driven repayment plans. (reestimates and modifications reflect the impact of changes on an outstanding Direct Loan portfolio of $801 billion).

[6] Amount in 2017 reflects proposal to create a new Perkins Loan program as a mandatory credit program.

SOURCE: PAGE 49 OF THE FY 2017 BUDGET SUMMARY DOCUMENT

Appendix D. Federal Family Education Loans and Direct Loans

(BA in millions)

	2015	2016	2017 Request
Federal Family Education Loans			
Net modification of existing loans	—	$151.6[1]	—
Net reestimate of existing loans	-3,293.6 [2,3]	-1,226.3 [2,3]	—
Total, FFEL program BA	-3,293.6	-1,074.7	—
Federal Direct Loans			
New loans subsidies (BA)	-4,333.0 [2]	-8,364.9 [2]	-8,292.5 [2]
Net modification of existing loans	9,307.2 [1]	—	—
Net reestimate of existing loans	12,329.0 [3]	7,693.3 [3]	—
Total, new budget authority	17,303.2	-671.6	-8,292.5
Total, student loans (BA)	14,009.6	-1,746.3	-8,292.5

1 Under Credit Reform, costs or savings related to the impact of policy changes on existing loans are reflected in the current year. The 2016 FFEL modification reflects a cost associated with policy changes passed in the Consolidated Appropriations Act, 2016. The 2015 Direct Loan modification reflects the cost of expanding and reformulating the Pay As You Earn repayment plan.

2 Total includes amount for Consolidation Loans.

3 Under Credit Reform, the subsidy amounts are reestimated annually in both Direct Loans and FFEL to account for changes in long-term projections. Reestimates and modifications reflect the impact of changes on outstanding portfolios of $253 billion for FFEL, $77 billion for ECASLA, and $801 billion for Direct Loans.

SOURCE: PAGE 55 OF THE FY 2017 BUDGET SUMMARY DOCUMENT

Appendix E. Acronyms and Abbreviations

AFR	Agency Financial Report
Budget Appendix	Appendix from the President's Budget
Budget Justification	Justifications of Appropriations Estimates to the Congress
Budget Summary Documents	Education Budget Summary and Background Information
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
Evaluation Tool	GAO's "Internal Control Management and Evaluation Tool"
FFEL	Federal Family Education Loan
FSA	Federal Student Aid
FY	fiscal year
GAO	United States Government Accountability Office
IDR	income-driven repayment
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
PAYE	Pay As You Earn
President's Budget	Budget of the U.S. Government
PSLF	Public Service Loan Forgiveness
REPAYE	Revised Pay As You Earn
Standards for Internal Control	GAO's "Standards for Internal Control in the Federal Government"
TLF	Teacher Loan Forgiveness

Appendix F. Department Comments

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE DEPUTY SECRETARY

MEMORANDUM

DATE: October 20, 2017

TO: Patrick J. Howard
Assistant Inspector General for Audit

CC: Raymond Hendren
Regional Inspector General for Audit, Sacramento Audit Region

FROM: Joseph C. Conaty J. Conaty
Senior Official Delegated the Duties and Functions of the Deputy Secretary

SUBJECT: Response to draft audit report on "The Department's Communication Regarding the Costs of Income-Driven Repayment Plans and Loan Forgiveness Programs" (ED-OIG/A09Q0003)

Thank you for the opportunity to comment on the draft audit report, "The Department's Communication Regarding the Costs of Income-Driven Repayment Plans and Loan Forgiveness Programs," dated August 14, 2017. The Office of Inspector General's (OIG) objective of this audit was to determine whether the Department's communications related to the costs of Federal student loan programs' Income Driven Repayment (IDR) plans and loan forgiveness programs were informative to decision makers and the public.

The Department is committed to the transparent communication of the costs of the Federal student loan programs, including trends in repayment options that may impact future estimated costs. The following table highlights public documents in which the Department published information on these costs, trends, and implications for future costs of the loan programs:[1]

Communications Document	Current Costs	Trends/Implications for Future Costs
Agency Financial Report (AFR)	Pages 16-17 and 63-64 of the FY 2016 AFR	Pages 16-17 of the FY 2016 AFR
Congressional Budget Justification	Pages Q-4-15 of the FY 2018 Budget; Page 356 of the President's FY 2018 Budget Appendix	Page Q-15 of the FY 2018 Budget

[1] A more detailed list of published information is included as an attachment to this memorandum.

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Federal Register		Page 66089 of the FY 2013 Federal Register; Pages 67229-67230 of the FY 2016 Federal Register

As noted above, the Department provided information to Congress, stakeholders, and the public about the increasing costs of the student loan programs. The Department has a rigorous process to gather data, analyze it, and reach out to stakeholders regarding the costs of these plans and programs. This includes consultation with Office of Management and Budget (OMB) staff as well as Congressional Budget Office and appropriations committee staff to ensure the accuracy and transparency of reported information. Different stakeholders have different interests, and we try to strike the appropriate balance between keeping the material included in our financial reports and budget documents informative and keeping it concise. The Department carefully considers feedback from multiple internal and external stakeholders. We also provide significant information, analysis, and technical assistance to decision makers throughout the year that far exceeds what is published in the financial and budget documents.

The Department has received very positive reactions from OMB, Congressional staff, and other external stakeholders including the public. OIG did not specifically seek input from decision makers or the public in the conduct of this audit, and we question the basis of the analysis regarding whether the audit represents the views of the majority of decision makers and the public. To the extent that external agency feedback was provided on our recently published documents, it was positive. Below are two notable examples of positive feedback.

1. The draft OIG audit report concludes that the Department's Management's Discussion & Analysis (MD&A) section of the Agency Financial Report (AFR) should have presented a more balanced analytical assessment to decision makers and the public about the costs, benefits, and long-term implications of IDR plans and the costs of loan forgiveness programs. However, the Association of Government Accountants, as part of their Certificate of Excellence in Accountability Reporting (CEAR) program, provided the Department a Certificate of Excellence for the overall quality of the FY 2016 AFR, and also awarded the Department special recognition for a "Best in Class" MD&A. The CEAR program includes a rigorous review of all sections of the AFR against OMB requirements and relative to other federal agencies. In giving special recognition to the Department, the Association of Government Accountants noted that the Department's MD&A:

- Provides in-depth insight into a key national agency program that integrates both financial and program information as well as related risk variables. The information and analysis provide critical insights and support transparency and accountability.
- Exceeds reporting requirements by concisely highlighting critical financial statement information and analysis.
- Provides a full and complete explanation of the financial characteristics of key programs and strategic goals.

2. The draft OIG audit report concludes that the Department's budget submissions were incomplete and did not contain adequate information regarding costs and trends related to IDR plans and loan forgiveness programs. However, Budget Service does extensive coordination with key stakeholders including OMB, and adds or removes material as applicable. The feedback from OMB and Congressional staff has been very positive. Additionally, as part of these exchanges, although outside of the scope of this audit, the Department's FY 2018 President's Budget materials include a detailed discussion of IDR costs, including projected forgiveness information.

While we believe the Department has provided an extensive amount of information to decision makers and the public regarding our IDR plans and loan forgiveness programs, we will continue to strive to provide transparent communication about the costs of student loans, including trends that may impact future estimated costs. We value the input of OIG as an important stakeholder and look forward to receiving continued OIG input on how we might improve communications.

Department's Response to Recommendation 1.1:

Recommendation: Ensure the Chief Financial Officer for the Department, Chief Operating Officer for FSA, and Principal Deputy Assistant Secretary, Delegated the Duties of Assistant Secretary for the Office of Planning, Evaluation and Policy Development, annually publish in the AFR, FSA annual report, budget, or other report, as applicable, additional information for decision makers and the public regarding the historical costs and future estimated costs for each IDR plan and the PSLF and TLF programs, as well as the assumptions, methodology, and limitations underlying the calculation of estimated costs.

We concur that the AFR, FSA annual report, and annual budget documents should include clear summary information for decision makers and the public regarding the historical costs and future estimated costs for the student loan portfolio and related programs. However, we do not believe it would be useful to add to each of these documents detailed information on both historical and future estimated costs as well as the underlying assumptions and methodologies. The AFR and FSA annual report documents are intended primarily to focus on current costs and performance, whereas the annual budget is intended to be forward-looking. Accordingly, the Department will continue to assess the type and amount of information to include in its AFR, FSA annual report, and annual budget to be sure it remains relevant, informative, and concise. Our assessment will include an evaluation of the material provided in this audit report.

With respect to the first part of the recommendation that specific senior officials be included in the review process for the AFR, FSA annual report, and annual budget, we believe the Department's existing clearance process is robust and provides an opportunity for input from many offices. In 2016, the Department established a new charter for the Credit Reform Work Group and ensured proper representation from senior management across the Department to establish a Department-wide model governance process to review key inputs and outputs of the Student Loan Model. This year, cost estimates for baseline and policy loan proposals as well as re-estimates were presented to the Credit Reform Working Group in addition to political and career leadership and the Secretary. The Student Loan Overview of the FY 2018 President's Budget was cleared by senior policy officials in the Department and OMB. On an annual basis, we will examine whether our clearance process for the AFR, FSA annual report, and the annual budget continues to be sufficient to ensure adequate review by key senior leadership.

Finally, we suggest revising the recommendation as follows:

To build on what the Department currently makes available to the public, the Department should consider annually publishing in the AFR, FSA annual report, budget, or other report, as applicable, additional information for decision makers and the public regarding the historical costs and future estimated costs for each IDR plan and the PSLF and TLF programs, as well as the assumptions, methodology, and limitations underlying the calculation of estimated costs.

Department's Response to Recommendation 1.2:

Recommendation: Ensure the Chief Financial Officer for the Department, Chief Operating Officer for FSA, and Principal Deputy Assistant Secretary, Delegated the Duties of Assistant Secretary for the Office of Planning, Evaluation and Policy Development, include additional information in the MD&A section of the financial reports that is easily understood by a nontechnical audience and that fully informs decision makers and the public of the actual and expected future costs associated with the increased use of IDR plans and loan forgiveness programs. The MD&A section should also provide a balanced analytical assessment of the costs, benefits, and long-term implications of the IDR plans and loan forgiveness programs.

We concur that information in the MD&A sections of the Department and FSA financial reports should be written in a way that can be easily understood by a nontechnical audience and fully inform decision makers and the public. However, there is some tension between this recommendation that the information provided be available to a nontechnical audience and the prior recommendation for additional, more detailed information. In preparing the FY2017 AFR and FSA annual report, we will consider the information provided in this audit report and ways we may be able to further augment the MD&A section of the AFR regarding the costs of the loan programs.

With respect to the Department's clearance process, as noted above, we will annually review our process to ensure continued adequate deliberation by senior leadership so that the MD&A section of the AFR and FSA annual report can be easily understood by a nontechnical audience.

Finally, we suggest revising the recommendation as follows:

To build on what the Department currently makes available to the public, the Department should consider including additional information in the MD&A section of the financial reports that is easily understood by a nontechnical audience and that fully informs decision makers and the public of the actual and expected future costs associated with the increased use of IDR plans and loan forgiveness programs. To the extent feasible, the MD&A section should also provide a balanced analytical assessment of the costs, benefits, and long-term implications of the IDR plans and loan forgiveness programs.

Department's Response to Recommendation 1.3:

Recommendation: Ensure the Chief Financial Officer for the Department and Chief Operating Officer for FSA establish a process to obtain feedback, on the usefulness of their communications in AFRs or annual reports, from external users.

We concur that feedback on the usefulness of our communications is important. We believe we have an effective process to obtain feedback from various external users but will consider ways to be more transparent about the feedback mechanisms. With regard to public input on the usefulness of the AFR and FSA annual report, the Department's AFR includes an email address for comments and suggestions. This is consistent with AGA's guidance provided to CEAR reviewers, which states that "a request for comments for improving the report and inclusion of a postal or email address for submitting the comments reflect an agency's interest in improving reporting." We will consider a similar mechanism for soliciting feedback on the FSA annual report and will highlight both feedback mechanisms in our published documents. We also will continue seeking input from OMB, Congress, and other stakeholders to ensure the information in our documents is clear and useful.

Finally, we suggest revising the recommendation as follows:

To build on the Department's current process for feedback from external users, the Department should consider enhancing its process to obtain feedback on the usefulness of their communications in AFRs or annual reports, from external users.

Location of Published Information Regarding
Trends and Costs of Student Loan Repayment Options

<table>
<tr><td colspan="2">Growth in participation in IDR plans
Footnote 16 on page 17 of draft report: "The narratives for the FY 2018 budget ... did not describe the expected ... trends associated with IDR plans. . . ."

Page 18 of draft report: "documents did not describe the ... trends associated with the IDR plans. . . ."

Page 19 of draft report: "did not describe the ... trends associated with the IDR plans. . . ."</td></tr>
<tr><td>Trends associated with IDR plans</td><td>Page 16 of 2016 AFR: "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."</td></tr>
<tr><td>Trends associated with IDR plans</td><td>Page Q-5 of 2018 President's Budget Student Loans Overview Congressional Justification (CJ): "...enrollment in income-driven repayment (IDR) plans has increased substantially. As of September 2016, nearly 5.6 million DL borrowers, or about 26 percent of all DL borrowers, were enrolled in IDR plans representing a 33 percent increase from September 2015 and a 101 percent increase from September 2014."</td></tr>
<tr><td>Trends associated with IDR plans</td><td>Federal Student Aid Data Center (https://studentaid.ed.gov/sa/data-center), Portfolio by Repayment Plan contains repayment plan trend data from 2013 to present.</td></tr>
<tr><td colspan="2">Cost associated with growth in participation in IDR plans
Page 11 of draft report: "... did not contain information about the financial impact that the growth in the use of IDR plans and loan forgiveness programs has had or could have in the future."

Page 13 of draft report: "... did not discuss the potential future impact of such increased enrollment."

Page 13 of draft report: "... did not discuss the total financial impacts of the increasing use of IDR plans."

Footnote 16 on page 17 of draft report: "... did not describe the expected costs and trends associated with IDR plans or loan forgiveness programs."

Page 18 of draft report: "... did not describe the expected costs and trends associated with</td></tr>
</table>

the IDR plans. . . ." Page 19 of draft report:"... did not describe the expected costs and trends associated with the IDR plans and loan forgiveness programs."	
Costs associated with growth in participation in IDR plans	Page 25 of 2016 AFR: "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."
Costs associated with growth in participation in IDR plans	Page 63 of 2016 AFR: "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."
Costs associated with growth in participation in IDR plans	Page Q-14 of 2018 President's Budget Student Loans Overview Congressional Justification (CJ): "Subsidy rates also vary according to repayment options with the greatest differences appearing between income-driven repayment (IDR) plans and other plans such as Standard, Extended, and Graduated. For example, in fiscal year 2017, the cohort of Subsidized Stafford loans show an estimated subsidy rate of 6.41 percent under Standard (ten-year repayment), compared to a subsidy rate of 24.72 percent under all IDR plans."
Costs associated with growth in participation in IDR plans	Page 356 of the 2018 President's Budget Appendix shows projected subsidy rates and loan volumes by repayment plan. These tables clearly show a higher estimated cost for IDR plans vs. other plans.
Cost information related to the PSLF program Page 11 of draft report:"... contained no cost information related to the PSLF program." Page 15 of draft report:"... did not disclose any costs of the PSLF or TLF programs." Page 17 of draft report:"... did not contain PSLF program costs or costs associated with future loan forgiveness."	
Cost information related to the PSLF or TLF program	Page 64 of 2016 AFR: "A 10 percent increase in PSLF plan participation would increase costs $6.3 billion for cohorts 1994-2015."
Cost information related to the PSLF or TLF program	Page 129 of 2018 President's Budget Analytical Perspectives contains discussion and detailed cost

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	estimate of eliminating PSLF.
Cost information related to the PSLF or TLF program	Page Q-8 of 2018 President's Budget Student Loans Overview Congressional Justification (CJ) contains discussion of loan forgiveness, providing estimated percent of borrowers entering repayment in 2018 who will qualify for PSLF, as well as their median balances and forgiveness amounts.
Cost information related to the PSLF or TLF program	Page Q-31 of 2018 President's Budget Student Loans Overview Congressional Justification (CJ) contains data on borrowers receiving TLF.
Breakdown of costs of factors in the calculation of subsidy cost, such as interest rates Page 14 of the draft report: "did not break down the costs of any of the factors in the calculation of subsidy cost, such as interest rates charged to borrowers. . . ."	
Breakdown of costs of factors in the calculation of subsidy cost, such as interest rates	Page 64 of 2016 AFR: "...a 1 percent increase in projected borrower interest rates would reduce projected direct loan subsidy cost by $4.8 billion."
Breakdown of costs of factors in the calculation of subsidy cost, such as interest rates	Pages Q-9 through Q-11 of the 2018 President's Budget Student Loans Overview Congressional Justification (CJ) contains an extensive discussion of interest rates.
Breakdown of costs of factors in the calculation of subsidy cost, such as interest rates	Interest rates charged to borrowers are publically available on the studentaid.ed.gov website: https://studentaid.ed.gov/sa/types/loans/interest-rates#rates
Estimates of the cost of IDR plans Page 15 of draft report: "did not provide any estimates of the cost of the IDR plans or loan forgiveness programs."	
Estimates of the cost of IDR plans	Page 356 of the 2018 President's Budget Appendix shows projected subsidy rates and loan volumes by repayment plan. These tables clearly show a higher estimated cost for IDR plans vs. other plans.
Estimates of the cost of IDR plans	Page Q-8 of 2018 President's Budget Student Loans Overview Congressional Justification (CJ) contains estimated percentages of borrowers receiving forgiveness, as well as estimated median forgiveness amounts.
Estimates of the cost of IDR plans	Page Q-14 of the 2018 President's Budget Student Loans Overview Congressional Justification (CJ) contains an extensive discussion of cost differentials by repayment plans.
Estimated subsidy costs resulting from borrowers in future loan cohorts choosing the PAYE and REPAYE IDR plans Page 14 of draft report: "However, the Department communicated the effect this [REPAYE] modification would have only on existing loan cohorts. . . ."	

Page 15 of draft report: "... did not address the estimated subsidy costs resulting from borrowers in future loan cohorts choosing the PAYE and REPAYE IDR plans."	
Estimated costs resulting from borrowers in future loan cohorts choosing PAYE and REPAYE	Page 15 of the draft report: "However, the Department was able to present estimates of subsidy costs for future loan cohorts in the Federal Register when introducing the PAYE and REPAYE plans. . . ."
Estimated costs resulting from borrowers in future loan cohorts choosing PAYE and REPAYE	Page Q-7 of 2018 President's Budget Student Loans Overview Congressional Justification (CJ) contains a table comparing individual IDR plans, including PAYE and REPAYE. This table shows the estimated ratio of loan payment totals to initial principal balance for existing IDR plans, broken down by income and debt level categories.