Federal Student Aid

An OFFICE of the U.S. DEPARTMENT of EDUCATION

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ANNUAL REPORT 2013

United States Department of Education
Arne Duncan
Secretary

Federal Student Aid
James W. Runcie
Chief Operating Officer

Finance Office
Jay Hurt
Chief Financial Officer

December 11, 2013

About This Report

Federal Student Aid, a principal office of the United States Department of Education, is required by legislation to produce an *Annual Report*, which details Federal Student Aid's financial and program performance. The *Federal Student Aid Annual Report* for Fiscal Year 2013 is a comprehensive document that provides an analysis of Federal Student Aid's financial and program performance results. The report enables the President, Congress, and the public to assess the organization's performance relative to its mission, and determine whether Federal Student Aid has demonstrated accountability for the resources entrusted to it.

This report presents information about Federal Student Aid's performance as a Performance-Based Organization, its accomplishments, initiatives, and challenges, as required by Office of Management and Budget Circular A-11, *Preparation, Submission and Execution of the Budget, Part 6, Section 260,* and Circular A-136, *Financial Reporting Requirements*. The report also satisfies the requirements included in the following federal statutes:

- *Federal Managers' Financial Integrity Act of 1982*
- *Chief Financial Officers Act of 1990*
- *Government Performance and Results Act of 1993*
- *Government Management Reform Act of 1994*
- *Federal Financial Management Improvement Act of 1996*
- *Higher Education Amendments of 1998*
- *Reports Consolidation Act of 2000*
- *Improper Payment Information Act of 2002*
- *Government Performance and Results Modernization Act of 2010*
- *Improper Payments Elimination and Recovery Act of 2010*

The United States Department of Education, of which Federal Student Aid is a principal office, produces the *Agency Financial Report*. This report provides a comprehensive view of the Department's stewardship over its resources and includes a summary of the information contained in the *Federal Student Aid Annual Report.* The ***Fiscal Year 2013 Agency Financial Report*** can be accessed by clicking on the link above.

Letter from the Chief Operating Officer of Federal Student Aid

Federal Student Aid
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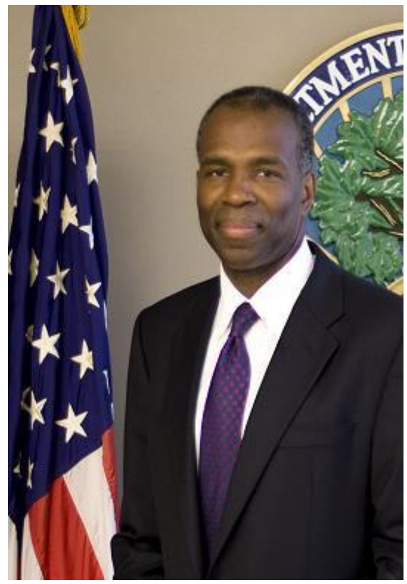
Dear Federal Student Aid Colleagues, Partners, and Customers:

I am honored to present the Fiscal Year (FY) 2013 *Annual Report* for Federal Student Aid (FSA). This report provides a comprehensive overview of Federal Student Aid's progress over the last year.



James W. Runcie
Chief Operating Officer

Federal Student Aid witnessed some significant milestones in FY 2013. The federal student loan portfolio crossed the $1 trillion threshold, reflecting an increase of 9.7 percent from FY 2012. The total number of borrowers with outstanding loans rose to 40 million, an increase of 5.3 percent from the previous year. As the nation's economy improved, we began to see the total amount of aid disbursed and students assisted actually decrease to $137.6 billion disbursed to more than 14 million students and their families.

As always, our first priority remains focused on serving our customers and facilitating access to postsecondary education. Federal Student Aid applied particular efforts to increase accessibility to the Free Application for Federal Student Aid (FAFSA℠) and ease of use. As a result, the average time to complete a FAFSA application in the 2012–2013 application cycle was down to 22 minutes, a significant improvement from 60 minutes or more found in the 2009–2010 application cycle. We also saw a greater adoption of automated retrieval of income tax data from the Internal Revenue Service into the FAFSA application. More than 9 million applicants used the automated retrieval feature during the 2012–13 application cycle.

Federal Student Aid also utilized online tools to improve customer engagement and support its legislative requirement to raise public awareness about the availability of federal student aid and to further drive access. FSA's website consolidation has exceeded customer service expectations and in one year, StudentAid.gov received 31.5 million unique visitors. During FY 2012–2013, FSA's Facebook friends, Twitter followers, and YouTube subscribers increased at substantial rates ranging from 500 percent to 1,250 percent. Additionally, FSA developed the Financial Aid Toolkit, a website that features pre-made presentations, how-to guides and publications organized by target audience and topic for use by counselors, educators and community organizations for customizing their own college access and outreach strategies.

Federal Student Aid, in conjunction with our colleagues from across the Department, also worked to develop new resources like the Model Award Letter, also known as the Shopping Sheet, to make it easier for students and their families to compare college costs and make informed decisions about higher education. We also helped produce the College

Scorecard by providing the data that delivers easy-to-understand information about each college's graduation rate, net price, the median amount of funds borrowed, and the share of students that default on their loans.

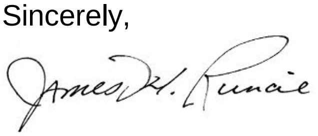
In 2013, Federal Student Aid developed new tools and resources to help student borrowers manage their financial obligations and mitigate the incidence of default and delinquency. Launched in March, the *Repayment Estimator* allows student borrowers to view and compare repayment plans, providing comparisons between monthly payment amounts, total amounts paid, and total interest paid based on each plan. Furthermore, we introduced the *Pay As You Earn Plan* in December, which helps borrowers manage their student loan burden by limiting monthly payments to 10 percent of their discretionary income. More than 60,000 borrowers have taken advantage of this plan since its introduction.

Federal Student Aid worked with our loan servicers to enhance loan counseling for armed service veterans, increasing awareness of benefits such as the *Public Service Loan Forgiveness* repayment program. We also successfully implemented regulatory changes to Total and Permanent Disability Discharges and completed the transition of all remaining borrowers from our legacy servicing platform. To increase awareness of Federal Student Aid's programs, products and services, we began airing a new public service announcement last spring, which has resulted in 1.7 billion total impressions with a total media value of over $17 million.

In addition to providing these resources and tools for students and families, Federal Student Aid carried on our work with schools, better equipping them to manage the Title IV programs on their campuses. This past year, we conducted 12 workshops and 14 webinars on Title IV administration, and held our annual training conference for more than 5,000 financial aid professionals. Likewise, we strengthened our programs by increasing our monitoring and oversight activities. We developed a new unit focused solely on oversight of third-party school servicers. Additionally, we established a central office to receive and manage school compliance complaints from students and parents to more effectively respond to the needs of our customers and highlight to schools areas of non-compliance, as necessary.

These successes were only possible due to the incredible dedication of the Federal Student Aid workforce, and their commitment to making postsecondary education possible for every American. I want to thank them and acknowledge their work and service.

Sincerely,



James W. Runcie
Chief Operating Officer
Federal Student Aid
U.S. Department of Education
December 11, 2013

Table of Contents

Letter From the Chief Operating Officer of Federal Student Aid

iii **Federal Student Aid at a Glance**
iv **How Federal Student Aid Benefits the Public**
v **Guide to Federal Student Aid Programs**
vii **Introduction to the Federal Student Aid Annual Report**

1 **Management's Discussion and Analysis**

3 **Mission And Organizational Structure**
13 **Performance Management**
- 13 Performance Management Processes at Federal Student Aid
- 15 FY 2013 Strategic Goals, Objectives, and Performance Metrics
- 27 Agency Priority Goal
- 28 Quality of Performance Data

29 **Financial Management Discussion and Analysis**
40 **Analysis of Systems, Controls and Legal Compliance**
45 **Limitations of Financial Statements**

47 **Annual Performance Report**

50 **Introduction to the Annual Performance Report**
52 **Performance Results by Strategic Goal**
- 53 Strategic Goal A: *Provide superior service and information to students and borrowers.*
- 58 Strategic Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*
- 60 Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*
- 62 Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*
- 66 Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government*.

67 **FY 2013 Accomplishments of Federal Student Aid**
71 **Legislative and Regulatory Recommendations**
72 **Annual Bonus Awards**
73 **Report of the Federal Student Aid Ombudsman**

79 **FINANCIAL SECTION**

81 Message From the Chief Financial Officer
83 Financial Statements
87 Notes to the Financial Statements
123 Required Supplementary Stewardship Information
125 Required Supplementary Information
129 Independent Auditors' Report

155 **Other Information**

159 **Appendices**

161 Appendix A: Glossary of Acronyms and Terms
165 Appendix B: Availability of the *Federal Student Aid Annual Report*

Federal Student Aid at a Glance

Established as a Performance-Based Organization	**1998**
Headquarters	**830 First Street, NE** **Washington, DC 20202**
Website	**StudentAid.gov**
FY 2013 Administrative Budget	**$1.4 billion**
Total Employees	**1,246 employees**
Regional Offices	**10**
Total Applications Processed	**21 million**
Total Postsecondary Students Served	**14 million**
Total Federal Student Aid Delivered	**$137.6 billion**
Mission	***Funding America's Future,*** ***One Student at a Time***

How Federal Student Aid Benefits the Public

Designated as a Performance-Based Organization in 1998, Federal Student Aid (FSA) performs a vital service within the system of funding postsecondary education in the United States. As a principal office of the United States Department of Education (the Department), FSA ensures that all eligible Americans have access to federal financial assistance for education or training beyond high school. In Fiscal Year (FY) 2013, FSA supported the funding of billions of dollars in student financial aid, which enabled millions of students to attend college or career school. The list below details some of the ways in which the organization serves the public. FSA ensures that students and their families benefit from its programs by:

- Informing students and families of the availability of the federal student aid programs and on the process of applying for and receiving aid from those programs;
- Developing the Free Application for Federal Student Aid (FAFSA℠) and processing over 21 million FAFSA submissions;
- Accurately disbursing, reconciling, and accounting for all federal student aid funds that are delivered to students each year through approximately 6,200 colleges and career schools;
- Managing the outstanding federal student loan portfolio and securing repayment from federal student loan borrowers;
- Offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and
- Providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the federal student aid programs.

While FSA employees are committed to assisting students in achieving their postsecondary education goals, they also provide benefits to the community through direct service. The ideals of service are demonstrated through their participation in various government, Departmental, and FSA-sponsored community service programs. Employee efforts have positively influenced the community in the following ways:

- Tutoring students at local area schools;
- Contributing to various charities through the Combined Federal Campaign;
- Donating food to various food banks, through the Feds Feed Families program, a government-wide food drive;
- Supporting and participating in the Susan G. Komen Race for the Cure;
- Donating holiday gifts to children in local schools though the Operation Santa program; and
- Assisting in the renovation and rebuilding of affordable housing for families through the Habitat for Humanity program.

Guide to Federal Student Aid Programs

FSA delivered $137.6 billion in federal financial student aid to approximately 14 million students in FY 2013. This aid was provided in the form of low-interest loans, grants, and work-study funds to cover expenses, such as tuition and fees, room and board, books and supplies, and transportation. The three main categories of federal student aid are:

- Loans
  - Student aid funds that are borrowed to help pay for eligible education programs and must be repaid with interest;
- Grants
  - Student aid funds that do not have to be repaid (unless other conditions apply); and
- Work-Study
  - A part-time work program that allows students to earn money to help pay for school.

The information below presents a brief overview of the various aid programs included in each category. For more information about the FSA programs, please refer to page 37 of the **Department of Education Federal Program Inventory,** Student Financial Assistance.

Loans

- Direct Subsidized Loans
  - Federal loans based on financial need made to undergraduate students for which the federal government does not charge interest while the borrower is in school, in grace, or in deferment status. For Direct Subsidized Loans first disbursed between July 1, 2012, and July 1, 2014, the borrower is responsible for paying any interest that accrues during the grace period. If the interest is not paid during the grace period, the interest will be added to the loan's principal balance.

- Direct Unsubsidized Loans
  - Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.

- Direct PLUS Loans
  - Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.

- Direct Consolidation Loans
  - Federal loans made that allow the borrower to combine one or more federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan and the repayment term of the loan may be longer than the terms on the original loans.

- Federal Perkins Loans
  - Federal student loans, made by schools, to undergraduate and graduate students who demonstrate financial need. Participating schools receive a certain amount of funds each year from FSA for distribution under this program, which supplement funds in a

school's revolving fund, from which new disbursements are made. Once the full amount of the school's funds has been awarded to students, no more loans can be made under this program for the year.

Grants

- Federal Pell Grants
  - Federal financial aid awarded to undergraduate students with demonstrated financial need. This form of aid does not require repayment.

- Federal Supplemental Educational Opportunity Grants
  - Federal grants distributed under this program are administered directly by the financial aid office at each participating school and are known as "campus-based" aid. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA. Once the full amount of the school's grant funds has been awarded to students, no more awards can be made under this program for the year.

- Teacher Education Assistance for College and Higher Education Grants
  - Federal grants awarded annually to eligible undergraduate or graduate students who agree to teach mathematics, science, or other specialized subjects in high-need schools for at least four years, within eight years of their graduation. Eligible students may be awarded grants totaling up to $4,000 annually. If students fail to fulfill the service requirements, the grants will convert to Direct Unsubsidized loans, with interest accrued from the time of the award.

- Iraq and Afghanistan Service Grants
  - Federal grants awarded to students who are not eligible for a Federal Pell Grant on the basis of Expected Family Contribution, but meet the remaining Federal Pell Grant eligibility requirements, and:
    - Have a parent or guardian who was a member of the U.S. Armed Forces and died as a result of military service performed in Iraq or Afghanistan after the 9/11 events; and
    - Were under 24 years old or enrolled in college at least part-time at the time of the parent or guardian's death.

Federal Work-Study

- Federal program that provides part-time jobs for undergraduate, graduate and professional students with financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study and is administered by the schools who participate in the Federal Work-Study program.

FSA provides several options for students to finance their education; however, to obtain federal financial aid, prospective aid recipients must complete the financial aid process. For more information on obtaining federal student aid and to see a graphic of the financial aid process, click on **StudentAid.gov/financial-aid.**

Introduction to the Federal Student Aid Annual Report

The FY 2013 *Federal Student Aid Annual Report* provides financial and performance information that enables the President, Congress, and the public to assess how FSA has performed in accomplishing its mission and achieving its goals. The report is organized into the following sections:

The **Management's Discussion and Analysis** section provides an overview of the entire *Federal Student Aid Annual Report.* It includes a synopsis of FSA's mission and its organizational structure, as well as the organization's fiscal year financial and performance highlights, which are discussed in more detail within the subsequent sections of this report. This section also contains a discussion of the organization's systems, controls, and compliance with laws and regulations. The section concludes with the subsection, Limitations of Financial Statements, which provides the context in which the financial statements should be reviewed.

The ***Annual Performance Report*** presents the strategic goals included in the *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16* and discusses the results of the various performance metrics as related to each strategic goal. Targets established for each performance metric are compared to FSA's actual performance during the year. These results are presented to demonstrate the organization's effectiveness in accomplishing its mission. The *Annual Performance Report* also presents the fiscal year accomplishments of the organization and discusses the process by which it provides legislative and regulatory recommendations to the Department on issues that affect federal student financial aid. The *Annual Performance Report* concludes with the subsections, Annual Bonus Awards, which details executive compensation in the organization, and the Report of the Federal Student Aid Ombudsman, which details its processes in assisting borrowers in obtaining resolutions to federal student aid issues.

The **Financial Section** provides a detailed view of FSA's stewardship and accountability for its resources. The section includes the Message from the Chief Financial Officer, the audited financial statements, and the accompanying notes to the financial statements. It concludes with the subsections, Required Supplementary Stewardship Information, Required Supplementary Information, and the Independent Auditors' Report.

As part of the Financial Section, the **Independent Auditors' Report** subsection presents the combined audit report issued by the Independent Auditors. The subsection consists of the Office of Inspector General Audit Transmittal Letter and the combined Independent Auditors' Report, which includes the Opinion on the financial statements, the Report on Internal Control, and the Report on Compliance and Other Matters. The subsection concludes with the Management's Response to the Audit, which is the official response of FSA's executive management to the findings and recommendations contained in the audit report.

The **Other Information** section includes the Schedule of Spending, which presents an overview of how and where FSA spent its money during the fiscal year. This section also provides links to the Department's *FY 2013 Agency Financial Report*, which includes a discussion of FSA's improper payments in compliance with the *Improper Payment Information Act of 2002,* as amended by the *Improper Payments Elimination and Recovery Act of 2010.* The section concludes with a link to the Summary of Financial Statement Audit and Management Assurances and a link to FSA's Management Challenges.

The **Appendices** section includes the glossary of acronyms and terms, and the details on the availability of this *Annual Report*.

Management's Discussion and Analysis

Fiscal Year 2013 Financial and Performance Highlights of Federal Student Aid

Operational Highlights

	FY 2013	FY 2012	Difference	Percentage Change
Total Student Aid Loan Portfolio*	$ 1,040 billion	$ 948 billion	$ 92 billion	9.7%
Total Federal Student Loan Borrowers Outstanding	40 million	38 million	2 million	5.3
Total Number of Postsecondary Education Institutions	6,178	6,252	(74)	(1.2)
Audit Opinion	Unqualified	Unqualified	Not applicable	Not applicable

Financial Highlights

(Dollars in millions)

	FY 2013	FY 2012	Difference	Percentage Change
Total Assets	$ 897,245	$ 752,738	$ 144,507	19.2%
Total Liabilities	867,251	729,965	137,286	18.8
Net Position	29,994	22,773	7,221	31.7
Net Cost	(13,422)	10,683	(24,105)	(225.6)
Total Budgetary Resources Available for Spending (Budgetary Credit Reform Financing Accounts)	55,748	56,695	(947)	(1.7)
Total Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts)	256,711	269,586	(12,875)	(4.8)
Total Outlays, Net (Budgetary Credit Reform Financing Accounts)	(7,136)	3,774	(10,910)	(289.1)
Total Outlays, Net (Non-Budgetary Credit Reform Financing Accounts)	148,084	159,988	(11,904)	(7.4)

Performance Highlights

Performance Measures	FY 2013 Target	FY 2013 Actual	Performance Results
Customer Satisfaction Score (ACSI)	78.0	78.4	Met
Percent of Borrowers>90 Days Delinquent	<=10.1%	8.3%	Met
Collection Rate**	$34.31	$41.57	Met

*The amounts provided for the Total Student Aid Portfolio includes both amounts managed by Federal Student Aid and federal loans held by lenders or schools.

**Collection Rate for the purpose of this metric is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

Mission and Organizational Structure

Federal Student Aid (FSA), a principal office of the United States (U.S.) Department of Education (the Department), seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. As the nation's largest provider of student financial aid, FSA is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965,* as amended (HEA). Specifically, Title IV of the HEA (Title IV) authorizes the federal student assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending college or career school.

In order to execute the Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, which include:

- Educating students and families about the process of obtaining financial aid;
- Processing millions of student financial aid applications;
- Disbursing billions of dollars in student financial aid;
- Insuring billions of dollars in guaranteed student loans previously issued by financial institutions;
- Enforcing financial aid rules and regulations;
- Servicing millions of student loans and helping borrowers avoid default;
- Securing repayment from borrowers who have defaulted on their loans; and
- Partnering with schools, financial institutions, and guaranty agencies to prevent program fraud, waste, and abuse.

This complex, multifaceted mission calls on a range of staff skills and demands coordination by all levels of management. Designated a Performance-Based Organization (PBO) by Congress in 1998, FSA emphasizes tangible results and efficient performance, as well as the continuous improvement of the processes and systems that support its mission.

FSA Fact

FSA administers the Title IV programs, the largest source of postsecondary education funding. Examples of the Title IV programs include the Federal Direct Loan, Federal Pell Grant and Federal Work-Study programs. To learn more about these and other Title IV programs administered by FSA, visit StudentAid.gov/Types.

Legislative Authority that Influences the Mission of Federal Student Aid

FSA's mission is *"Funding America's Future, One Student at a Time."* Historically, there have been several legislative acts that have significantly impacted FSA as an organization. The *Higher Education Amendments of 1998* established FSA as a PBO, to administer the Title IV programs at the Department. Several other key pieces of legislation have influenced FSA's mission and are detailed in the following table.

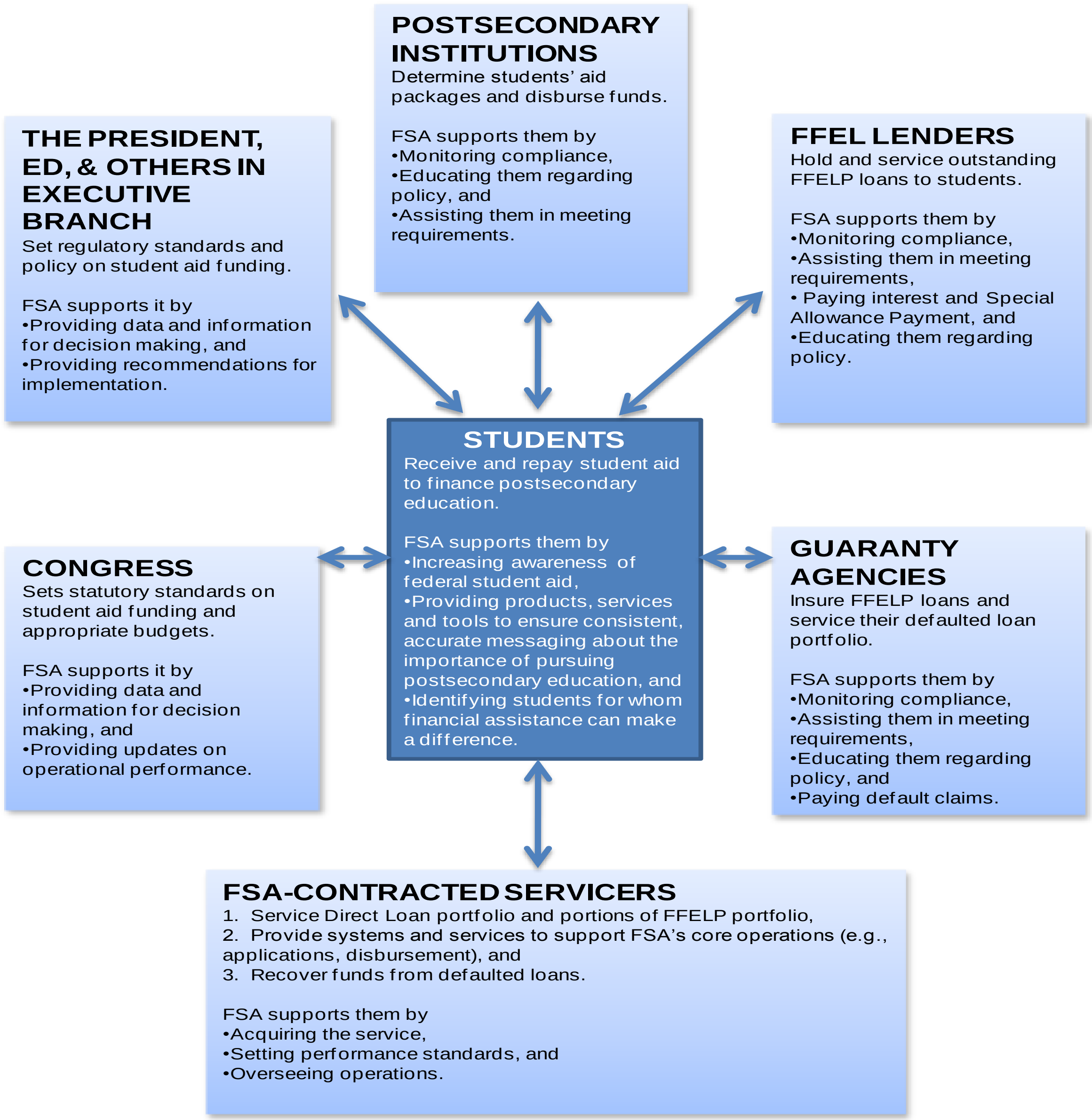
Overview of Legislative Authority

- ***Higher Education Act of 1965,* as amended**
  Created the federal student financial assistance programs known as the Title IV programs.
- ***Higher Education Amendments of 1992***
  Initially authorized the William D. Ford Federal Direct Loan Program as a demonstration pilot.
- ***Student Loan Reform Act of 1993***
  Authorized a multi-year phased implementation of the William D. Ford Federal Direct Loan Program.
- ***Higher Education Amendments of 1998***
  Amended the HEA and authorized the designation of FSA as the first PBO in the federal government.
- ***Higher Education Reconciliation Act of 2005***
  Allowed graduate and professional students to utilize the Parent Loans for Undergraduate Students.
- ***College Cost Reduction and Access Act of 2007***
  Authorized the Teacher Education Assistance for College and Higher Education Grant Program, created the Public Service Loan Forgiveness Program, and established the Income Based Repayment plan.
- ***Ensuring Continued Access to Student Loans Act of 2008***
  Provided the Department with the authority to implement programs to ensure that eligible students and parents were not denied access to federal student loans during the credit market disruptions of 2008.
- ***Higher Education Opportunity Act of 2008***
  Reauthorized the federal student financial assistance programs, promoted program integrity and institutional accountability, and established requirements concerning institutions' net prices of attendance.
- ***SAFRA Act***
  Provided that beginning July 1, 2010, all new loans are to be originated under the Federal Direct Loan Program.
- ***Bipartisan Student Loan Certainty Act of 2013***
  Established that federal student loan interest rates will be tied to financial markets and that each loan will have a fixed interest rate for the life of the loan.

FSA Stakeholders

The community of stakeholders in the student aid delivery system includes students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers and collection agencies, as well as the taxpayers and other federal entities, such as Congress and the Office of Management and Budget (OMB).

Role of FSA and Participants in the Federal Student Aid System

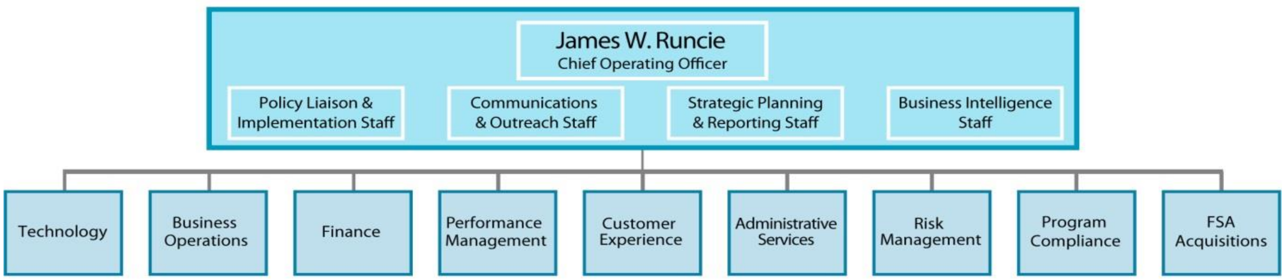


One of FSA's responsibilities is to coordinate and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery, within a statutory framework established by Congress, and a regulatory framework established by the Department.

FSA Organizational Structure

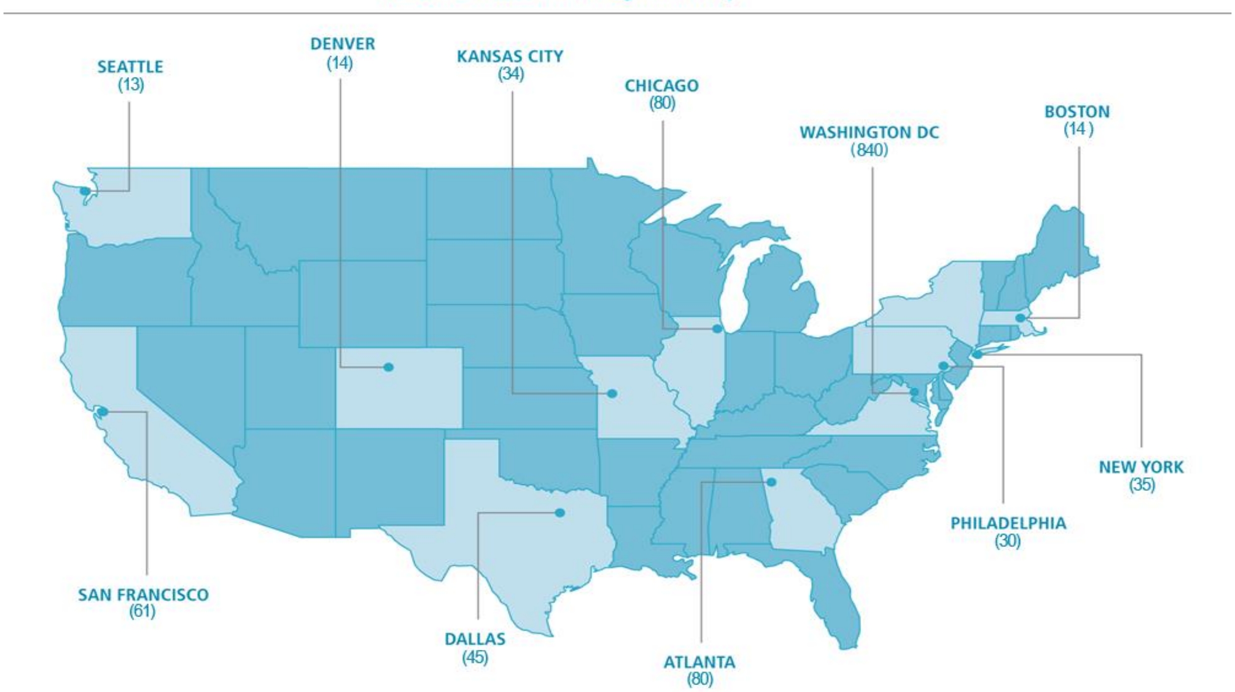
FSA currently operates under a functional organizational structure that aligns the organization closely with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO), who is appointed to a five-year term by the Secretary of Education (Secretary), leads FSA. The Secretary appointed James W. Runcie as the COO on September 15, 2011. The following graphic illustrates the current functional organizational structure of FSA.

Federal Student Aid Functional Organizational Structure



During Fiscal Year (FY) 2013, the organization operated on an annual administrative budget of approximately $1.4 billion. FSA is staffed by 1,246 full-time employees and is augmented by contractors who provide outsourced business operations. The workforce is based in Washington, D.C., with ten regional offices located throughout the country as reflected in the following graphic. The number of full-time employees at each location is shown in parentheses immediately following the location name.

Federal Student Aid Regional Map



Programs

The federal student financial assistance programs collectively represent the nation's largest source of federal financial aid for postsecondary students. In FY 2013, FSA processed more than 21 million Free Applications for Federal Student Aid (FAFSA℠), resulting in the delivery of $137.6 billion in Title IV aid to more than 14 million postsecondary students and their families. These students attend approximately 6,200 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

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Types of Federal Student Financial Assistance Programs

- **Loan Programs**
  Student aid funds that must be repaid with interest.

- **Grant Programs**
  Student aid funds that do not have to be repaid (other conditions apply).

- **Work-Study Program**
  A part-time employment program to earn money while in school.

Funding America's Future, One Student at a Time

FSA Fact

In order to receive federal student aid, students must complete the FAFSA. Completion of this free application is the first step in obtaining aid. More than 21 million FAFSAs were processed in FY 2013. To find out more about the FAFSA, go to StudentAid.gov/FAFSA.

On August 2, 2011, Congress passed the *Budget Control Act of 2011* (Pub. L. 112-25), which put into place automatic federal budget cuts, known as "sequestration", to take effect if Congress did not enact legislation to reduce the federal deficit by March 1, 2013. Because Congress did not act, these budget cuts went into effect. The impact of sequestration on aid available to students varied by program and is reflected in amounts presented in the following table. The table below presents a comparison of the amounts of Title IV aid disbursed to students by program in 2013 and 2012. A summary of each of the Title IV student assistance programs is presented in the paragraphs that follow the table.

Summary of Federal Aid Disbursed to Students by Program

(*Dollars in Millions*)

Programs	2013 Aid Disbursed to Students	2012 Aid Disbursed to Students	Difference	Percent Increase/ (Decrease)
Loan Programs				
William D. Ford Federal Direct Loan Program	$ 102,497	$ 105,810	$ (3,313)	(3)%
Federal Perkins Loan Program	1,008	945	63	7
Subtotal Loan Programs	**$ 103,505**	**$ 106,755**	**$ (3,250)**	**(3)%**
Grant Programs				
Federal Pell Grant Program	$ 32,338	$ 33,299	$ (961)	(3)%
Federal Supplemental Educational Opportunity Grant Program	739	715	24	3
Academic Competitiveness Grant Program	-	5	(5)	(100)
National Science and Mathematics Access to Retain Talent Grant Program	-	4	(4)	(100)
The Teacher Education Assistance for College and Higher Education Grant Program	106	120	(14)	(12)
Other Grant Programs/Rounding	1	-	1	N/A
Subtotal Grant Programs	**$ 33,184**	**$ 34,143**	**$ (960)**	**(3)%**
Work-Study Programs				
Federal Work-Study Program	$ 959	$ 965	$ (6)	(1)%
Grand Total	**$ 137,648**	**$ 141,863**	**$ (4,215)**	**(3)%**

Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs and the Federal Work-Study Program in the Management's Discussion and Analysis section, excluding the Federal Perkins Loan Program amounts, are derived from amounts from FSA's and the Department's Financial Systems. All amounts are fiscal year-to-date amounts, except for the Federal Perkins Loan Program, which is reported as an award year amount. The number of awards or recipients reported in the Management's Discussion and Analysis section is derived from amounts used to support the President's Budget and is based on award year.

Funding for the Academic Competitiveness Grant and National Science and Mathematics Access to Retain Talent Grant Programs expired at the end of academic year 2010–11.

Federal Loan Programs

In fulfilling its program responsibilities, FSA directly manages or oversees more than $1.0 trillion in outstanding loans—representing nearly 176 million student loans to approximately 40 million borrowers. These loans were primarily made through the first two federal student loan programs described below.

The **William D. Ford Federal Direct Loan (Direct Loan) Program** lends funds directly to students and parents through participating schools. Created in 1993, this program is funded by borrowings from the U.S. Department of the Treasury (Treasury), as well as an appropriation for subsidy costs. As of September 30, 2013, FSA's portfolio of direct loans included $679.1 billion in credit program receivables, net of a negative subsidy allowance in the amount of $65.2 billion. In FY 2013, the Department made $102.5 billion[1] in net loans to 10.6 million recipients. With the enactment of the *SAFRA Act*, formerly known as the *Student Aid and Fiscal Responsibility Act*, which was included as part of the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), beginning in July 2010, no new loans were originated under the Federal Family Education Loan (FFEL) Program.

During FY 2012, the Department offered a short-term initiative, Special Direct Consolidation Loans (SDCL) to assist eligible borrowers in managing their debt by making one payment to one entity. Eligible borrowers had to have at least one loan owned by the Department and one commercially-held FFEL loan in order to qualify for this consolidation opportunity. The SDCL opportunity began in January 2012 and ended June 30, 2012, but borrowers were allowed to add additional eligible loans within the 180-day period after the initial SDCL opportunity had expired. The initiative disbursed approximately $0.6 billion in FY 2013.

Under the **Federal Family Education Loan Program,** students and parents obtained federal loans through private lenders. Guaranty agencies insured lenders against borrower default; the federal government, in turn, reinsured guaranty agencies. Federal subsidies ensured private lenders earned at least a certain yield on the loans they made. Although the passage of the *SAFRA Act* ended the origination of new FFEL Program loans as of July 1, 2010, lenders and guaranty agencies continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL Program loan portfolio of approximately $423.0 billion, as of September 30, 2013. In FY 2013, FSA made gross payments of approximately $1.3 billion to lenders for interest and special allowance subsidies and $9.5 billion to guaranty agencies for reinsurance claims and fees paid to guaranty agencies for account maintenance, default aversion, and collection activities.

In addition to the above described FFEL Program, the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorized the Department to implement a number of programs to ensure credit market disruptions did not deny eligible students and parents access to federal student loans for the 2008–09 and 2009–10 academic years. Under this authorization, the Department implemented three activities, two of which allowed for loan purchase commitments and purchases of loan participation interests. The authority to make these purchases expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. Although, these programs were successfully closed-out on October 15, 2010, any loans purchased under the ECASLA authorization are owned and continue to be serviced by FSA.

[1]Excludes consolidation loans of $27.4 billion.

A third program the Department implemented under the authority of ECASLA is the Asset-Backed Commercial Paper (ABCP) Conduit Program (Conduit) Program. Under this program, which began operations in mid-2009, the Department entered into forward purchase commitments with a Conduit. The Conduit issues commercial paper backed by qualifying student loans made between October 1, 2003, and September 30, 2009. If no other financing is available to retire this paper as it matures, the Department commits to provide the needed funds by purchasing the underlying student loans, thereby providing a federal subsidy that has the effect of providing low cost capital to private lenders. Lenders were able to place loans into the Conduit until June 30, 2010. By that time, 25 lenders had participated, and backed by their loans, the Conduit issued a total of $41.5 billion in commercial paper. Under the Put Agreement with the Conduit, the Department purchases loans subject to certain events, for example, when a loan becomes 255 days delinquent. As of September 30, 2013, the Department has purchased $2.6 billion in delinquent loans from the Conduit. The option to sell loans to the Department ends in January 2014. As of September 30, 2013, the number of lenders that continue to participate in the Conduit has dropped to two, with a combined $587.9 million in outstanding loans pledged to the conduit. Twenty lenders removed their portfolios from the Conduit during FY 2013.

The **Federal Perkins Loan Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer low-interest loans to students based on need. In FY 2013, approximately $1.0 billion were disbursed through approximately 499,000 campus-based awards.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of $33.2 billion in grants to 10.8 million recipients via several grant programs. The following provides a summary for each grant program, including aid disbursed for FY 2013.

The **Federal Pell Grant (Pell Grant) Program** helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income undergraduate students. As the most need-based of the Department's student aid programs, Pell Grants vary according to the financial circumstances of students and their families. In FY 2013, the Department disbursed $32.3 billion in Pell Grants averaging approximately $3,678 to more than 9 million students. The maximum Pell Grant award was $5,550 for the 2012–13 award year and increased to $5,645 for the 2013–14 award year.

The **Federal Supplemental Educational Opportunity Grant Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. In FY 2013, approximately $739.0 million were disbursed through approximately 1.6 million campus-based awards.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program, authorized by the *College Cost Reduction and Access Act of 2007* (CCRAA), provides up to $4,000 per year to students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. Under sequestration, award amounts for any TEACH Grant first disbursed after

March 1, 2013, were reduced by 6.0 percent from the award amount for which a recipient would otherwise have been eligible. The maximum award of $4,000 was reduced by $240, resulting in a maximum award amount of $3,760. If students fail to fulfill the service requirements, TEACH Grants convert to Direct Unsubsidized loans, with interest accrued from the time of the award. This grant program began in the 2008–09 school year, starting July 1, 2008. In FY 2013, the Department disbursed approximately 39,000 grants for $106.0 million under TEACH.

The Iraq and Afghanistan Service Grant Program, which became effective July 1, 2010, provides non-need-based grants to students whose parent or guardian was a member of the Armed Forces and died in Iraq or Afghanistan as a result of performing military service after September 11, 2001. These grants are equal to the maximum Pell Grant for a given award year. Under sequestration, award amounts for any Iraq and Afghanistan Service Grant first disbursed after March 1, 2013 were reduced by ten percent from the award amount for which a recipient would otherwise have been entitled. For example, the 2012–13 maximum award of $5,550 was reduced by $555, resulting in a maximum award amount of $4,995; the 2013–14 maximum award of $5,645 is reduced by $564.50, resulting in a maximum award of $5,080.50. The Department disbursed approximately $206,935 to support less than 1,000 awards in FY 2013.

Federal Work-Study Program

The **Federal Work-Study (FWS) Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer employment to students based on financial need. In FY 2013, approximately $959.5 million were disbursed through approximately 701,000 campus-based awards.

FSA Fact

The Federal Pell Grant has enabled millions of students to go to college. More than $32 billion were disbursed for Pell Grants during FY 2013. For more information about obtaining a Pell Grant, go to StudentAid.gov/types/grants-scholarships/Pell.

Vision, Mission, and Core Values

FSA's vision and mission focus on students and position FSA as not only a provider of federal student financial aid and services, but also as a trusted source of information to help students and families make better decisions about their postsecondary education funding options. The core values reflect FSA employees' desire to create a high-performing organization and work environment, while improving operations and services.

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION
PROUD SPONSOR of the AMERICAN MIND®

Vision

To be the most trusted and reliable source of student financial aid, information, and services in the nation

Mission

Funding America's Future, One Student at a Time

Core Values

- **Integrity**
- **Respect**
- **Customer Service**
- **Stewardship**
- **Excellence**
- **Teamwork**

Funding America's Future, One Student at a Time

As discussed in detail in the next section, FSA has translated this vision into a set of clearly defined strategic goals and objectives and related measurable performance metrics. The realization of these goals will enable the organization to accomplish its mission successfully.

Performance Management

This section of the FSA *Annual Report* provides a general overview of the performance management processes at FSA; a summary of FSA's FY 2013 performance metrics, objectives, and results; discussion of FSA's Agency Priority Goal; and discussion of FSA's efforts to validate the quality of performance data reported.

Performance Management Processes at Federal Student Aid

FSA uses three tools to establish goals, and to communicate, measure, and report performance. These tools are the following:

- *Five-Year Strategic Plan*;
- *Annual Performance Report*; and
- Annual Organizational Performance Review (OPR).

Five-Year Strategic Plan

As part of the strategic planning process, FSA continuously identifies and evaluates key drivers that significantly influence FSA's long-term goals and objectives. FSA analyzes these drivers to identify long-term core strategic goals that will serve as the foundation of FSA's long-term strategic planning. These strategic goals collectively provide the framework for continuous improvement at FSA, guiding the organization in managing its programs more effectively and providing clear strategic direction to all of FSA's internal and external constituencies. The strategic goals developed must be:

- appropriate to the mission of the organization;
- realistic and measurable;
- achievable in the time frame established and challenging in their targets; and
- understandable to the layperson (i.e., language is unambiguous and terminology is adequately defined).

Each strategic goal encompasses objectives and identifies performance metrics to measure FSA's level of success in meeting the strategic goal. For each performance metric, FSA identifies a target level of performance for each fiscal year. FSA sets the target level of performance at a challenging, but realistic level that is achievable within the timeframe. Meeting or exceeding the target indicates that FSA succeeded in meeting the performance metric, while falling short of the target indicates that FSA did not meet the performance metric. The following table summarizes the key components of the *Federal Student Aid: Strategic Plan, FY 2012–16* (*FSA Strategic Plan, FY 2012–16).*

Key Components of *FSA Strategic Plan, FY 2012–16*

Key Component	Description
Strategic Goals	Statements of long-term purpose outlined in the *FSA Strategic Plan, FY 2012–16* that define how FSA will accomplish its mission. These goals are aligned to FSA's responsibilities as a PBO.
Objectives	Statements that describe the tactical activities FSA will perform to achieve the associated strategic goal.
Performance Metrics	Levels of performance over a period of time used to gauge FSA's success in reaching its strategic goals. These metrics include targets and timeframes.
Targets	Indicators of the desired performance levels or specific desired results targeted for a given fiscal year. Targets are expressed in quantifiable terms and compared to the actual result to determine level of performance.

Throughout the fiscal year, FSA measures and analyzes performance based upon performance metric results. For any performance metrics not on track, FSA's analysis includes identifying the root cause of the unexpected result and determining the appropriate corrective actions necessary to improve performance.

Annual Performance Report

To report progress on meeting the strategic goals, FSA prepares and publishes an *Annual Performance Report.* This report is included in FSA's *Annual Report,* usually issued in mid-November. In addition to the *Annual Performance Report*, FSA's *Annual Report* includes FSA management's discussion and analysis of financial and performance results, its audited financial statements and notes, and the report of the independent auditors.

Annual Organizational Performance Review

The Annual OPR is part of the Department-wide performance management system. It operates at the principal office level and is designed to integrate and align all of the Department's performance management elements, including the Department's *Strategic Plan*, the Secretary's annual priorities, the priorities of the principal offices, and other requirements of law and of the President. The OPR contains timelines with specific milestones. FSA tracks and reports the status of OPR metrics to the Department on a quarterly basis.

FY 2013 Strategic Goals, Objectives, and Performance Metrics

In its earlier strategic plans, FSA focused primarily on achieving operational efficiency and system integration, both of which are key to its designation as a PBO. As part of the initial update to its earlier plans, FSA developed and implemented a strategic plan that would improve the overall system of funding for postsecondary education by (1) equipping students and their families with better information to make improved decisions about postsecondary education; and (2) actively shaping the behavior of participants in education funding, by using FSA's knowledge, data, oversight authority, and relationships to improve the coordination of all participants in the system.

FSA's current strategic plan, the *FSA Strategic Plan, FY 2012–16*, continued to build upon the most recent goals established in the previous year's strategic plan, by clarifying the organization's objectives and updating performance standards to better reflect the progress made in meeting the stated objectives. As part of the process of developing this plan, FSA identified the key strategic drivers listed in the following table.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Higher Education Act of 1965 legislation	Prescribes Title IV program and PBO requirements (i.e., improve service, reduce costs, improve and integrate support systems, develop delivery and information systems, and enhance staff development and talent).
Student and borrower needs	Students and borrowers are key customers of FSA services and products.
Key trends and conditions for the financial aid environment	Indicates student aid environment within which FSA must operate. Key trends in FY 2013 are listed below. • Rising cost of attendance for postsecondary education. • Decline in availability of nonfederal sources of postsecondary education funding. • Anticipated increase in enrollment. • Increase in enrollment at two-year and proprietary institutions, and distance learning. • Increased role of the federal government in providing funding for postsecondary education.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Department's Five-Year *Strategic Plan*	Requires FSA's support of the Department's strategic goals related to postsecondary education.
President Obama's higher education goal that, by 2020, America will have the highest proportion of college graduates in the world	Requires the Department's and FSA's support to achieve goal.
The Office of Inspector General's Management Challenges	Requires the Department and FSA senior management's consideration for establishing priorities. The Office of Inspector General's Management Challenges for FY 2013 include: • Improper Payments; • Information Technology Security; • Oversight and Monitoring; and • Data Quality and Reporting.
The Office of Inspector General and Government Accountability Office audits	Requires FSA senior management's consideration for establishing priorities to address findings and recommendations.
Federal financial management laws and regulations	Prescribes financial management requirements.
Federal performance reporting legislation and requirements	Prescribes performance and reporting requirements.
Federal budget deficits	Requires FSA to look for opportunities to reduce operating costs through improved efficiency.

FSA identified the following five Strategic Goals based upon analysis of the above key strategic drivers:

- **Strategic Goal A:** *Provide superior service and information to students and borrowers.*
- **Strategic Goal B:** *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*
- **Strategic Goal C:** *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*
- **Strategic Goal D:** *Ensure program integrity and safeguard taxpayers' interests.*
- **Strategic Goal E:** *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

The remainder of this section provides a discussion of each strategic goal, including the associated objectives and a summary of performance metric results. For a more detailed discussion, refer to the ***Annual Performance Report*** section of this document.

How the remainder of this section is organized
This section is organized by the five strategic goals. For each strategic goal, this section provides an overview of the goal, lists the associated objectives that support the strategic goal, and details the performance metrics used to measure performance. Specifically, the following information is included for each strategic goal:

Strategic Goal: States the strategic goal and provides a discussion of the relevance of this goal to FSA's mission.

Objective: Includes a brief discussion of the objectives identified for the strategic goal.

Performance Metrics measured: Includes a brief summary of FSA's performance as measured by the performance metrics for the strategic goal, followed by a table that details, for each performance metric, the prior year actual results, the current reporting period target, the actual result, and the page reference to the detail contained in the *Annual Performance Report* section of this document. The following is the legend for the performance result indicator included in the table.

Performance Result Indicator Legend

Performance result met or exceeded the target.	**Met** (green)
Performance result did not meet the target.	**Not met** (red)
Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.	**N/A** (yellow)

The performance metric results reported are as of fiscal year-end (i.e., September 30, 2013) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent period available is used. Data as of fiscal year-end may not be available in some instances, where the required data are obtained from external sources (i.e., state and private nonprofit guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

FSA Fact

FSA, one of the first federal government offices designated as a Performance Based Organization, focuses on providing tangible results and efficient management. For more information about FSA's performance as a PBO, go to StudentAid.gov/strategic-planning-reporting.

Strategic Goal A: *Provide superior service and information to students and borrowers*.

A major component of FSA's mission is to ensure that all eligible individuals have access to federal student aid. In order to achieve this goal, FSA provides information about funding options for eligible students to help them and their families make well-informed decisions. As a customer-facing organization, FSA also has an obligation to uphold the highest standards of service when interacting with its customers: students and their families.

Strategic Goal A aims to actively inform all eligible individuals of their funding options, help customers make well-informed decisions, provide better services, and improve customer experience.

Objectives supported:
To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Take a data-driven approach to better understand our customers and develop insights from these customers.
- **Objective 2:** Reach out to potential students more effectively to expand access to postsecondary education.
- **Objective 3:** Aggregate and distribute information on the costs and benefits of postsecondary education programs and on funding options to improve financial literacy and support the customers' decision-making.
- **Objective 4:** Identify students for whom financial assistance can make a difference in completing a degree or credential and develop a plan to support the President's 2020 college completion goal.
- **Objective 5**: Enhance customer-facing processes to improve the customer experience.

Performance Metrics measured:
To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2013 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for four performance metrics presented under this strategic goal and did not meet the target for one performance metric.

Performance Summary for Strategic Goal A

Performance Metrics	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual	Result	Reference Page
% of first-time FAFSA filers among high school seniors	52.0%	54.0%	52.0%–54.0%	52.2%	Met	53
% of first-time FAFSA filers aged 19-24 among those in population that are high school graduates, no college	—	28.4%	26.0%–28.0%	27.1%	Met	54
% of first-time FAFSA filers among workforce aged 25+, high school graduates, no college	3.8%	3.7%	2.8%–3.4%	3.3%	Met	55
% of first-time FAFSA filers among low-income students	54.8%	60.3%	57.9%–62.7%	57.1%	Not met	56
Customer Satisfaction Score (ACSI)	78.0	78.5	78.0	78.4	Met	57

FSA Fact

FSA continues to work to make the process of completing the FAFSA easier and more efficient. This effort has resulted in an average online completion time of 22 minutes for the FAFSA, a reduction of more than 30 minutes since FY 2009.

Strategic Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*

FSA plays a vital role within the system of postsecondary education funding in the United States. While the Department's Office of Postsecondary Education is responsible for any matters related to the setting of postsecondary education policy and regulation, FSA collaborates with its colleagues across the Department and Congress to inform policy and regulations relating to student financial assistance. Specifically, FSA provides timely and relevant information to the Department and policymakers to support their decision-making processes concerning issues related to funding postsecondary education. In addition, FSA has a leadership role in the universe of postsecondary education funding to ensure that all system participants effectively serve the interests of students.

To execute delivery of financial assistance, FSA works closely with partners: it coordinates the activities of different contractors, including servicers and private collection agencies; it provides oversight of postsecondary institutions; guaranty agencies and lenders; and it directly interacts with students and their families.

Strategic Goal B aims to increase FSA's role in working with postsecondary institutions, contractors, and other major participants in the overall aid delivery system, to fulfill the organization's mission more effectively and consistently champion the promise of postsecondary education for all Americans.

Objectives supported:
To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve FSA's support, communications, and processes for postsecondary and financial institutions.
- **Objective 2:** Provide ideas, data, and analyses to inform policymakers about opportunities and challenges in postsecondary education funding.
- **Objective 3:** Support system participants in implementing legislative, regulatory, executive, and other requirements.

Performance Metrics measured:
To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2013 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for both performance metrics included under this strategic goal.

Performance Summary for Strategic Goal B

Performance Metrics	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual	Result	Reference Page
Ease of Doing Business school survey (1-100 Scale)	Survey launched	74	74	74	Met	58
Percent of borrowers > 90 days delinquent	9.9%	9.5%	<=10.1%	8.3%	Met	59

FSA Fact

Borrowers have several options available to make the repayment of federal student loans more affordable. These options include the Income Based Repayment Plan and the Pay as You Earn. More information about these plans and other available options can be found at StudentAid.gov/Repay-loans/understand/plans.

Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

FSA is responsible for managing the operational functions associated with delivering Title IV grants, work-study, and loan programs, while continually improving operating efficiency. To maintain credibility and confidence in the overall student aid delivery system, it is important for FSA to anticipate and plan for changes in volume that impact capacity requirements. For example, FSA experienced a significant increase in Direct Loan originations because of the passage of the *SAFRA Act* during FY 2010. As part of the ability to respond to changing demands, FSA must consider budgetary resources available to support increasing capacity. Historically, FSA's budget has not grown proportionally to the increase in the volume of aid, and that is likely to remain true going forward. As a result, FSA will need to pursue further efficiencies in order to fund the initiatives outlined in its strategic plan.

FSA will also continue to improve its internal efficiency and capabilities across key functions, particularly in technology, acquisition, risk management, and business management, by comparing the current state of these functions with best practices and benchmarks across public and private sectors. The objectives under this goal will build the foundation and capability to support the first two strategic goals, providing better service and information to FSA customers and playing an integral role in the overall student aid delivery system.

Strategic Goal C aims to pursue further efficiencies to free up additional resources in the operating budget by integrating systems, improving acquisition processes, improving risk management, and improving project management.

Objectives supported:
To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Deliver funds to students accurately, efficiently, and promptly, to create high levels of customer satisfaction.
- **Objective 2:** Strengthen FSA's Information Technology (IT) function to achieve systems modernization and active management of technology to ensure that FSA's delivery systems are secure and privacy of personal information is maintained.
- **Objective 3:** Continuously refine and manage FSA's acquisition strategy and contract performance to realize cost savings and operating efficiencies, and mitigate risk.
- **Objective 4:** Improve the organizational capacity to anticipate and manage external change.
- **Objective 5:** Enhance the risk management organization, systems, and processes.
- **Objective 6:** Develop a methodology to measure and track cost reductions to increase efficiency and productivity.
- **Objective 7:** Build stronger business management capabilities and increase operational transparency to improve cross-functional coordination.

Performance Metrics measured:
To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2013 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met the target for one performance metric and did not meet the target for one performance metric.

Performance Summary for Strategic Goal C

Performance Metrics	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual	Result	Reference Page
Aid delivery costs per application	$9.89	$10.85	$11.23	$11.16	Met	60
Loan servicing costs per borrower	$18.15	$18.94	$21.02	$21.42	Not met	61

FSA Fact

The Direct PLUS Loan Program can be used to help pay for an undergraduate, graduate, or professional education. For more information on the Direct PLUS Loan program, go to StudentAid.gov/types/loans/PLUS.

Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

As the nation's largest provider of federal student assistance, FSA's role requires the organization to provide careful oversight of taxpayer dollars. FSA annually disburses more than $100 billion in aid and administers a loan portfolio valued at more than $1 trillion. Even small variances in the financial performance of this portfolio can have a large impact on the U.S. federal budget. FSA is committed to upholding the highest standards of integrity with the Title IV Programs and continues to work with institutions on increased monitoring and oversight efforts.

FSA will strive to better manage taxpayer resources and minimize program costs. As part of this goal, FSA will concentrate its limited resources on those areas that have been identified as having the greatest potential risk for fraud and abuse. In addition, FSA will focus on data gathering and analysis to better understand and manage FSA's growing student aid portfolio. Through these efforts, FSA will be able to better identify, understand, and mitigate all enterprise risks, including the student aid portfolio risk.

Strategic Goal D aims for continuous improvement of FSA's oversight functions to maintain program integrity and safeguard taxpayers' interests by using program dollars effectively and efficiently. FSA has oversight and enforcement responsibility for almost 6,200 schools and over 1,700 financial institutions. As such, FSA must leverage and focus its resources to optimize oversight and monitoring activities; and its administrative, sanction, and enforcement actions; when warranted.

Objectives supported:
To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve quality control and reduce errors, waste, fraud, abuse, and mismanagement in the delivery of Title IV aid.
- **Objective 2:** Manage funds owed to the Department and provide transparency about student aid portfolio risk exposure.

Performance Metrics measured:
To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2013 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met the target for two performance metrics; and did not meet the target for one metric.

Performance Summary for Strategic Goal D

Performance Metrics	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual	Result	Reference Page
Improper Payment rate	—	Pell Grant 2.49% Direct Loan 0.58% FFEL 1.93%	Pell Grant 2.10% Direct Loan 0.58% FFEL 1.93%	Pell Grant 2.26% Direct Loan 1.03% FFEL <0.005%	Not met	62
Direct Loan default rate	11.3%	9.6%	9.8%	9.8%	Met	64
Collection rate*	—	$31.90	$34.31	$41.57	Met	65

*Collection Rate for the purpose of Performance Metric D.3 is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

FSA Fact

The Income-Based Repayment Plan is an online application recently launched by FSA, which enables borrowers with eligible loans to apply for repayment options with greater ease and accuracy. For more information on the Income Based Repayment Plan, visit StudentAid.gov/repay-loans/understand/plans/income-based.

Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

FSA achieved substantial improvement in operational performance after its transformation to a PBO in 1998, successfully and reliably delivering aid under changing legislative conditions. The results of the previous Employee Viewpoint Surveys (EVS) highlighted additional areas in need of improvement. A significant number of FSA's staff is eligible for retirement over the next several years. In order to meet the performance challenges facing FSA and to fulfill its rapidly expanding role, the organization will have to rebuild its human capital foundations.

Strategic Goal E aims to meet the performance challenges facing FSA. To do so, FSA will need to empower its employees to accept new challenges, while ensuring the knowledge accumulated by the retirement of experienced staff is not lost upon their departure.

Objectives supported:
To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve the integrity of core human capital processes to attract, develop, and retain talented FSA employees from diverse backgrounds; help them achieve their full performance potential and recognize their contribution to FSA's mission.
- **Objective 2:** Further develop a student-centric culture among all managers and employees that will fully deliver on FSA's mission, vision, and strategy.

Performance Metric measured:
To determine the success of FSA's efforts to meet this strategic goal, FSA identified a performance metric, including a target level of performance. For this strategic goal, the following table lists the performance metrics, FY 2013 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document.

Performance Summary for Strategic Goal E

Performance Metrics	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual	Result	Reference Page
FSA Morale Index (Subset of Questions from Government-wide View Point Survey) - % of positive responses to survey (does not include neutral responses)	—	—	57	57	Met	66

Agency Priority Goal

An Agency Priority Goal is a measurable commitment to a specific result the federal government will deliver for the American people. These goals represent high priorities for both the administration and the Department, have high relevance to the public or reflect the achievement of key agency missions, and will produce significant results over a 24-month period. As required by OMB's guidance for implementing the *Government Performance and Results Modernization Act of 2010* (Pub. L. 111-352), the Department identified a limited number of new Priority Goals for FY 2012–13 during the budget, policy, and strategic planning processes.

These new Priority Goals reflect the importance of teaching and learning at all levels of the education system. Because they reflect a limited number of priorities, they do not fully reflect the agency's strategic goals nor cover the entire agency mission. As such, FSA is not responsible for one specific Priority Goal for FY 2012–13. Instead, FSA will continue to provide support as needed to the Department in accomplishing the Departmental Priority Goals. For more information on the Department's Priority goals, see **The Department's FY 2012–13 Priority Performance Goals.**

FSA Fact

FSA disbursed almost $102.5 billion in direct loans during FY 2013. For more information on the Direct Loan Program, go to StudentAid.gov/types/Loans.

Quality of Performance Data

Ensuring the integrity of the data required to determine performance results is a critical step in reporting performance. For this step, FSA developed and implemented a Validation and Verification Matrix. Specifically, FSA uses this matrix as a tool to validate the completeness and reliability of the underlying data gathered and used to calculate each performance metric for the reporting period, including the performance results reported in this *Annual Report*.

For each performance metric, this matrix is used to document the following: measurement definition and owner; data source, availability, security procedures, and known limitations; whether data are subject to FSA's A-123 Internal Control Review process; and procedures for accessing the data, calculating the performance metric, and validating and verifying the data gathered.

For a discussion of data quality and limitations for each performance metric, please see the section Performance Results by Strategic Goal, contained in the *Annual Performance Report* section of this *Annual Report*.

Financial Management Discussion and Analysis

The financial management discussion and analysis provides an overview of FSA's financial results for FY 2013. This section is included to assist readers in understanding FSA's financial results, position, and condition as portrayed in the financial statements and notes located in the Financial Section of this report. The financial analysis discussion explains major changes in assets, liabilities, costs, and budgetary resources. It also includes comparisons of the current year to the prior year and discusses the relevance of significant balances and amounts reflected in the financial statements and notes.

FSA is committed to providing sound management, financial systems, and controls to ensure that students receive aid and repay loans according to applicable laws and regulations. FSA's financial statements are prepared in accordance with established federal accounting standards. The financial statements are subject to an annual independent audit to ensure that FSA's financial position has been fairly presented. In FY 2013, FSA achieved an unqualified audit opinion on its financial statements for the twelfth consecutive year.

FSA presents its financial statements and notes in the format required by the OMB Circular A-136, *Financial Reporting Requirements*. For the comparative fiscal years, FY 2013 and FY 2012, the balance sheet, statement of net cost, and statement of changes in net position were prepared on a consolidated basis, whereas the statement of budgetary resources was prepared on a combined basis. The Independent Auditors' Report on these statements, which includes the Opinion on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters, can be found in the subsection *Independent Auditors' Report*.

Federal Student Aid has oversight responsibilities for over $1.0 trillion in federal student loans, of which approximately $758.5 billion is directly owned and managed by FSA. As described in Notes 1 and 6, FSA reports this portfolio on its balance sheet as the line item Credit Program Receivables, net of a subsidy cost allowance to adjust the portfolio amount to its present value. As of September 30, 2013, FSA reported $825.7 billion in Credit Program Receivables, net of a negative allowance for subsidy cost of approximately $67.1 billion. FSA's portfolio of net Credit Program Receivables has seen significant growth, increasing by 22.7 percent over the September 30, 2012 net portfolio balance. This growth continues to be driven by the expansion of the Direct Loan program, as dictated by the *SAFRA Act* legislation. Operationally, FSA must manage the resources it has available to ensure that this portfolio is serviced efficiently and effectively, and that quality customer service is provided to its borrowers. FSA must mitigate several risks that to ensure this portfolio is effectively managed. These risks are discussed at the conclusion of the analysis of the financial statements.

The FY 2013 FSA Financial Highlights tables presented below provide a condensed summary of the significant balances in FSA's financial statements for the current and prior years, as of September 30, 2013 and 2012 respectively, and the percentage change between the two years.

FY 2013 FSA Financial Highlights
Condensed Balance Sheet
(*Dollars in millions*)

	FY 2013	FY 2012	Difference	Percentage Change
Fund Balance with Treasury	$ 69,997	$ 78,452	$ (8,455)	(10.8)%
Credit Program Receivables, Net	825,660	672,835	152,825	22.7
Remaining Assets	1,588	1,451	137	9.4
Total Assets	**$ 897,245**	**$ 752,738**	**$ 144,507**	**19.2%**
Debt	$ 851,258	$ 714,324	$ 136,934	19.2%
Other Intragovernmental Liabilities	8,786	7,009	1,777	25.4
Remaining Liabilities	7,207	8,632	(1,425)	(16.5)
Total Liabilities	**$ 867,251**	**$ 729,965**	**$ 137,286**	**18.8%**
Unexpended Appropriations	$ 33,595	$ 30,361	$ 3,324	10.7%
Cumulative Results of Operations	(3,601)	(7,588)	3,987	(52.5)
Net Position	**$ 29,994**	**$ 22,773**	**$ 7,221**	**31.7%**
Total Liabilities & Net Position	**$ 897,245**	**$ 752,738**	**$ 144,507**	**19.2%**

Cost Summary
(*Dollars in millions*)

	FY 2013	FY 2012	Difference	Percentage Change
Gross Cost	$ 13,266	$ 35,989	$ (22,723)	(63.1)%
Less: Earned Revenue	(26,688)	(25,306)	(1,382)	5.5
Net Cost of Operations	**$ (13,422)**	**$ 10,683**	**$ (24,105)**	**(225.6)%**

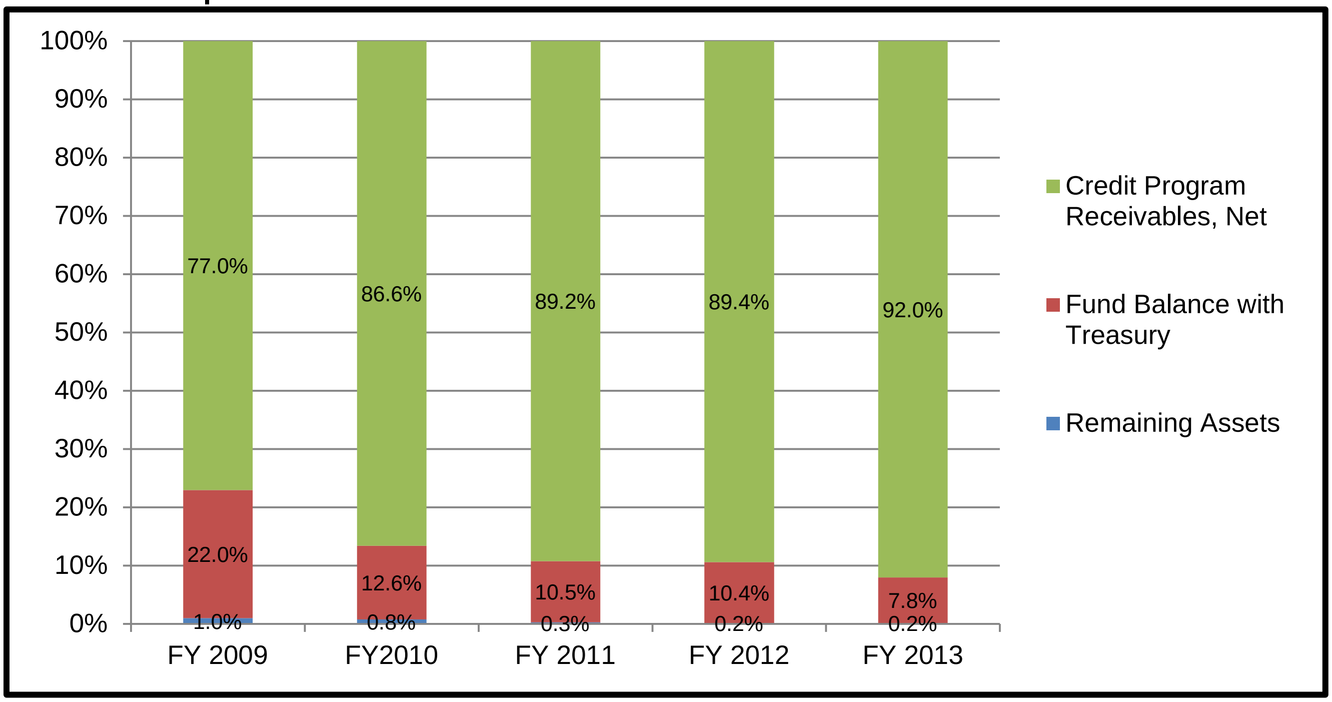
The Balance Sheet

The balance sheet presents the recorded value of assets and liabilities retained or managed by FSA as of a specific point in time. The assets represent resources available for use by FSA to pay its liabilities or to satisfy its future service needs. The liabilities are amounts FSA owes, the probable and measurable future outflows of its resources arising from past transactions or events. The difference between the assets and the liabilities represents FSA's net position.

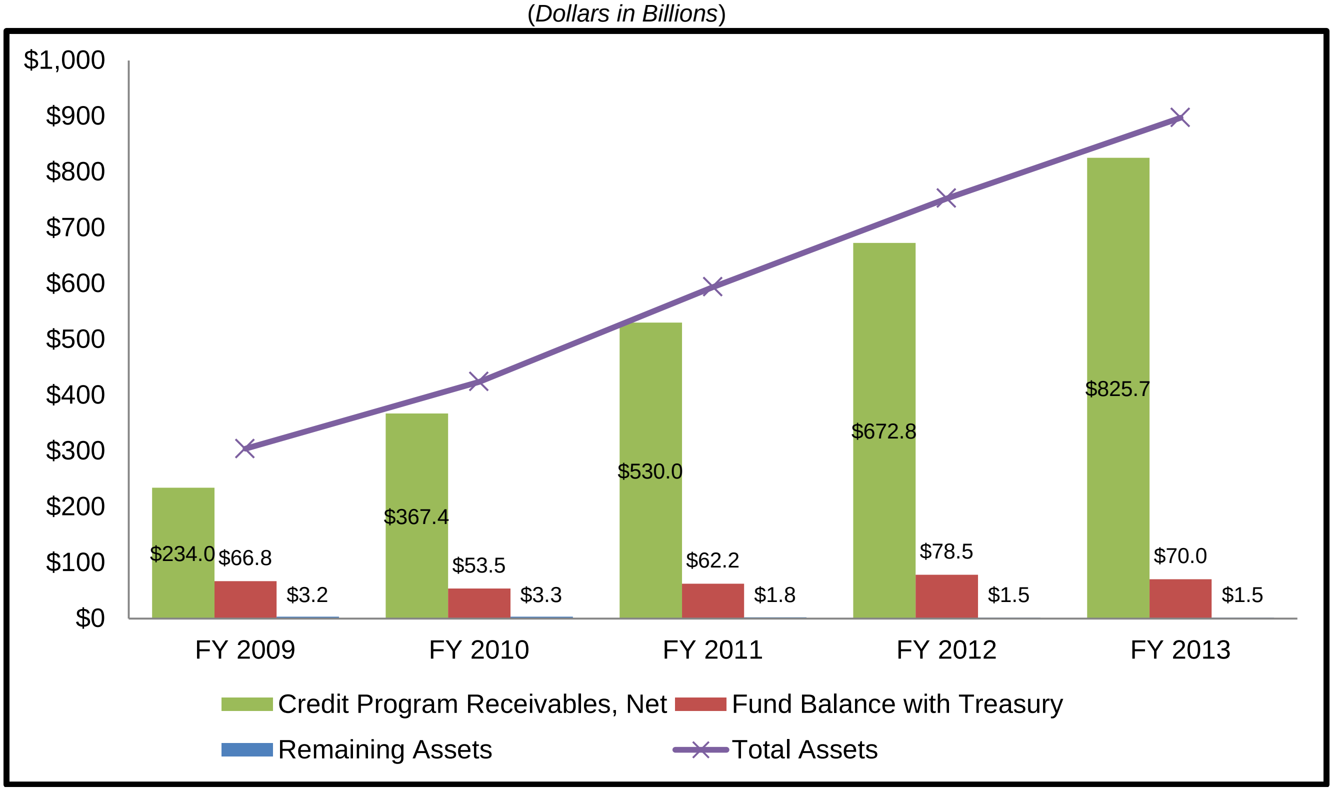
Composition of FSA Assets

The consolidated balance sheet shows that FSA had total assets of $897.2 billion as of September 30, 2013, an increase of $144.5 billion, or 19.2 percent over the September 30, 2012 total assets balance of $752.7 billion. The difference resulted primarily from the continuing growth of FSA's net Credit Program Receivables, $152.8 billion, offset by decreases in its various programs' Fund Balances with Treasury, of $8.5 billion. Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for over 99 percent of FSA's total assets as of September 30, 2013, as illustrated in the Composition of Assets chart on the next page. Following the Composition of Assets chart is the Comparison of Assets chart that presents the growth of these two principal balance sheet line items over the past five fiscal years.

Composition of Federal Student Aid's Assets for Fiscal Years 2009–13



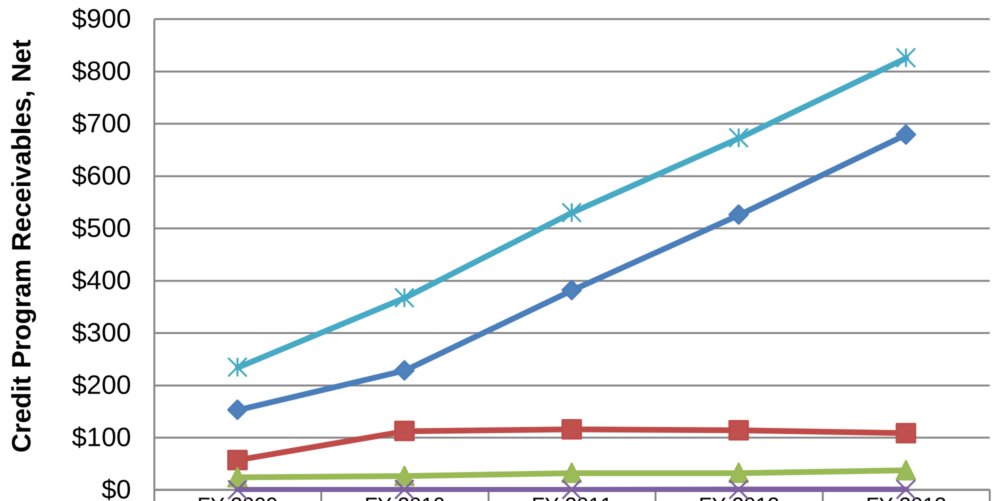
Comparison of Federal Student Aid's Assets for Fiscal Years 2009–13
(*Dollars in Billions*)



Credit Program Receivables. With a September 30, 2013 balance in the amount of $825.7 billion, Credit Program Receivables net of subsidy allowance represent FSA's most important asset category and accounted for 92.0 percent of Total Assets. Credit Program Receivables are comprised of principal, interest, and fees owed by students for Direct Loans, TEACH Grants, Perkins loans, and FFEL loans acquired under the Conduit, Loan Participation Purchase, Loan Purchase Commitment, and defaulted guaranteed loan programs.

The majority of the $152.8 billion increase in net Credit Program Receivables during the 12 months ended September 30, 2013 was due to the Direct Loan Program, which increased $153.1 billion or 29.1 percent to $679.1 billion. This growth was driven by new loan originations ($102.5 billion) and consolidations ($27.4 billion), and a related increase in accrued interest ($8.3 billion). In addition, there was a $(33.2) billion increase in negative allowance for subsidy as a result of current year subsidy transfers which arose mainly from interest rate differential, and also from subsidy re-estimates due to interest rate re-estimates. These changes are explained in more detail in **Note 6**.

Total Federal Student Aid Loan Portfolio for Fiscal Years 2009–13
(*Dollars in Billions*)



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Direct Loans	$152.8	$228.2	$381.5	$526.0	$679.1
FFEL, ECASLA Acquired Loans	$57.1	$112.4	$115.7	$113.8	$108.4
FFEL, Guaranteed Loans (Non-ECASLA)	$23.9	$26.4	$32.3	$32.3	$37.4
Other Programs	$0.2	$0.3	$0.5	$0.7	$0.8
Total Credit Program Receivables, Net	$234.0	$367.3	$530.0	$672.8	$825.7

The $679.1 billion in net Direct Loan Credit Program Receivables at the end of FY 2013 comprised $613.9 billion in principal, interest, and fees, net of a negative subsidy allowance in the amount of $65.2 billion. Of the fiscal year-end gross amount, $28.9 billion (4.7 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $20.2 billion (4.1 percent) a year earlier. As of September 30, 2013, an additional $1.1 billion in defaulted loans held by servicers had not yet been transferred to the Department's defaulted loan servicer; this amount includes defaulted Direct Loans and defaulted loans from other loan programs.

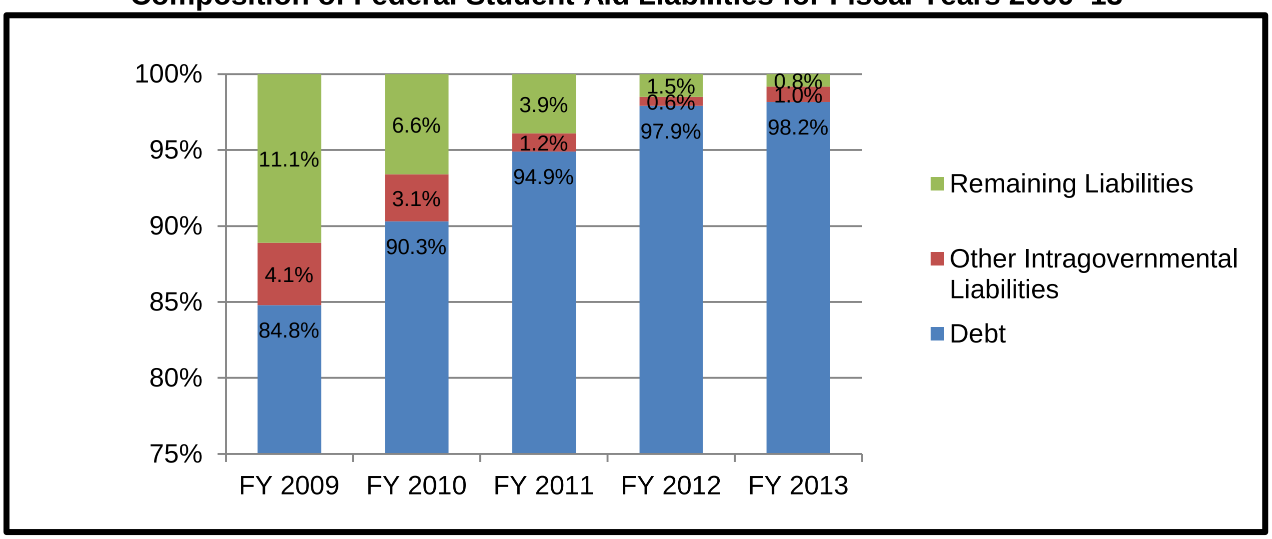
The increase in net Direct Loan Credit Program Receivables was offset slightly by a reduction of $374.0 million in the net FFEL Credit Program Receivables, a 0.3 percent decrease compared to the September 30, 2012 balance. The changes observed in both the Direct Loan and FFEL net credit receivables are principally related to the impact of the *SAFRA Act*, which as of June 30, 2010 eliminated all new loan disbursements under the FFEL Program in favor of direct lending, and also, due to the impact of the SDCL opportunity. The latter provided an opportunity from January 17 through June 30, 2012, for eligible borrowers who had at least one Direct Loan Program loan or Department-held FFEL Program loan and at least one commercially-held FFEL loan, to consolidate such loans into a SDCL. The SDCL opportunity ended on June 30, 2012, but borrowers were allowed to add additional eligible loans within the 180-day period after the initial SDCL had been made.

Fund Balance with Treasury. FSA's Fund Balance with Treasury represents the funds it has available to pay its current liabilities, make purchases and finance authorized loans to borrowers. Treasury processes cash receipts from borrowers and cash disbursements for FSA's loan and grant programs. As of September 30, 2013, FSA reported a Fund Balance with Treasury amount of $70.0 billion, a decrease of 10.8 percent over the September 30, 2012 balance. The offsetting impacts of the FFEL and Grant programs accounted for most of this $8.5 billion change, with year-on-year changes in their Fund Balances with Treasury of $(11.6) billion and $2.8 billion respectively. The decrease in the FFEL Fund Balance with Treasury from $22.1 billion to $10.5 billion was principally due to decreases in new borrowings and increased repayments to Treasury, offset by the net impact of subsidy re-estimate transactions. The much smaller $2.8 billion increase in the Grants program Fund Balance with Treasury to $35.0 billion was mainly attributable to decreased funding resulting from sequestration, offset by decreased Pell and ACG/SMART grant disbursements.

Composition of FSA Liabilities

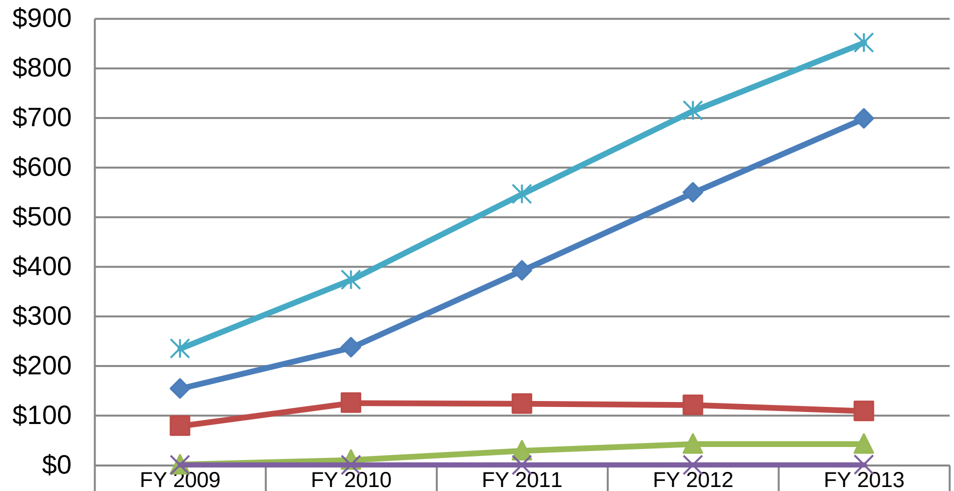
FSA's liabilities represent probable and measurable future outflows of resources arising from past transactions or events. As of September 30, 2013, FSA had total liabilities of $867.3 billion, which represents an increase of $137.3 billion or 18.8 percent over the September 30, 2012 total. The primary component of these liabilities was FSA's Debt, $851.3 billion or 98.2 percent of total liabilities, as shown in the Composition of Liabilities chart depicted below.

Composition of Federal Student Aid Liabilities for Fiscal Years 2009–13



FSA's Debt increased 19.2 percent to $851.3 billion during the twelve months ended September 30, 2013, primarily, as a result of new borrowings to support the growing loan volume in the Direct Loan Program. This trend has continued throughout the past five years, with the annual rates of increase in Direct Loan related debt averaging 33.5 percent throughout that period compared to an overall rate of debt increase of 28.3 percent, as illustrated in the chart below:

Comparison of Federal Student Aid Debt for Fiscal Years 2009–13
(*Dollars in Billions*)



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
DL Program	$154.2	$237.2	$392.4	$549.3	$698.4
FFEL, ECASLA Acquired Loan Program	$79.1	$125.6	$124.1	$121.4	$109.2
FFEL, Guaranteed Loan (Non-ECASLA) Program	$1.5	$10.7	$29.5	$43.3	$43.3
Other Programs	$0.1	$0.1	$0.3	$0.4	$0.5
Total Debt	$234.9	$373.7	$546.3	$714.3	$851.3

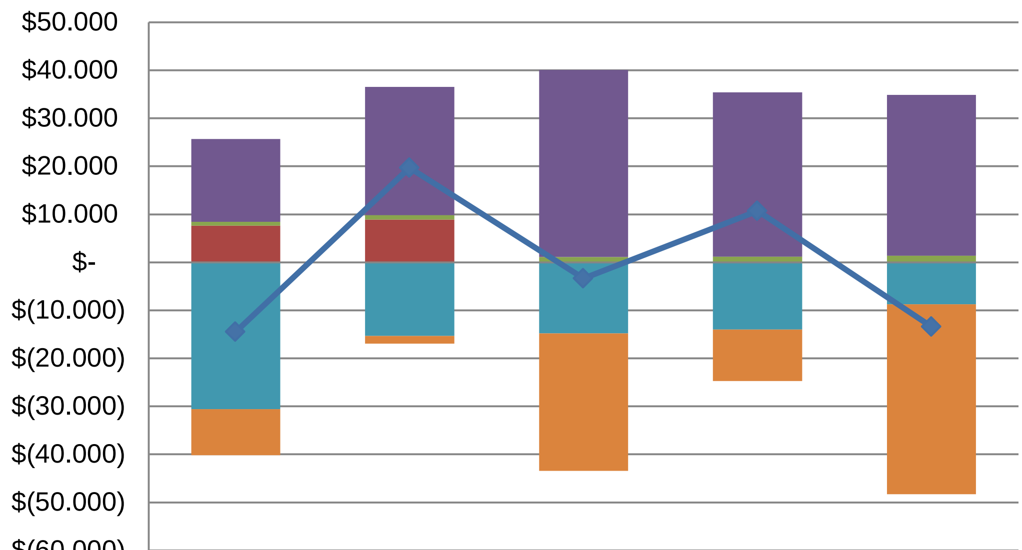
During the same period, Liabilities for Loan Guarantees decreased by $5.3 billion to a negative liability amount of $(4.2) billion, although the balance sheet actually reports a zero balance for FY 2013. This is because the negative liability in FY 2013 was reclassified to the asset line item Credit Program Receivables, net. The FY 2013 activity was mainly due to technical and default subsidy re-estimates in the amount of $7.9 billion, offset by $2.6 billion in other activity associated with negative special allowance payments. Please refer to **Note 6** for details.

Other Intragovernmental Liabilities increased by $1.8 billion or 25.4 percent, of which $1.2 billion was attributable to Direct Loan activity, and a further $0.6 billion to the FFEL program. As detailed in **Note 11**, these changes result principally from a $2.3 billion increase in miscellaneous receipt accounts, representing an increased liability for downward subsidy re-estimates resulting from updated economic assumptions, including probabilistic estimating, discount rates, and interest rates. This was offset by a $0.5 billion reduction in capital transfers. When executed, the downward subsidy re-estimates will be paid to the General Fund of Treasury. Please refer to **Note 11** for further details.

Statement of Net Cost

The Statement of Net Cost is the federal financial statement that presents the net cost of operations for FSA programs. FSA net cost is the gross cost incurred during its operations less any revenues earned from its activities.

Composition of FSA Net Cost for Fiscal Years 2009–13
(*Dollars in Billions*)



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
DL Program	$(9.603)	$(1.567)	$(28.631)	$(10.720)	$(39.557)
FFEL Program	$(30.561)	$(15.332)	$(14.825)	$(14.018)	$(8.753)
Grant Program	$17.262	$26.750	$38.947	$34.224	$33.508
Other Programs	$0.761	$0.906	$1.109	$1.174	$1.380
Recovery Act	$7.664	$8.920	$0.027	$0.023	$-
Total FSA Net Cost	$(14.477)	$19.677	$(3.373)	$10.683	$(13.422)

FSA's net costs in FY 2013 decreased $24.1 billion or (225.6) percent to a negative net cost of $13.4 billion compared to a positive net cost of $10.7 billion in FY 2012. In other words, total costs decreased compared to the same period last year, and the excess of revenues over expenses increased. The net change was the result of both a $22.7 billion decrease in Gross Costs and a $1.4 billion increase in Earned Revenue, with each of these changes being attributable primarily to the Direct Loan Program.

Net costs associated with the Direct Loan Program decreased by $28.8 billion or 269 percent to $(39.5) billion during the twelve months ended September 30 2013, compared to the same period during the prior fiscal year, as a result of a decrease in the Direct Loan program subsidy expense of the same amount. There was a $12.5 billion downward adjustment of re-estimated subsidy cost compared to a $12.2 billion upward adjustment the prior year, representing an overall decrease in Direct Loan Program subsidy cost of $24.7 billion. In addition, there was a further $4.1 billion increase in negative costs (i.e., net cost reduction) due to current year Direct Loan subsidy transfers, mainly attributable to the interest rate differential.

The other significant change in FSA's net costs in the twelve months ending September 30, 2013 versus 2012, was the offsetting $5.3 billion increase in FFEL program net costs. Of this total cost increase, $3.9 billion was due to FFEL Guaranteed Loan Program Subsidy re-estimates and a further $1.9 billion resulted from Loan Participation Purchase and Loan Purchase subsidy re-estimates.

Note that subsidy expenses are the estimated costs of funding Direct Loans and the loan guarantees for FFEL loans. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows. Please refer to **Note 6** for further details on subsidy related expenses.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those amounts that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period.

FSA's net position as of September 30, 2013, was $30.0 billion, an increase of $7.2 billion, or 31.7 percent over the previous September 30 net position of $22.8 billion. The difference reflects an increase in unexpended appropriations of $3.2 billion that mainly related to grant programs, together with an increase in cumulative results of operations in the amount of $4.0 billion relating principally to unfunded upward subsidy re-estimates, other unfunded expenses and net investments of capitalized assets in the Direct Loan Program.

Statement of Budgetary Resources

The Statement of Budgetary Resources compares the budgetary resources provided with the status or execution of those resources. It also details the composition of the resources and shows the amount of net outlays. Appropriations are available to cover the subsidy cost of each loan program and administrative expenses. Subsidy expense represents the difference between the net present value of expected future cash flows and the face value of each loan portfolio. Appropriation authority is available as needed on a permanent basis to finance costs resulting from loans guaranteed in the years before FY 1992. The Pell Grant Program receives appropriations to cover actual grant disbursements.

This statement shows that as of September 30, 2013, FSA had $312.5 billion in combined budgetary resources, of which $13.1 billion remained unobligated and unapportioned. This $13.8 billion change compared to September FY 2012 represented a 4.2 percent decrease compared to combined budgetary resources a year earlier of $326.3 billion, of which $20.4 billion were unobligated and unapportioned. The FFEL program accounted for $13.7 billion of this reduction in budgetary resources, mainly due to the decrease in current year borrowing authority for the FFEL Guaranteed, Loan Participation Purchase and Loan Purchase Commitment programs.

FSA had total net outlays as of September 30, 2013 of $140.9 billion, a decrease of $22.8 billion or 13.9 percent compared to the prior September 30 total of $163.8 billion. The Direct Loan program accounted for $20.2 billion of this change, mainly due to a $14.2 billion increase in budgetary Distributed offsetting Receipts arising from increased downward subsidy re-estimates that resulted from interest rate differential, together with increased negative subsidy. This change was accompanied by an increase in non-budgetary Actual Offsetting Collections (Discretionary and Mandatory) in the amount of $6.4 billion, representing an increase in the actual amount of principal, interest, and fees collected from borrowers net of a decrease in the current fiscal year appropriation received.

More details on FSA's sources of funds and spending are presented in the **Schedule of Spending** located in the Other Information section. This schedule includes the sections, What Money is Available to Spend and How Was the Money Spent.

Financial Management Risks

As mentioned previously, FSA must mitigate several financial management risks in order to protect borrower and taxpayer interests. While not directly reflected on the financial statements as detailed, they are overarching risks going forward that cannot be ignored. These risks include:

System/Service Implementations. Over the next few years, FSA will continue to re-compete contracts associated with several of its major business processes, primarily those that focus on application processing, loan and grant origination and disbursement, loan consolidation, and defaulted debt servicing and collection. Some recent major implementation efforts continue to be very successful, including the additional Not-For-Profit (NFP) Servicers and Title IV Additional Servicers (TIVAS) servicing capacity, the transition of TEACH grant processing, and the initial phases of FSA's Enterprise Identity Management Services. In addition, as further detailed in the Analysis of Systems, Controls and Legal Compliance section, FSA has remediated material weaknesses in the conversion to the new Debt Management and Collection System (DMCS2). The remaining significant deficiencies are continuing evidence of the significant financial management risks associated with the conversion to new systems. Exacerbating this risk associated with contract re-competes are the numerous program changes that FSA has been asked to implement in recent years, and which will continue to be required of FSA into the foreseeable future.

To prevent future weaknesses in its processes and controls as new servicers are brought on board, FSA has initiated a number of improvements in its system or servicer implementation process. For example, FSA created a baseline Enterprise Sequencing Plan and performs a monthly review of its Investment Portfolio, identifying and resolving any emerging issues with the portfolio. In addition, FSA established new enterprise-wide teams, such as the Servicer Monitoring Group, and new monitoring tools, such as the monthly Financial Monitors Report, to closely monitor dozens of financial metrics for all loan servicing contractors, including DMCS2.

Administrative Budget and Government Shutdowns. The *Budget Control Act of 2011* put into place an automatic process of across-the-board reductions in budgetary resources, known as a sequestration, which would be required if a bill containing at least $1.2 trillion in deficit reductions was not enacted prior to March 1, 2013. Because the legislation was not enacted prior to that date, the sequestration went into effect. The sequestration did not only impact 2013, but will also impact all years up through 2021.

Because most of FSA's servicing costs, and all personnel costs, are administrative in nature, any reduction in the funds available may impact FSA's ability to appropriately service borrower accounts. Many of the organization's costs are driven by volume activities, such as grant/loan origination and disbursement, and loan servicing. For example, loan servicing costs are driven by the number of borrower accounts, the status of a borrower's loan(s) (e.g., In-School, Repayment, Deferment\Forbearance), and when the borrowers' loans are disbursed. Grant and loan origination and disbursement costs are driven by the number of originations and disbursements. The budgeting formulation process generally sets the initial budget for a fiscal year 18 months before the start of that fiscal year. However, even a small variation in any of FSA's volumes can significantly impact its budget. This places all other expenditures and plans associated with those expenditures at-risk. This risk must be managed as long as the federal government pays for mandatory Direct Loan expenditures using discretionary administration funding.

In addition, at the beginning of FY 2014, Congress did not pass appropriation legislation, resulting in a federal government shutdown. As a result of the shutdown, FSA suspended many of its operational controls, as they were not deemed excepted activities. This, in turn, increased financial management costs and risks. For example, delays in administrative payment processing will likely result in a significant increase in Prompt Pay interest in FY 2014. Also, suspended program compliance activities will likely result in delays in the identification and remediation of program findings at schools, lenders, lender servicers, and guaranty agencies. The full impact of this government shutdown will be more thoroughly analyzed during the first quarter of FY 2014. Any future shutdowns will further limit operational controls and increase financial management costs and risks.

Improper Payments. Based on OMB criteria, risk susceptible programs administered by FSA include Direct Loan Program, FFEL Program, and Pell Grant Program. FY 2013 outlays for these programs were as follows:

- Direct Loan Program – $102.5 billion
- FFEL Program – $10.8 billion (interest and special allowance subsidies to Lenders and reinsurance claims and fees to Guaranty Agencies)
- Pell Grant Program – $32.3 billion

Risks include undetected fraud, waste, and abuse. For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Improper Payments Reporting Details narrative in the Other Information section located in the Department's ***Agency Financial Report (AFR)*****.**

Debt Collection. As of September 30, 2013, the Department managed a Net Credit Program Receivable portfolio of approximately $825.7 billion, an increase of 22.7 percent from FY 2012. This portfolio includes FSA's Direct Loan Program, FFEL Program (guaranteed loans held by guaranty agencies or FSA), FFEL loans acquired via authorization of the ECASLA, Federal Perkins Loans Program, and TEACH Program receivables. FSA realizes that as the size of the loan portfolio significantly grows from year to year, so does the level of financial risk associated with the collections on these loans.

To ensure that FSA maximizes collections, while minimizing defaults and negative borrower impacts, FSA has been working with the Department, Treasury, and OMB to implement more effective performance metrics. For example, through coordinated efforts with an OMB/Treasury Debt Collection working group, FSA has clarified the requirements of the Treasury Report on Receivables and begun implementing those clarified requirements with all 13 of its current loan servicing contractors. These more detailed and consistent performance metrics will assist FSA, the Department, and the federal government in making more informed debt collection decisions.

Guaranteed Loan Portfolio. As of September 30, 2013, the $423.0 billion guaranteed loan portfolio (non-ECASLA FFEL) included $264.0 billion in principal balances owned by private lenders and $153.4 billion in principal, interest and fees held by FSA (unassigned serviced by guaranty agencies or assigned serviced by FSA). This is an overall reduction by 6.4 percent of the FFEL portfolio since the end of last fiscal year. Because the *SAFRA Act* eliminated the origination of guaranteed FFEL loans, FSA needs to ensure that the infrastructure (i.e., participating organizations processes, controls, and systems) are sufficient to administer federal student loans consistent with relevant laws and regulations.

On August 14, 2013, the Secretary invited guaranty agencies with agreements to participate in the FFEL Program to submit requests to enter into a Voluntary Flexible Agreement (VFA). Guaranty agencies whose requests are accepted will operate under the requirements of the VFAs in lieu of the guaranty agency agreements established under the HEA. The Secretary intends to enter into VFAs with a small number of guaranty agencies (likely three or fewer) that will assume responsibility for all or some of the defaulted and non-defaulted FFEL Program loans transferred to it by the Secretary from a guaranty agency whose HEA agreements with the Secretary are, or will be, terminated.

Analysis of Systems, Controls and Legal Compliance

FSA management adheres to the Government Accountability Office (GAO) published guidance on internal control and recognizes that internal control is an integral part of managing an organization. Internal control includes the plans, methods, and procedures that are used to meet the organization's missions, goals, and objectives. In carrying out these components of internal control, FSA supports an environment for performance-based management. Internal control also serves as the first line of defense in safeguarding assets, and preventing and detecting errors and fraud. Internal control helps government program managers achieve desired results through effective stewardship of public resources.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- Effectiveness and efficiency of operations, including the use of the entity's resources;
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and
- Compliance with applicable laws and regulations.[2]

FSA management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982*. FSA conducted its assessment of the effectiveness and efficiency of its internal controls over operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control* (OMB Circular A-123). Based on the results of this assessment, FSA reported to the Department's management that its internal control over operations and compliance with applicable laws and regulations, as of September 30, 2013, was operating effectively.

In 2012, FSA identified and reported two material weaknesses related to the ACS Education Servicing System (ACES) and DMCS2 system conversion and/or functionality issues that impacted Direct Loan and FFEL servicing and default systems and processes operated under the Common Services for Borrowers agreement with Xerox Education Solutions, Limited Liability Corporation (Xerox, LLC) which was formerly Affiliated Computer Services, Incorporated. Corrective actions taken in FY 2012 and FY 2013 sufficiently remediated the underlying conditions such that, for the year ended September 30, 2013, the remaining deficiencies no longer aggregate to a material weakness. Please refer to the Management's Assurances section within the Management's Discussion and Analysis of the Department's ***FY 2012 AFR*** for additional information on these material weaknesses and to this same section, as well as the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***FY 2013 AFR*** for additional information on corrective actions.

[2] Government Accountability Office Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999, p. 4-5.

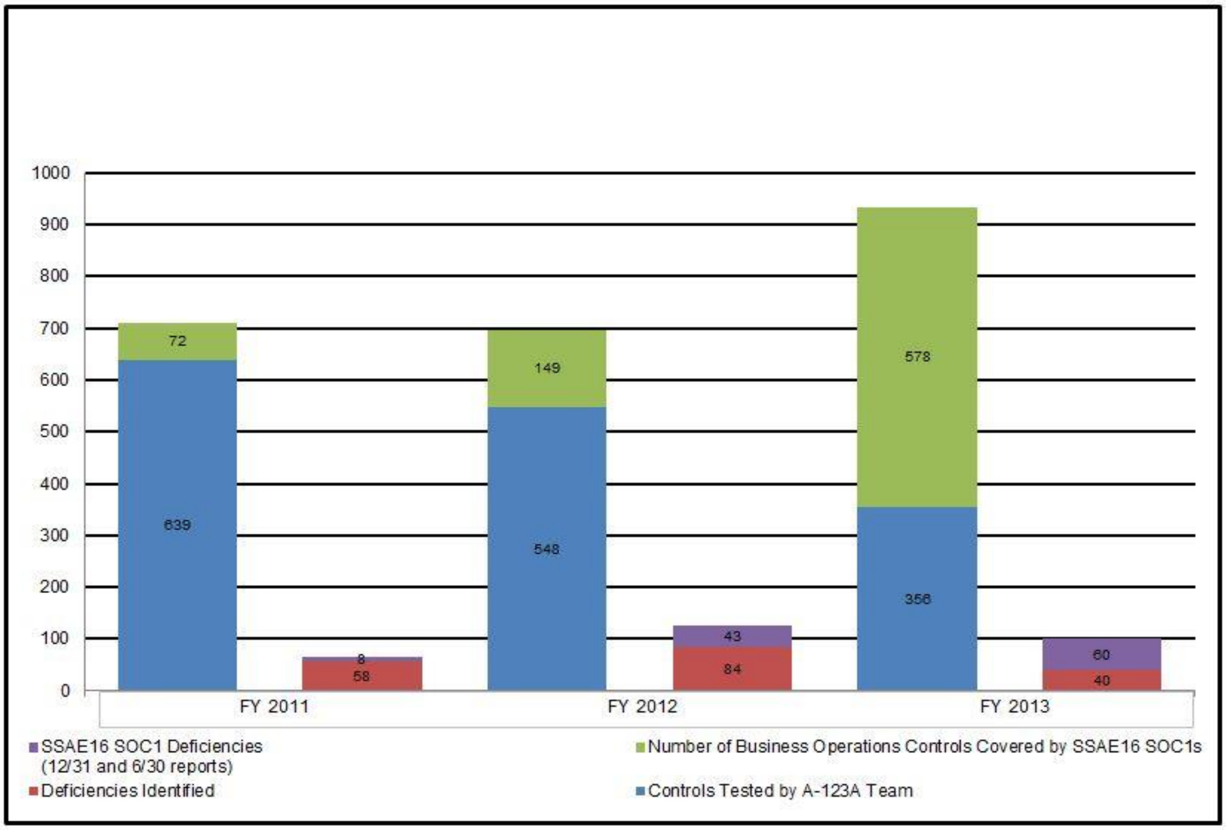
In addition, FSA, working with the Department's management, conducted its current year assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of FSA's assessment included, based on a rotation plan, the following processes and select sub-processes (notated in parentheses below), that impact the Department's financial statements:

- Direct Loan Consolidations
- Conduit – Fees
- Human Resource Management (2)
- Debt Collection*
- Student Eligibility
- Grant Program Operations (Pell and TEACH*)
- Financial Reporting (4)
- Funds Control Management (4)
- Procurement Management (3)
- Total and Permanent Disability
- Servicing of Direct Loans and ECASLA-acquired FFEL Program Loans by 4 TIVAS*****, 11 NFPs*****, and ACES*****
- Servicer Oversight
- Entity-Level controls
- IT/General Computer Controls over: Financial Management System, Direct Loan Consolidation System, DMCS2*, Central Processing System (CPS), ACES*, Financial Partner Data Mart, Common Origination Disbursement, Postsecondary Education Participants System, Great Lakes Commercial System*, Nelnet Commercial System*, Pennsylvania Higher Education Assistance Agency Commercial System*, Sallie Mae Commercial System*, MOHELA servicing system*, ESA/EdFinancial servicing system*, CornerStone servicing system*, Aspire servicing system*, Granite State servicing system* OSLA servicing system*, EdManage servicing system*, VSAC servicing system*, Kentucky servicing system*, CFI servicing system*, COSTEP servicing system*, and the Virtual Data Center*

In FY 2013, FSA significantly increased its reliance on audits of loan servicers conducted by independent public accountants in accordance with Statement on Standards for Attestation Engagements (SSAE) Number 16, *Reporting on Controls at a Service Organization*. In the list above, an asterisk (*) indicates full or partial reliance on SSAE16 Service Organization Control 1(SOC1) reports for relevant process and IT controls.

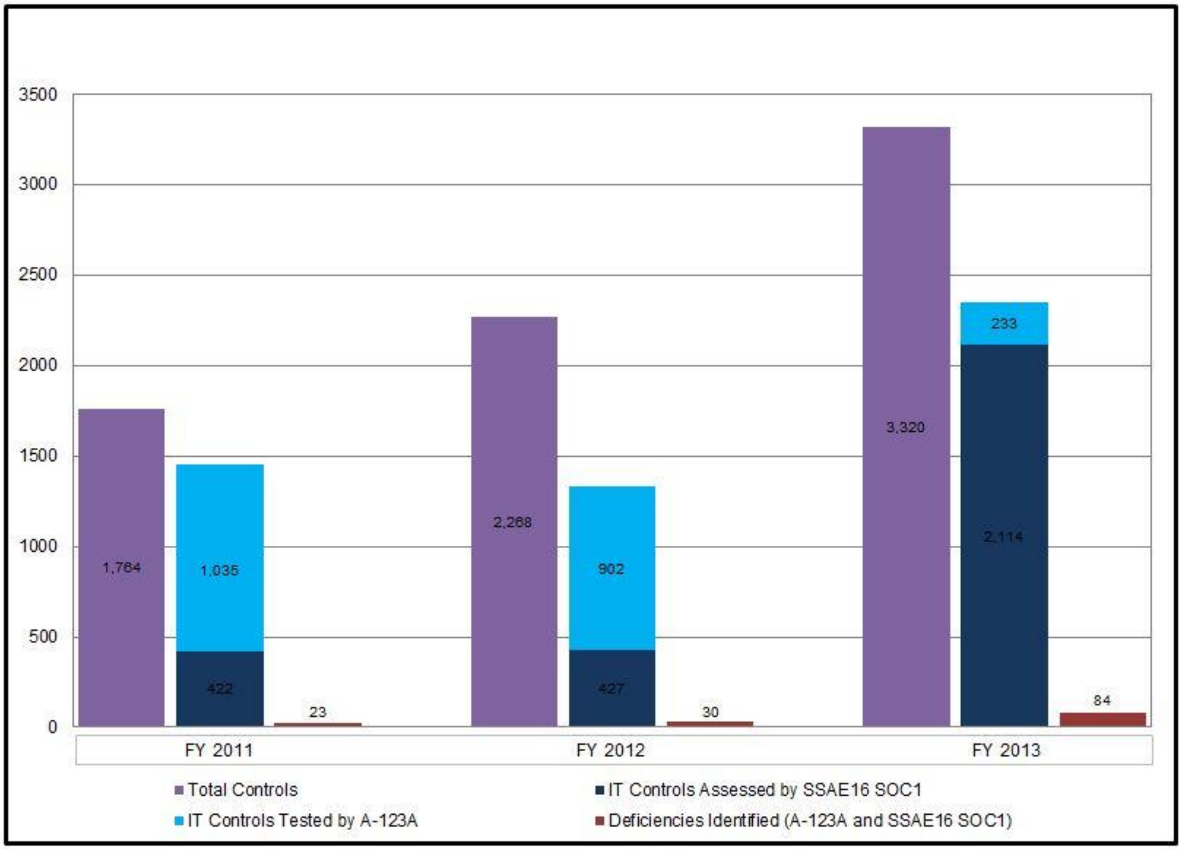
With this reliance on SSAE16 SOC1s, the number of key business process controls assessed in FY 2013, at 934 demonstrates an increase from prior year totals. As illustrated below, this total number of key business process controls assessed includes 578 controls covered by SSAE16 SOC1s and 356 tested by the FSA self-assessment team. While the number of controls assessed increased, the total number of deficiencies identified in FY 2013 decreased in total number, and as a percentage of controls assessed, from FY 2012.

FSA FY 2011–13 A-123A
Business Process Controls and Deficiency Analysis



The total number of IT controls subject to assessment increased in FY 2013 over FY 2012 as additional NFP servicers came online and were included in scope. As illustrated in the chart below, the total number of IT controls assessed in FY 2013 likewise increased over FY 2012. The total number assessed at 2,347 includes 2,114 controls covered by SSAE16 SOC1s and 233 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2013 at 84 includes deficiencies identified from both SSAE16 SOC1 reports (75) and A-123A testing (9). The deficiency counts for the prior year include only those deficiencies identified directly from A-123A testing.

FSA FY 2011–13 A-123A
IT Controls and Deficiency Analysis



Based on the results of this evaluation, FSA provided reasonable assurance to the Department's management that its internal control over financial reporting as of June 30, 2013 was operating effectively.

FSA's participation in the Department's implementation of the requirements of OMB Circular A-123, including Appendix A, enables it to continue to build upon its internal control framework. This framework will be used in continuing efforts to monitor and improve internal control. Please refer to the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***AFR*** for additional information related to management's assurances and disclosures.

Please also refer to the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***AFR*** for information related to the Department's compliance with the *Federal Financial Management Improvement Act of 1996*.

FSA's financial management systems strategy is formulated and managed as part of the Department's strategy. For details on FSA's financial management systems strategy, please refer to the Financial Management Systems Strategy narrative found in the Management's Discussion and Analysis section of the Department's ***AFR.***

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for FSA, for FY 2013 and FY 2012 pursuant to the requirements of Title 31 of the United States Code, Section 3515(b).

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

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

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Annual Performance Report

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION
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FY 2013 Performance Highlights of Federal Student Aid

Performance Metrics	FY 2013 Target	FY 2013 Actual	Result	Reference Page
Strategic Goal A: ***Provide superior service and information to students and borrowers.***				
% of first-time FAFSA filers among high school seniors	52.0%–54.0%	52.2%	Met	53
% of first-time FAFSA filers aged 19-24 among those in population that are high school graduates, no college	26.0%–28.0%	27.1%	Met	54
% of first-time FAFSA filers among workforce aged 25+, high school graduates, no college	2.8%–3.4%	3.3%	Met	55
% of first-time FAFSA filers among low-income students	57.9%–62.7%	57.1%	Not met	56
Customer satisfaction score (ACSI)	78.0	78.4	Met	57
Strategic Goal B: ***Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.***				
Ease of doing business school survey (1-100 Scale)	74	74	Met	58
Percent of borrowers>90 days delinquent	<=10.1%	8.3%	Met	59
Strategic Goal C: ***Develop efficient processes and effective capabilities that are among the best in the public and private sectors.***				
Aid delivery costs per application	$11.23	$11.16	Met	60
Loan servicing costs per borrower	$21.02	$21.42	Not met	61
Strategic Goal D: ***Ensure program integrity and safeguard taxpayers' interests.***				
Improper Payment rate	Pell Grant 2.10% Direct Loan 0.58% FFEL 1.93%	Pell Grant 2.26% Direct Loan 1.03% FFEL <0.005%	Not met	62
Direct Loan default rate	9.8%	9.8%	Met	64
Collection rate*	$34.31	$41.57	Met	65

Performance Metrics	FY 2013 Target	FY 2013 Actual	Result	Reference Page
Strategic Goal E: ***Strengthen FSA's performance culture and become one of the best places to work in the federal government.***				
FSA Morale Index (Subset of questions from government-wide view point survey) – % of positive responses to survey (does not include neutral responses)	57	57	**Met**	**66**

*The Collection Rate for the purpose of Performance Metric D.3 is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

FSA Fact

FSA offers a publication titled, College Preparation Checklist, to assist students and parents in preparing for college. This publication provides several checklists with suggested steps that will prepare students (of all age levels) both academically and financially for college. To download a copy of the College Preparation Checklist, visit StudentAid.gov/sites/default/files/college-prep-checklist.pdf.

Introduction to the *Annual Performance Report*

To guide FSA towards achieving its vision "To be the most trusted and reliable source of student financial aid, information, and services in the nation," FSA updated its *Five-Year Strategic Plan* to document the strategic goals, objectives, and performance metrics of the organization. FSA is required by the PBO-enabling legislation to report annually its level of performance. This section, the *Annual Performance Report*, satisfies this annual reporting requirement.

For additional performance related information, including a more complete discussion of FSA's mission, organization, and performance management, refer to the Management's Discussion and Analysis section of this document.

The current strategic plan, *FSA Strategic Plan, FY 2012–16* was implemented at the beginning of FY 2012. This plan builds on the previous strategic plan by clarifying FSA's objectives and updating organizational performance standards to better reflect its progress in meeting the stated objectives. The strategic goals are as follows:

- **Strategic Goal A:** *Provide superior service and information to students and borrowers.*
- **Strategic Goal B:** *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*
- **Strategic Goal C:** *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*
- **Strategic Goal D:** *Ensure program integrity and safeguard taxpayers' interests.*
- **Strategic Goal E:** *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

To gauge its success in meeting these strategic goals, FSA identified and included 13 performance metrics in its *Strategic Plan.* For more information on FSA's strategic goals and its performance metrics, click on the following link to go directly to the *FSA Strategic Plan, FY 2012–16*.

StudentAid.gov/strategic-planning-reporting

The following table provides a summary of results, by Strategic Goal, as measured by the FY 2013 performance metrics.

Summary of Performance Results by Strategic Goal

Strategic Goal	Met	Not met	No target	N/A	Total
Goal A: *Provide superior service and information to students and borrowers.*	4	1	—	—	**5**
Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*	2	—	—	—	**2**
Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*	1	1	—	—	**2**
Goal D: *Ensure program integrity and safeguard taxpayers' interests.*	2	1	—	—	**3**
Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government*.	1	—	—	—	**1**
Total	**10**	**3**	**—**	**—**	**13**

FSA Fact

FSA, working with the Department, helped to developed the College Scorecard. This new planning tool, released in February 2013, assists students and their families in making more educated decisions about college by providing information such as college's graduation rate, net costs, average amount borrowed, etc. The College Scorecard can be accessed at whitehouse.gov/issues/education/higher-education/college-score-card.

Performance Results by Strategic Goal

This section presents detailed performance results including a discussion of progress made to date in achieving the strategic goal and the data used to assess performance.

How this section is organized
This section is organized by the five strategic goals and the associated performance metric(s). The section contains the following information for each performance metric:

Table: Identifies the performance metric associated with the strategic goal and provides the historical actual results for the four previous fiscal years (if available); the target and actual result for the current fiscal year; and an indicator as to whether FSA met the performance metric for each fiscal year reported. The following is the legend for the performance result indicator included in the table.

Performance Result Indicator Legend

Performance result met or exceeded the target.	**Met**
Performance result did not meet the target.	**Not met**
Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.	**N/A**

The performance metric results reported are as of fiscal year-end (i.e., September 30, 2013) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent reporting period available are presented. Fiscal year-end data may not be available in instances where the required data are obtained from external sources (i.e., state and private nonprofit guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

Target Context: Explains the parameters or rationale for targets, especially where anomalies exist.

Analysis of Progress: Provides a discussion of FSA's progress in meeting its targets and includes explanations for unmet targets and actions being taken or planned.

Data Quality and Limitations: Describes the source of data required to calculate the actual result for the performance metric, any calculation required to determine the actual result, and any known data quality issues or limitations. For an overview of FSA's business process to confirm the quality of performance data, please see Quality of Performance Data in the Management's Discussion and Analysis section of this *Annual Report*.

Strategic Goal A: *Provide superior service and information to students and borrowers.*

Performance Metric A.1: % of first-time FAFSA filers among high school seniors

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior year data not available)		52.0%	54.0%	52.0%–54.0%	52.2%
Performance Result			Met	Met	Met	

Target Context:
A major component of FSA's mission is to ensure that all eligible individuals have access to federal student aid. In order to achieve this goal, FSA works diligently to increase awareness about the availability of student financial assistance. To better assess its customers and their needs and to better support college access and completion among its customer base, FSA developed a system of customer segmentation that identifies student/family/influencer profiles and needs through the analysis of customer geographic, demographic, and behavioral data. This performance metric measures the percentage of FAFSAs for one customer segment, high school seniors.

Analysis of Progress:
FSA met its target for this performance metric with approximately 52.2 percent of high school seniors from June 2012 submitting a FAFSA during the 2012–13 application cycle (January 2012 through June 2013). This metric has increased significantly since the 2007–08 application cycle, when fewer than 45 percent of high school seniors filed FAFSAs. Historical data for this metric are not presented in the table above because the measure was not included as a performance metric in the prior years' *Strategic Plans*.

Data Quality and Limitations:
For a given fiscal year, data for this metric are derived from FSA's CPS to identify FAFSA filers ages 18 and under submitting an original application (not a renewal application) for the most recent award year and who indicate they never attended college, divided by the total number of high school graduates from the most recent (i.e. the preceding) high school academic year reported by the National Center for Education Statistics (NCES). For any given award year (e.g. 2012–13) the 18-month period during which FAFSAs can be submitted by applicants (the "Application Cycle") begins on the preceding January 1 (i.e. January 1, 2012 in this example) and extends through June 30 of the following year. The corresponding NCES data would be for the 2011–12 academic year. NCES estimates for a given year are revised from time to time as more information becomes available. If the metrics for FY 2011 and FY 2012 (corresponding to award years 2010–11 and 2011–12) are recalculated using the data drawn from the same NCES table used for the FY 2013 calculation, the revised metric results are 50.0 percent and 51.6 percent respectively due to the higher estimate of 2009–10 and 2010–11 high school graduates in the revised table.

Performance Metric A.2: % of first-time FAFSA filers aged 19–24 among those in population that are high school graduates, no college

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)			28.4%	26.0%–28.0%	27.1%
Performance Result				Met	Met	

Target Context:
The economy and job market require that more workers develop skills and master knowledge beyond the high school level. Although progress has been made over the years to increase college attendance and graduation levels for all individuals, work is still needed to address the gap for nontraditional students. Increasing college completion rates and the number of graduates is a priority of this administration, as evidenced by the President's 2020 goal for America to have the highest proportion of college graduates in the world. This performance metric measures the percentage of FAFSAs for another customer segment, individuals ages 19–24. It was added to the *FSA Strategic Plan, FY 2012–16* to include the universe of first-time FAFSA filers.

Analysis of Progress:
FSA met its target for this performance metric, with approximately 27.1 percent of the target population submitting FAFSAs during the 2012–13 application cycle (January 2012 through June 2013). This is a substantial increase from the 2008–09 application cycle, when just 22 percent of the population aged 19–24 filed FAFSAs for the first time. Historical data for this metric are not presented in the table above because the measure was not included as a performance metric in the prior years' *Strategic Plans*.

Data Quality and Limitations:
For a given fiscal year, data for this metric are derived from FSA's CPS to identify FAFSA filers ages 19–24 submitting an original application (not a renewal application) for the most recent award year and who indicate they have never attended college, divided by the number of 19–24 year olds in the population that have completed high school, have not attended college and are not currently enrolled in a postsecondary education program reported in the Census Bureau's Current Population Survey, Fall Enrollment. For any given award year (e.g. 2012–13) the 18-month period during which FAFSAs can be submitted by applicants (the "Application Cycle") begins on the preceding January 1 (i.e. January 1, 2012) and extends through June 30 of the following year. Census bureau data are not available for the current year at the time that the metric must be calculated; therefore, an estimate is made by multiplying the average population change in the identified segment for the past three years by the actual population segment for the prior year. If the FY 2012 metric were recalculated using the actual FY 2012 population segment, the result achieved would have been 28.8 percent.

Performance Metric A.3: % of first-time FAFSA filers among workforce aged 25+, high school graduates, no college

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		3.8%	3.7%	2.8%–3.4%	3.3%
Performance Result			Not met	Met	Met	

Target Context:
Increasing college completion rates and the number of graduates is a priority of this administration, as evidenced by the President's 2020 goal for America to have the highest proportion of college graduates in the world. Although progress has been made over the years to increase participation and graduation levels for all individuals, work needs to continue to drive enrollment among non-traditional aged students. This performance metric measures the penetration of FAFSAs for a third customer segment, individuals 25 years and older.

Analysis of Progress:
FSA met this metric by achieving an actual result of 3.3 percent. This metric peaked at 3.9 percent in award cycle 2009–10 when the unemployment rate rose sharply, and data analysis correctly projected that this segment would decrease as the economy improved. However, continued efforts to target this population likely ensured that the FAFSA filings for this segment did not decrease further. Historical data for this metric are not presented in the table above because the measure was not included as a performance metric in the prior years' *Strategic Plans*.

Data Quality and Limitations:
For a given fiscal year, data for this metric are derived from FSA's CPS to identify FAFSA filers aged 25 and over submitting an original application (not a renewal application) for the most recent award year and who indicate they have never attended college, divided by the total number of people in the workforce aged 25 and older who are high school graduates that have never attended college. For any given award year (e.g. 2012–13) the 18-month period during which FAFSAs can be submitted by applicants (the "Application Cycle") begins on the preceding January 1 (i.e. January 1, 2012) and extends through June 30 of the following year. Workforce data are reported by the Bureau of Labor Statistics.

FSA Fact

The Financial Awareness Counseling Tool (FACT) is available to assist student borrowers in managing their student loan debt. This interactive tool, launched by FSA in 2012, provides students with tutorials that cover topics ranging from managing a budget to avoiding default. To get more information about FACT, go to StudentLoans.gov.

Performance Metric A.4: % of first-time FAFSA filers among low-income students

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		54.8%	60.3%	57.9%–62.7%	57.1%
Performance Result			Baseline	Met	Not met	

Target Context:
Focusing on the students least able to afford college, FSA measures the percentage of original FAFSA filers who come from low-income households. Although progress has been made over the years to increase the participation and graduation levels for all individuals, work needs to continue to address the gap for low-income students. This measure looks at the effectiveness of FSA's outreach in getting low-income students to file a FAFSA application for the first time.

Analysis of Progress:
FSA did not meet its target for this performance metric for FY 2013. This may be due, in part, to economic variables; as stated elsewhere, the historic volume of completed FAFSAs in prior years may have represented a peak correlated with an unusually weak economy and may be unlikely to repeated in the near future.

FSA has worked to improve outreach among these populations by working with community groups and other nonfederal organizations with deeper roots in target areas. These efforts began in FY 2012 and will continue for the next several years. Further, FSA understands that the efficacy of targeted outreach is strengthened by the availability of sophisticated customer segmentation analysis. For this reason, FSA in FY 2013 directed its Customer Analytics group to undertake such a project. It is expected to be completed in FY 2014.

Data Quality and Limitations:
Data for the numerator of this measure, FAFSA first-time filers who are age 18 or younger and who are from households with incomes that are 150 percent or less of the poverty level, comes from CPS. This numerator is divided by the number of high school graduates from households with incomes that are 150 percent or less of the poverty level as estimated based on data extracted from NCES and the most recent School Enrollment Supplement, Current Population Survey.

Because the data extracted from NCES are projections, and because NCES updates them over time for accuracy, the denominator for this metric is recalculated during the year. This recalculation has the effect of updating both current year results and future year targets. Both targets and results decrease proportionally; as a consequence, FSA's methodology of assessing its performance has not changed since prior years. Thus, FSA initially reported an FY 2011 baseline of 57 percent, an FY 2012 target and metric result of ≥57 percent and 63.1 percent respectively, and an FY 2013 target range of 60.6–65.6 percent.

Performance Metric A.5: Customer Satisfaction Score (ACSI)

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		78.0	78.5	78.0	78.4
Performance Result			Met	Met	Met	

Target Context:
To measure the overall customer satisfaction level throughout the student aid lifecycle, FSA calculates a weighted score for the American Customer Satisfaction Index (ACSI) surveys for applicants, students in school, and borrowers in repayment. This performance metric measures how FSA is improving in terms of streamlined processes for customer interaction and the accessibility of information FSA provides to its customers on its websites.

Analysis of Progress:
FSA met the target for this metric. FSA's FAFSA simplification efforts have improved an applicant's ability to successfully navigate and complete the application. As a result, FAFSA On The Web scored a 90 for the first quarter of the fiscal year, and, according to a press release by a leader in customer satisfaction surveying, only one other organization (the Social Security Administration)—public or private—has scored in the 90s.

Data Quality and Limitations:
The ACSI survey is conducted annually on FSA's major programs. The index provides a national, cross-industry, cross-public and cross-private sector economic indicator, using widely accepted methodologies to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The ACSI scores for application, in school experience, and servicing are weighted by the utilization of each process/service and the intensity of the service provided.

FSA Fact

At FSA's Annual Training Conference held in FY 2013, more than 5,700 attendees, many of whom were financial aid administrators, were able to obtain the latest information related to FSA policies and procedures.

Strategic Goal B: *Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.*

Performance Metric B.1: Ease of doing business school survey (1-100 scale)

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		Survey launched	74	74	74
Performance Result			Met	Met	Met	

Target Context:
FSA works closely with postsecondary institutions to provide millions of students with federal student aid. Successfully delivering aid through a complex system depends on FSA's ability to work well with its institutional, financial, and state partners by supporting them with technical assistance that will help them improve their performance; and by providing adequate oversight to ensure that participants are complying with program requirements. To ensure that all participants in the postsecondary education funding system can easily access the information they need to perform their important functions and serve the interests of students, FSA conducts a survey with postsecondary institutions and partners every quarter to gauge the "ease of doing business with FSA." The first year for the survey was FY 2011; FSA set a target for this metric, of launching the survey and establishing the baseline. The survey was launched in FY 2011 as planned and the established baseline was 72. FSA's goal is to maintain or improve survey results each year.

Analysis of Progress:
FSA achieved a performance result of 74, meeting the established target. This survey goes out to financial aid administrators at colleges and universities and improvement on this score is significant because it happened during a great time of transition as the Direct Loan portfolio continues to grow and schools increasingly look to FSA as the source of information on student loans. FSA's score also reflects a greater focus on the schools as its customers and an increased capacity to hear and respond to their requests as they work to provide quality information about federal aid to their students.

Data Quality and Limitations:
A 10–12 question survey regarding the ease of doing business with FSA is sent to schools quarterly. The same exact survey has been sent to the schools quarterly since its initial launching in FY 2011. The questions focus on how easy it is to interact with FSA's major delivery and information systems. The 1–10 score is indexed to a scale of 1–100 for consistency with other customer satisfaction metrics and to allow greater accuracy in significance testing.

Performance Metric B.2: Percent of borrowers>90 days delinquent

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		9.9%	9.5%	<=10.1%	8.3%
Performance Result			Baseline	Met	Met	

Target Context:
When developing this metric, FSA investigated possible ways to measure the extent to which postsecondary institutions and partners are actively supporting the interest of students and borrowers. The previous focus on default rates did not fully capture the extent of borrowers' difficulties in repaying student loans. Focusing on reducing the number of borrowers who are more than 90 days delinquent will provide FSA additional insight on how to communicate information about repayment options in a more targeted and timely way. FSA developed a new delinquency metric as performance metric B.2, which is the percentage of borrowers serviced by the TIVAS and NFP servicers who are more than 90 days delinquent. The baseline was set in FY 2011 at 9.9 percent; FSA's goal is to maintain a rate of less than or equal to 10.1 percent.

Analysis of Progress:
FSA was successful in FY 2013 and achieved a performance result of 8.3 percent for this metric. TIVAS and NFPs can best serve the interest of borrowers by helping them cure delinquencies, especially the severely delinquent loans that have a greater likelihood of going into default and tarnishing borrowers' credit. By providing data on delinquencies to servicers, FSA will strengthen relationships and ensure its partners are functioning at their best in the service of FSA's customers.

Data Quality and Limitations:
FSA calculates the average number of borrowers serviced by TIVAS and NFPs who are between 91 and 270 days delinquent in the year ending June 30 each year and divides this number by the average number of borrowers in repayment for the year. Borrower-based data are collected from TIVAS and NFP invoices.

FSA Fact

Borrowers who work full-time in a public service job and have a Direct Loan or a Direct Consolidation Loan may qualify for the Public Service Loan Forgiveness Program. To find more about the Public Service Loan Forgiveness Program, go to StudentAid.gov/repay-loans/forgiveness-cancellation/charts/public-service.

Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

Performance Metric C.1: Aid delivery costs per application

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		$9.89	$10.85	$11.23	$11.16
Performance Result			Baseline	Met	Met	

Target Context:
FSA developed two measures to gauge the efficiency and effectiveness of aid delivery. The first unit cost measure is the aid delivery cost per application. This unit cost tracks the direct cost to process FAFSAs and originate aid in the 12-month period, divided by the number of original FAFSAs processed in the period. The fiscal time period measured is July through June. The FY 2011 baseline was $9.89.

Analysis of Progress:
The calculated unit cost for aid delivery in FY 2013 is $11.16. This unit cost reflects data for the four quarters ending June 30, 2013 (FY 2012/Quarter 4 through FY 2013/Quarter 3) because the full FY 2013 unit costs are not available until the December-January timeframe. The unit cost for FAFSAs is expected to increase in the near future as FSA refines specific cost assignment methodologies.

Data Quality and Limitations:
The cost data for this metric are derived from general ledger data uploaded to FSA's Activity-Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model. The FAFSA volumes are derived from the CPS.

Performance Metric C.2: Loan servicing costs per borrower

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		$18.15	$18.94	$21.02	$21.42
Performance Result			Baseline	Met	Not met	

Target Context:
The second measure developed to gauge the efficiency and effectiveness of aid delivery is the loan servicing-related cost per borrower. This unit cost tracks the overall costs of loan servicing operations and maintenance, including labor, non-labor, and contracts. The FY 2011 baseline was $18.15.

Analysis of Progress:
The calculated unit cost for loan servicing in FY 2013 is $21.42. The loan servicing unit cost reflects a rolling four quarters (FY 2011/Quarter 4 through FY 2012/Quarter 3) time period because the full FY 2012 unit costs are not available until the December to January timeframe. While the loan-servicing unit cost had generally been trending downward in previous years, FSA expected loan-servicing costs to increase due to the inclusion of new NFP servicers, which have higher cost structures. FSA also expects the maturation of its loan portfolio to increase loan-servicing costs. Specifically, FSA expects the proportion of borrowers that enter repayment to increase over the next few years. Based upon the fee structure of FSA's contracts with loan servicers, fees for servicing loans in repayment, as opposed to loans for borrowers in-school, are greater. Therefore, this expected increase in loans in repayment will increase FSA's servicing costs.

The FY 2013 Loan Servicing measure experienced a slightly higher than targeted unit cost primarily due to the continuation of low volumes in CSB past the December 2012 TIVAS transition deadline. The decreased borrower account volumes generally incurred higher rates under the contract tiered pricing schedule. On a positive note, the actual portfolio mix of borrower accounts was also weighted more heavily toward the In-School, Repayment, and Deferment/Forbearance categories than what was previously forecasted. Since these categories carry higher rates, this greater percentage of borrowers away from Delinquency also contributed to the 1.9 percent increase in the actual versus targeted FY 2013 unit cost.

Data Quality and Limitations:
Data for this measure are derived from FSA's Activity-Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model. Specifically, the measure is defined as the total direct costs for servicing in the year ending June 30, divided by the average number of borrowers in servicing for the year.

FSA Fact

The Pay as You Earn Plan, recently made available for eligible borrowers, enables borrowers with eligible loans to limit monthly payments to 10 percent of their discretionary income. For more information on this repayment option, visit StudentAid.gov/repay-loans/understand/plans/pay-as-you-earn.

Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

Performance Metric D.1: Improper Payment rate

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	**Recent performance measure (Prior-year data not available)**			Pell Grant 2.49% Direct Loan 0.58% FFEL 1.93%	Pell Grant 2.10% Direct Loan 0.58% FFEL 1.93%	Pell Grant 2.26% Direct Loan 1.03% FFEL <0.005%
Performance Result				Met	Not met	

Target Context:
In FY 2012, FSA reported two sets of improper payment estimates in the Department's *AFR*: one for the Pell Grant program based on a methodology previously approved by OMB; a second newly developed for all risk-susceptible programs (i.e., Pell Grant, Direct Loan, and FFEL) based on proposed new methodologies that address the limitations of the other.[3] In FY 2013, FSA continued to refine the proposed methodologies, which resulted in a more robust estimate for each program, but these proposed methodologies have not yet completed the OMB approval process. While the review process with OMB for the new methodology continues into FY 2014, FSA will report, in accordance with an OMB agreement, in the FY 2013 *AFR*, the Pell Grant estimate of 2.26 percent based on the previously approved methodology and Direct Loan and FFEL estimates of 1.03 percent and 0.00 percent based on the new methodology. The FY 2013 Pell estimate of 2.26 percent is a decrease from or improvement over FY 2012's 2.49 percent estimate, but it exceeds the target. As the Pell estimates and the Pell target were developed from different methodologies, they are not directly comparable. Further, the refinements to the proposed methodologies resulted in estimates for Direct Loan and FFEL that are also not directly comparable to the prior year targets. FSA will work with OMB in FY 2014 to obtain approval for all proposed methodologies and to set new targets consistent with these methodologies.

Analysis of Progress:
As reported in the FY 2012 Annual Report, the new estimation methodology represents significant improvement over prior year approaches. The refinements to the methodology in FY 2013 included adopting a two-stage sampling process to strengthen the improper payment estimates. In addition, the new methodology leverages the significant volume of work performed by FSA's Program Compliance area to more effectively identify root causes and plan corrective actions that ultimately should result in actual reductions to improper payments. FSA will continue working with OMB in FY 2014 on the review of the new methodology and developing targets for each program.

[3] The FY 2012 *AFR* presents two rates for Pell: 2.49 percent, derived from the previously approved methodology; and 2.10 percent, derived from the proposed new methodology. The actual Pell Grant estimate reported in the FY 2012 FSA *Annual Report* for this performance metric was 2.10 percent. The Department agreed with OMB to defer reporting a Pell Grant rate for this new methodology.

Data Quality and Limitations:
The improper payment estimation methodology leverages FSA program reviews at schools and financial institutions. FSA will continue to evaluate program review data to address limitations such as accounting for non-randomness of sample selection and developing more representative samples for various attributes.

Performance Metric D.2: Direct Loan default rate

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Recent performance measure (Prior-year data not available)		11.3%	9.6%	9.8%	9.8%
Performance Result			Met	Met	Met	

Target Context:
FSA is responsible for overseeing approximately $137.6 billion in annually disbursed aid and overseeing a loan portfolio valued at more than $1.0 trillion. Safeguarding taxpayer resources requires accurate oversight and management. One indication of FSA's performance is the rate at which borrowers default on their loans.

Analysis of Progress:
For the third year in a row, FSA met or exceeded the Direct Loan default rate performance metric. In efforts to help borrowers avoid default, FSA provides borrowers the early awareness and assistance they need in the form of financial literacy so that they can avoid defaulting on their student loans. This year, FSA made substantive improvements to its counseling tools and methods for applying for flexible repayment options.

In addition, the performance-based servicing contracts for the TIVAS require vendors to compete for additional loan volume. This allocation is partially based on the vendor's success in avoiding defaults. Finally, FSA pays the TIVAS a higher borrower servicing fee for those borrowers who are not in a delinquent status.

Data Quality and Limitations:
The default rate for this metric is defined as the average balance of loans that are 270 days or more past due serviced by FSA or its debt collection servicer in the year ending June 30 each year, divided by the average balance of loans serviced by FSA at the end of the year.

FSA Fact

Borrowers can use the FSA provided Repayment Estimator to determine the repayment plan for which their loan is eligible. This website provide estimates for the amount that would be paid monthly based on the borrower's outstanding loan. To use the Repayment Estimator, visit Studentloans.gov/myDirectLoan/repaymentEstimatorLoginRedirect.action.

Performance Metric D.3: Collection rate*

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)			$31.90	$34.31	$41.57
Performance Result				Met	Met	

*Collection Rate for the purpose of this metric is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

Target Context:
The Collection Rate metric as defined in the *FSA Strategic Plan, FY 2012–16* only identified the amount of money being collected for the year compared to the total average outstanding portfolio amount for the year (excluding loans in certain non-repayment statuses). This measurement did not provide FSA with actionable results. FSA is always looking for ways to improve on how performance is measured, and aims to measure only what matters and what the organization can effect, regardless of the timing of the Performance Planning cycle. After the *FSA Strategic Plan, FY 2012–16* was finalized; a small working group (including some FSA Operating Committee members) continued to meet to discuss performance measures. It was during this continuous improvement process that it was determined that a better collection rate methodology would be one that compared the cost incurred for FSA's efforts to collect, against the actual amount collected. This new methodology measures FSA's efficiencies—something that the organization can influence and affect.

Analysis of Progress:
The baseline for this new metric is $34.31, and FSA met its target with an actual rate of $41.57. This represents a 21 percent improvement from the prior year.

Data Quality and Limitations:
This metric measures the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect. Collections are defined as the total amount of principal collected on both current and defaulted debt during the 12-month period ending June 30 of each year. Costs include the total direct costs calculated for loan servicing plus debt collections for the same period using FSA's Activity-Based Costing process.

Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

Performance Metric E.1: FSA Morale Index (Subset of questions from government-wide View Point Survey) – % of positive responses to survey (does not include neutral responses)

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)			—	57	57
Performance Result				N/A	Met	

FSA measures its progress on Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government* via the FSA Morale Index. To develop this index, FSA aggregates total 'positive' percentage scores on a subset of questions from the government-wide EVS. Prior to 2012, FSA measured progress based on its rank in government on the Partnership for Public Service's *Best Places To Work In Government*. This was changed during the updating of the *FSA Strategic Plan, FY 2012–16*, as the new index is a better indicator of employee engagement.

Analysis of Progress:
FSA evaluated and analyzed the seven questions that make up the FSA Morale Index. Those questions range from "I like the kind of work I do" to "Considering everything, how satisfied are you with your job?" FSA met its target score of 57.

Data Quality and Limitations:
The Morale Index consists of seven questions from the government-wide EVS. The results measure the percentage of positive responses to those questions, and do not include neutral responses. Additionally, because of the timing of the annual EVS and related analytical work, the reporting of results for FSA's Morale Index lags by a fiscal year. Thus, the FY 2013 Morale Index actual result is based on data collected in the 2012 EVS**.**

FSA Fact

In addition to recently launching a new website, StudentAid.gov, FSA has also increased its presence in social media. To get the latest information updates on federal student financial aid, like FSA on Facebook; follow FSA on Twitter @FAFSA or find it on YouTube.

FY 2013 Accomplishments of Federal Student Aid

During FY 2013, FSA realized additional accomplishments that were not specifically measured by the performance metrics implemented to measure performance against FSA's *Strategic Plan*. Although not measured by FSA performance metrics, these additional accomplishments were the result of initiatives FSA undertook to support the implementation of this *Strategic Plan* or legislative changes. This section describes its additional accomplishments.

FSA realized the following additional accomplishments in support of Strategic Goal A: *Provide superior service and information to students and borrowers.*

- Since FY 2012, FSA has worked to implement a multi-faceted initiative to dramatically change the agency's approach to customer engagement. This "Multiplier Model" embraces methods designed to increase intra-customer communications, which enable the agency to 'multiply' its impact, reach, and penetration into target markets and among key customer segments. Data from the first year of operations strongly validated this approach and FSA has strengthened its support in response. A critical element involves the use of sophisticated new media techniques. The agency engaged in three targeted media campaigns: two on social media, on FAFSA Completion and Student Loan Repayment; and one leveraging traditional Public Service Announcement platforms, including television, radio, print, and web banner ads in both English and Spanish, which encouraged viewers to explore FSA's presence online. FSA also expanded its on-going outreach activities, which include expanded social media engagements such as a monthly Twitter "Town Hall" in which hundreds of questions are answered live, in English and in Spanish, by staff and special guests such as the Secretary of Education Arne Duncan, and various institutional experts.

- Additionally, FSA invited key community-based organizations to FSA-sponsored roundtables where they learned about FSA products and services and were asked to invest in a shared college access agenda. These organizations were encouraged to transform aid awareness into a community-sponsored initiative, and were provided with FSA-built tools, such as infographics, videos, and action plans. Outreach ambassadors are also sent to participatory events to increase awareness among students and professionals, such as a series of "Train the Trainer" events for civilian and military groups representing the service branches of the Department of Defense.

- Following the 33 percent growth in FAFSA volume since the 2008–09 application cycle, FSA has focused particular efforts on increasing FAFSA accessibility and ease of use. Although the recent increase in applications—partially the product of an unusually languid economy—is unlikely to be repeated in the near term, the volume remains high at 21.8 million FAFSAs processed for the most recent 18-month application cycle for the 2012–13 award year, an annual decrease of less than 1 percent from the 2011–12 award year peak. Similarly, 18.3 million FAFSAs were received during the first nine months of the 2013–14 award year application cycle, a year-over-year decrease of just 2.6 percent compared to the first nine months of the 2012–13 award year application cycle. Moreover, demographics are changing: since the 2008–09 application cycle, low-income applicants have increased by 41 percent; first generation filers have increased by 32 percent; and adult learners have increased by over 38 percent. To ensure a positive experience for these users, FSA built and implemented various enhancements to the FAFSA process. These include enhanced partnerships with states, federal agencies, nonprofits, and the private sector.

FSA realized the following additional accomplishments in support of Strategic Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*

- Legislative changes to the federal aid process in FY 2012 provided borrowers with several repayment options in which monthly payments are based, in part, on annual income. However, although these are often the most economically optimal of the offered repayment plans, they remained unused by many borrowers during their first year of availability, due to low awareness by borrowers and the relative complexity of the application. FSA undertook a two-pronged strategy to combat this issue. First, the agency redesigned its loan counseling tools, incorporating principles of financial literacy, sound budgeting techniques, and a clear overview of federal loans and repayment options, and consolidated them into a single website within the StudentLoans.gov portal. This included Loan Entrance and Exit Counseling, both of which borrowers are legally required to complete; the Financial Aid Counseling Tool, an optional tool that aims to improve borrowers' understanding of financial concepts and student loans; and a Repayment Estimator, which provides borrowers with accurate repayment estimates for each of the repayment options. Second, the agency implemented an Income-Driven Repayment Application, which is pre-populated with borrower income retrieved directly from the Internal Revenue Service, and which recommends the best option for a particular borrower. This application serves to lower barriers to entry and increase the ease with which borrowers can take advantage of the loan repayment options that are best for them.

- Prior to FY 2013, borrowers wishing to discharge their student loans due to Total or Permanent Disability (TPD) were required to work with their individual set of loan servicers or guaranty agencies, each with a different set of forms and processes, which often led to confusion and frustration at various points during the multi-year, multi-step application process. In July of 2013, FSA implemented a new, streamlined process that features a standardized approach and a single point of contact for all borrowers throughout the lifecycle of a TPD discharge application.

- FSA's Experimental Sites program is the mechanism by which the agency field-tests the effects of various policy changes at a small number of pilot schools across the nation. Due to the high quality of data provided by recent experiments—including one that tests the effect of extending Pell grant eligibility to specific populations and one piloting programs to improve employability in local labor markets—the agency has decided to bolster the program's size and processes. In order to improve the forcefulness of policy conclusions, the agency invited additional schools to participate; moreover, FSA improved the user experience by redesigning its participant website and providing streamlined, simpler reporting templates for schools.

- FSA made two significant changes to its call center systems in FY 2013. First, it consolidated the ten-plus servicer contact numbers used by schools into a single 'umbrella' number, Reach FSA. Schools calling the Reach FSA number are presented with three options: to directly route to a requested servicer, to select a servicer from a comprehensive directory, or to identify their reason for calling and be routed to an appropriate party. Second, the agency implemented a new call center system, the Angel Virtual Call Center Solution, for its program compliance staff who handle escalated collections issues from defaulted borrowers. The new cloud-based system delivers more personalized customer interaction, provides powerful security, call recordings, enhanced reporting, and more accountability for individual performance.

FSA realized the following additional accomplishments in support of Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

- To standardize the effective management of projects across the enterprise, FSA reorganized its office to create the Investment Management Group. This redesign fundamentally changed the manner in which investments are managed across the agency. Prior to FY 2013, the Strategic Investments Governance consisted of several Senior Project Managers, each of whom was responsible for directly managing a select number of high-priority agency projects, supported by a staff of project management experts. The reorganization transformed these Senior Project Managers into Portfolio/Project Managers assigned to individual business units for whom they develop governance capacity, monitor agency-level trends for actionable effects on particular projects, and provide sophisticated analytical capabilities for budgeting, scheduling, and resource monitoring purposes.

- Faced with an upward trend in the amount of Personally Identifiable Information handled, as well as the rising sophistication of external network threats, in FY 2013, FSA continued to strengthen its IT systems security. FSA's two-pronged approach aimed to proactively prevent unauthorized access and accidental or deliberate data loss from FSA systems. To ensure that potential threats are appropriately tracked, identified, and managed, FSA developed the FSA Security Operations Center, to work in conjunction with the Department's own security center. The Security Operations Center allows real-time threat detection and tracking, comprehensive reporting of security events and incidents, vulnerability identification and trending, and incident and remediation tracking. At the same time, to strengthen authentication security and reduce potential network access fraud, FSA enhanced the capabilities of the Access and Identity Management System, provided FSA users with a simplified logon for major systems, expanded Two Factor Authentication token distribution, and enhanced the Enterprise Identity Management Solution to consolidate, centralize, and migrate authentication services and identification management of FSA system users.

FSA realized the following additional accomplishments in support of Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

- FSA has continued to develop its risk management processes during FY 2013, enhancing the agency's analytical capabilities and strengthening its ability to recognize and mitigate risks in its operational and credit portfolios. Operationally, FSA has developed a customized risk diagnostic tool that categorizes all key business processes under five major risk types. The results of this tool are shared monthly with senior leadership to improve executive decision-making. To better manage FSA's credit portfolio, the agency has developed a Loan and Grants Portfolio Analytics Process, which tracks various metrics, including lifetime and 36-month default rates, and incorporates them into quarterly and monthly reports given to senior management.

FSA realized the following additional accomplishments in support of Strategic Goal E: *Develop FSA's performance culture and become one of the best places to work in the federal government.*

- To improve efficiency and ensure the integrity of its hiring methods, FSA comprehensively redesigned its hiring processes in FY 2013. Among several significant improvements, FSA developed stronger policies regarding the review and standardization of Position Descriptions for newly-hired employees, and strengthened the procedures for the use of selective factors. These changes help ensure integrity of the hiring process and reduce the amount of time required for a manager to post a position and hire a well-qualified candidate.

- FSA developed a seminar for supervisors, team leaders and management officials that highlighted seven core elements of effective management. The series included live instruction, review of uniform management agreements, EVS survey analyses, role-playing and scenarios. Twelve sessions have been delivered in the Headquarters and the Regional offices.

- FSA welcomed its second cadre of First Class Managers in July 2013. Participants, who are selected competitively, commit to a year-long management development program designed in conjunction with the Partnership for Public Service. For its second cadre, FSA updated the curriculum, revised and extended the in-class schedule, developed post-program practicum experiences, and improved the worked with Partnership for Public Service to improve the methods of analyzing and reporting the cadre's development.

- FSA significantly enhanced two of its signature employee engagement programs in FY 2013: the FSASSY awards, FSA's annual employee awards ceremony, and FSA Cares, FSA's volunteerism initiative. To improve the rigor of the FSASSY selection process, the organization replaced its single selection panel with two panels, comprised of representatives from the Employee Union, management, and employees at large, each of which coordinate to identify finalists. The organization also developed a weighted points system so that finalists are determined based on objective data in the event of a tie, which is not an uncommon occurrence. FSA also improved the confidentiality and anonymity of the panel selection process, a change designed to improve the program's integrity. For the FY 2013 FSASSY awards, 233 nominations were received across 15 categories, a record amount.

  Separately, to improve the value of FSA Cares, the organization redesigned the volunteering process to align more closely with the Department's Education Volunteer Initiative. FSA also expanded its volunteer options, incorporating organizations such as Habitat for Humanity, Chicago Reads, KaBooM!, Cultural Tourism DC, and the National Park Service's White House Presidential Park. Participation in FSA Cares has also increased 116 percent, with 121 employees volunteering in FY 2013, compared to 56 employees volunteering in FY 2012.

Legislative and Regulatory Recommendations

One of FSA's mission responsibilities is to provide input on legislative proposals (both from the Congress and from the administration) and to support the Department's regulatory activity. FSA also may suggest legislative changes for consideration by the Department's senior policy officials. These recommendations customarily center on improving and simplifying the Title IV programs, minimizing administrative costs, and improving program integrity. FSA's recommendations inform the Department's policymaking process, including its activities and decisions related to each year's budget process. These activities are usually accomplished by direct contact with colleagues within various offices of the Department, such as the Office of Postsecondary Education and the Office of the Under Secretary, at both the senior policy level and at a staff level. While a portion of this policy advising is accomplished on an ongoing, informal daily basis, during the past year, FSA provided specific recommendations to policy officials on the following issues: (1) reducing improper payments in the Pell Grant Program; (2) improving and simplifying the FAFSA; (3) developing policy for compliance with the Windsor decision that invalidated a portion of the Defense of Marriage Act; (4) developing framework for expansion of the Experimental Sites Initiative; (5) developing policy for the structured wind down of the FFEL Program, particularly as it relates to the activities and function of guaranty agencies; and (6) various budget and legislative initiatives. In addition, FSA's staff also contributed to the Department's Rulemaking process, most importantly, to the on-going effort to develop regulations in the area of gainful employment.

FSA Fact

In August 2013, President Obama signed the Bipartisan Student Loan Certainty Act of 2013, which made several important changes to the interest rates of federal student loans. To find more about those changes, go to StudentAid.gov/about/announcements/interest-rate.

Annual Bonus Awards

FY 2013 performance ratings and related awards for FSA senior managers and Senior Executive Service staff were not finalized at the time this report was prepared.

At the end of FY 2012, there were 51 FSA senior managers. There were also nine Senior Executive Service members. Eight of the 51 senior managers and 3 of the 9 Senior Executive Service staff served on the FSA Operating Committee and reported directly to the COO. The remaining 43 senior managers and 6 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

For FY 2012, the composition of ratings for the 46 senior managers who did not serve on the Operating Committee last year were as follows: 15 achieved a performance rating of Exceptional Results, 23 achieved a performance rating of High Results and 14 achieved a performance rating of Results Achieved.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from a low of $3,870 to a high of $9,985 with a median award of $7,277. Award amounts for those achieving a High Results rating ranged from a low of $1,918 to a high of $6,804 with a median award of $6,089.

There were also FY 2012 ratings and awards for seven senior manager members of the Operating Committee. The composition of those rated includes: one achieved a performance rating of Exceptional Results; six achieved a performance rating of High Results, and none received a performance rating of Results Achieved. The three Senior Executive Service members on the Operating Committee received a performance rating of Exceptional Results. Of the nine remaining Senior Executive Service members who were not on the Operating Committee, one achieved a performance rating of Exceptional Results, three achieved a performance rating of High Results, three achieved a performance rating of Results Achieved.

Award amounts for the Operating Committee ranged from approximately $12,500 to $60,000, depending on the performance rating of each individual. Only individuals with performance ratings of High Results Achieved or Exceptional Results achieved were eligible for performance-based awards.

For additional information, please refer to:
Higher_Education_Amendments_1998/sec101D.html

Report of the Federal Student Aid Ombudsman

The FSA Ombudsman entered its fourteenth year of service to federal student aid recipients in FY 2013. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

Consistent with its statutory mission, the Ombudsman Group uses informal dispute resolution processes to address complaints about the Title IV financial aid programs. The Ombudsman employs a collaborative approach in working with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in the student aid programs. Information about customer inquiries is compiled into the Ombudsman Case Tracking System (OCTS). The data are analyzed, and the findings are included in internal and external reports for FSA and the industry in general, to identify systemic issues affecting Title IV programs. Implementation of systemic solutions can at times prevent problems, an approach preferable to resolving individual complaints as received.

Since 1999, the Ombudsman has received 294,264 customer contacts, including 33,916 in FY 2013. The Ombudsman has generally received more customer contacts in each succeeding year of operation, attributable, in part, to growing awareness of the Ombudsman and the increase in the number of individuals receiving federal student aid. However, the 33,916 customer contacts received in FY 2013 were fewer than the 34,909 contacts in FY 2012.

FY	New Customer Contacts	Percentage Change from Previous FY
2010	30,346	+27.7%
2011	32,922	+8.5%
2012	34,909	+6.0%
2013	33,916	-2.8%

The Ombudsman classifies customer contacts as one of two types: General Assistance, which are typically resolved almost immediately through the provision of information or referral to the appropriate entity within the student loan community; and Research, which present a more complex problem, are assigned to a research specialist to address and may take several months to close. As the table below demonstrates, in the past four years, Research cases have increased as a higher percentage of total customer contacts than has been the historical experience of the Ombudsman Group.

FY	Research Cases	Percentage Change in Research Cases from Previous FY	Research Cases as Percentage of Total Customer Contacts
2010	6,828	+ 29.8%	22.5%
2011	8,208	+ 20.2%	24.9%
2012	11,570	+ 41.0%	33.1%
2013	9,414	-18.6%	27.8%

Case Volume

Customer contacts to the Ombudsman in FY 2013 were fewer than those received in FY 2012 but greater than FY 2011. The reduction is due, in part, to an unusually high number of cases received in FY 2012.

In FY 2012, seven new entities began Direct Loan servicing operations, and FSA transferred more than 4 million loan accounts to these new servicers. In addition, FSA undertook major computer system conversions that affected a large portion of the Department-held portfolio. The Ombudsman received an increase in contacts in FY 2012 from customers who reported confusion about who was servicing their loans or problems in accessing on-line accounts or making payments. Although account transfers continued into late FY 2013, contacts to the Ombudsman Group about the negative impact on customers decreased.

The Ombudsman Group uses issue categories and sub-categories to classify the nature of the question, issue or observation brought to it by customers. As noted above, in FY 2013, the Ombudsman Group saw a slight decline in the overall number of requests for assistance (cases) received. Eleven of the 16 major issue categories reflected that overall decline. Focusing on Research cases, 14 of the 16 major issue categories saw a decrease.
In FY 2013, the top five issues for Research cases were consistent with prior years with one exception. The top five were:

- **Account Balance:** Customer requests for assistance concern disagreement over account balances, interest accrual, or how payments are applied.

- **Repayment Plans/Amounts:** Customer requests for assistance concern the desire to establish, revise, or complain about their repayment plans.

- **Loan Cancellation/Discharge:** Customers assert their loans should be cancelled or discharged because of existing conditions or services performed

- **Default:** Customers assert the default status of their loans is wrong, or customers are asking for options for removing defaulted status of their loans.

- **Credit Reporting:** Customer requests for assistance concern issues involved with their credit reports as affected by their Federal student loans

In a notable exception to the overall volume decrease, the 742 customer contacts in FY 2013 relating to Credit Reporting represent an increase of 103.8 percent over the 364 cases received in FY 2012. With the increase, Credit Reporting rose from the tenth most common issue for Research Cases in FY 2012 to fifth in FY 2013.

It is possible the surge in Credit Reporting issues reflects a gradual improvement in overall economic conditions. As job growth occurs in certain sectors, and more individuals feel able to make major purchases, some are finding that negative credit reports relating to delinquencies or defaults on federal student loans are making it more difficult to get approval for credit. In addition, the Ombudsman has noted that credit repair services encourage their customers to contact their loan holders to seek removal of adverse comments. In our experience, loan servicers will not remove adverse comments unless a servicing error is proven.

A series of initiatives undertaken by the Ombudsman, FSA business units, and federal student loan servicers are also believed to be contributing to a reduction in the number of customer contacts to the Ombudsman and to a reduction in Research cases. The mission of the FSA Ombudsman is to assist borrowers who have been unable to resolve their problem with the current loan holder. Borrowers contacting the Ombudsman who have not exhausted the problem resolution options at their loan holder are referred to the loan holder and counseled to re-contact the Ombudsman if those efforts are unsuccessful.

Each of the TIVAS has in place second-tier escalation processes to handle issues not resolved at the first level of contact. Additionally, FSA took steps in the past two years to concentrate with designated servicers, the servicing of accounts eligible for certain program benefits such as Public Service Loan Forgiveness (PSLF), and Teacher Loan Forgiveness. This strategy permits the specialization of servicer expertise on program benefits of high customer interest and improves the consistency in the processing of these benefits and the service provided to customers. The strategy, to the extent it is successful in resolving issues, reduces the need for borrowers to contact the Ombudsman.

The Ombudsman worked collaboratively in FY 2013 with FSA's Default Resolution Group (DRG) to develop an escalation process for defaulted borrowers whose loans are with DRG. When borrowers in these circumstances contact the Ombudsman, the contact is logged into the OCTS, and the case is referred to DRG and assigned to an escalation team that will work with the borrower to resolve any problems. The referral is handled via a personal contact by Ombudsman Group staff during which borrowers are advised to return to the Ombudsman Group if the work with the DRG does not yield a satisfactory outcome.

Analysis of Outcomes

In FY 2013, the Ombudsman began an effort to analyze case outcomes. OCTS allows the logging of the case outcome using case closing categories and sub-categories. The Ombudsman Group believes improved analysis of these data will help bring a better understanding of the nature of the issues customers bring to the Ombudsman, point out areas in which service quality can be improved, and identify systemic problems that lead to borrower complaints.

Challenges were immediately evident. Resolutions of the problems customers present to the Ombudsman are rarely binary – the customer receives or does not receive the outcome sought. For one thing, customers seek outcomes for which they are not eligible based on statute and regulation. Furthermore, customers are sometimes unaware of the option or options that provide the best way to manage their student loan debt, and the best service that can be provided by the Ombudsman is to create awareness of the available options.

The Ombudsman has learned that outcomes can be classified into at least three broad, general classifications:

- **Action:** An action occurred on the customer's account, *e.g.*, a change in loan status, payments reapplied, loan balance was adjusted, etc.

- **Confirmation:** No change occurred in the customer's account, *e.g.,* loan balance was verified, the interest rate was found to be accurate, the sought after benefit was properly denied, etc. In these situations, the Ombudsman staff will provide guidance for the borrower on the available options for managing their student loans and refer them to the appropriate entity for initiating the desired option.

- **Information:** The customer was provided with information or guidance, *e.g.*, loan servicer was identified, requirements for Public Service Loan Forgiveness or Income Based Repayment were explained, contact information was provided, referral was made, etc.

The Ombudsman has learned that roughly two-thirds of Research requests result in Action or Confirmation, with a smaller proportion resulting in Information. This initiative is a work in progress. The Ombudsman will continue to examine case outcomes using this methodology in FY 2014 and further refine the classification strategy.

Other FY 2013 Highlights

Consumer Financial Protection Bureau

The Ombudsman continued its collaboration with the Consumer Financial Protection Bureau (CFPB) Private Student Loan Ombudsman. The FSA Ombudsman's enabling statute limits jurisdiction to the federal student loan program, so a major part of this collaboration is a mutual referral process that ensures that borrowers with private student loans receive assistance from the CFPB. Borrowers who contact the Ombudsman Group call center with private student loan problems are referred to CFPB; and conversely, borrowers with federal student loans who contact CFPB are referred to the FSA Ombudsman. In FY 2013, 612 of our customers told us they were referred by the CFPB.

As in past years, the CFPB Private Student Loan Ombudsman participated in the annual Student Loan Ombudsman Caucus Meeting to share information and engage in discussion with colleagues throughout the student loan community.

Contacts from Service Members and Veterans

The Ombudsman employs an indicator to identify and track customer contacts from active duty military personnel and veterans. In FY 2013, the Ombudsman received 272 contacts from individuals in these groups. About 15.1 percent of these contacts, the largest single category concerned Loan Cancellation/Discharge for TPD. Congress enacted provisions for expedited disability discharge for veterans who are considered 100 percent disabled or unable to work due to service-connected disabilities. In isolated instances, the expedited process does not work as well as intended by the legislation, and a veteran asks the Ombudsman to intervene. Veterans whose disabling condition is not service-connected or whose disability rating from the Department of Veterans Affairs is not at the required level must apply for TPD through the standard process, which requires a doctor's certification of the disability. On rare occasions over the years, veterans have reported to the Ombudsman difficulty in having Department of Veterans Affairs doctors complete the TPD discharge forms.

Customer Satisfaction Survey

Customer satisfaction with the Ombudsman Group is measured, in part, through independently conducted telephone surveys. Closed cases are chosen at random, and customers are asked to rate service accessibility, Ombudsman representative's knowledge, timeliness of case resolution, level of satisfaction with the resolution, and overall service. On a scale of one to five, with five being the highest rating, survey results are calculated weekly and cumulatively for the fiscal year. Only ratings of 4.0 or higher meet the Ombudsman customer satisfaction performance goal. The average FY 2013 customer satisfaction for Research cases was 4.66 on a 5.00 scale. Customers also write or call independently to express appreciation for the assistance from the Ombudsman.

Student Loan Borrower Interest Groups Roundtable

In the spring of 2013, the Ombudsman Group implemented a new initiative to reach out to organizations that have an interest in issues regarding federal student loans. Through periodic conference calls, the Ombudsman provides a forum for these organizations to share concerns they have with how federal student loans are serviced. The goal is to provide an efficient line of communication for advocacy groups to present global issues relating to servicing to FSA and for FSA to communicate to the groups how it will respond to these issues.

The Office of the Ombudsman has held five calls this year. Participants have included legal aid societies, consumer protection groups, as well as organizations that focus on student aid policy. The concerns they have shared with the Ombudsman has touched on topics such as loan discharges and cancellation, Income Based Repayment and loan transfers. The Ombudsman hopes that these calls will enhance FSA's ability to continuously improve customer service for FSA's borrowers.

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Financial Section

Federal Student Aid
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Message From the Chief Financial Officer

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION
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During Fiscal Year (FY) 2013, Federal Student Aid (FSA) delivered $137.6 billion of federal aid to 14 million postsecondary students and their families. In addition, the loan portfolio overseen by FSA grew by 9.7 percent, from $948.0 billion to $1.0 trillion. This is an enormous financial responsibility to students seeking financial assistance, borrowers who are paying off their student loans, and taxpayers who expect fiscal prudence and stewardship. Thanks to the dedicated and talented staff at the United States Department of Education (the Department) and FSA, we met the unprecedented challenges presented by this financial responsibility and continued to maintain our high standards of financial management and fiscal reporting.

John W. Hurt, III
Chief Financial Officer

Examples of FSA's successful financial management include the following:

- **Internal control framework**. FSA's A-123A assessment tested 934 business process and 2,347 Information Technology (IT) system internal controls across 38 business processes (and sub-processes) and 24 IT systems, respectively. These 3,281 internal controls are tested on an ongoing basis. This strong underlying internal control framework helps FSA leverage its relatively small number of staff to manage loan and grant operations that impact a relatively large percentage of the U.S. population. Recent improvements to the internal control framework include the establishment of a more consistent and structured approach to audits of our loan servicers' controls performed by independent public accountants in accordance with Statement on Standards for Attestation Engagements (SSAE) Number 16, Reporting on Controls at a Service Organization. By clarifying the specific 578 business process and 2,114 IT controls tested by the independent public accountants as part of these SSAE16 audits, FSA was able to improve the level of control while reducing the amount of annual effort for managing the control environment. FSA was able to shift labor hours spent testing these controls, including the processing of related prepared-by-client deliverables across all servicers to focus on documenting the onboarding of eight new Not for Profit servicers, completing the servicer controls rationalization effort, and coordinating and reviewing the servicer's SSAE16 efforts. In addition, new monitoring groups and monitoring tools were added to the control environment to better track loan servicers' compliance with our requirements. Improvements in our internal control framework resulted in a reduction of a previously reported material weakness in internal control being reduced to an aggregated significant deficiency.

- **Receivables and payables management**. FSA aggressively manages all administrative and program receivables and payables in a way that demonstrates exceptional cash management. For example, during FY 2013, FSA processed over 8,000 Federal Family Education Loans partner invoices totaling over $12 billion in outlays, along with associated collections exceeding $4.5 billion. As of the end of this fiscal year, only 0.005 percent of our outstanding lender receivables were over 90 days delinquent. For the administrative budget, the number of Intra-Governmental Payment and Collection Systems items over 30 days old was 7, the central travel card delinquency rate was 0 percent, the purchase card delinquency rate was 0 percent, and the amount of penalty interest paid was only $616.11 for $1.8 billion in total invoice payments.

- **Investment management processes**. In FY 2013, FSA spent $1.4 billion to deliver the $137.6 billion in aid and manage the $1.0 trillion loan portfolio. The $1.4 billion administrative budget is managed largely through FSA's investment management processes. FSA uses these processes to manage all major aspects (i.e., scope, schedule, and cost) of the investments in order to deliver our promised performance levels. This past year, FSA further enhanced a number of aspects of our investment management processes, including baselining an Enterprise Sequencing Plan, establishing monthly Portfolio Reviews, and further refining our cost allocation and estimation procedures. These enhancements allow us to better plan for the timing and integration of all investments and identify gaps or deficiencies in our plans. In addition, the improvements to our cost management procedures allow us to identify and capture cost savings and more accurately predict the cost of new investments. For example, through a joint effort with the Customer Experience, Technology Office, and Cost Management teams, FSA was able to reduce Free Application for Federal Student Aid (FAFSA[SM]) processing costs by over $250,000, through in-depth analysis of trends from the past two FAFSA Peak Seasons.

As part of our self-assessment of the effectiveness of internal control over financial reporting last year, FSA reported a material weakness as of June 30, 2012 associated with the system conversions of the ACS Education Servicing System (ACES) and of the Debt Management and Collection System (DMCS2). The financial statement auditors also reported that same material weakness for the period ending September 30, 2012. Starting September 30, 2012, however, management asserted that we had made substantial progress such that the significant deficiency was no longer a material weakness. Since that time, we have continued to make progress on the remaining deficiencies and can report again that as of June 30, 2013, the deficiencies related to ACES and DMCS2 do not aggregate to a material weakness. The detailed results of this assessment effort are described further in the **Analysis of Systems, Controls and Legal Compliance** section of this report.

Also, through cooperative efforts between FSA and the Department's Office of the Chief Financial Officer, Office of Chief Information Officer, and Budget Service, the Department continued to correct two significant deficiencies in credit reform estimation and information systems controls that were identified in previous internal control reports. The complexity of these issues has required an ongoing multi-year effort. As a result of these concerted efforts, the auditors recognized improvements in both areas in the FY 2013 Report on Internal Control.

I am proud to be working with a group of professionals throughout the Department who so enthusiastically meet our financial management challenges and achieve such distinguished results.

Sincerely,

John W. Hurt III

John W. Hurt, III
Chief Financial Officer
December 11, 2013

Financial Statements

United States Department of Education
Federal Student Aid
Consolidated Balance Sheet
As of September 30, 2013 and 2012
(Dollars in Millions)

	Fiscal Year 2013	Fiscal Year 2012
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 69,997	$ 78,452
Accounts Receivable (Note 4)	1	-
Total Intragovernmental	69,998	78,452
Cash and Other Monetary Assets (Note 5)	1,482	1,307
Accounts Receivable, Net (Note 4)	90	123
Credit Program Receivables, Net (Note 6)	825,660	672,835
Property and Equipment, Net (Note 7)	2	6
Other Assets (Note 8)	13	15
Total Assets (Note 2)	**$ 897,245**	**$ 752,738**
Liabilities:		
Intragovernmental:		
Accounts Payable (Note 9)	$ 1	$ 1
Debt (Note 10)	851,258	714,324
Guaranty Agency Federal Funds Due to Treasury (Note 5)	1,482	1,307
Other Intragovernmental Liabilities (Note 11)	8,786	7,009
Total Intragovernmental	861,527	722,641
Accounts Payable (Note 9)	3,942	3,958
Accrued Grant Liability (Note 12)	1,727	2,269
Liabilities for Loan Guarantees (Note 6)	-	1,037
Other Liabilities (Note 11)	55	60
Total Liabilities (Note 11)	**$ 867,251**	**$ 729,965**
Commitments and Contingencies (Note 19)		
Net Position:		
Unexpended Appropriations (Note 13)	$ 33,595	$ 30,361
Cumulative Results of Operations (Note 13)	(3,601)	(7,588)
Total Net Position (Note 13)	**$ 29,994**	**$ 22,773**
Total Liabilities and Net Position	**$ 897,245**	**$ 752,738**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Net Cost
For the Years Ended September 30, 2013 and 2012
(Dollars in Millions)

		Fiscal Year 2013		Fiscal Year 2012
Program Costs				
Increase College Access, Quality, and Completion				
Gross Costs	$	13,266	$	35,966
Earned Revenue		(26,688)		(25,306)
Net Program Costs		(13,422)		10,660
Total Program Costs	**$**	**(13,422)**	**$**	**10,660**
American Recovery and Reinvestment Act and Education Jobs Fund				
Gross Costs	$	-	$	23
Earned Revenue		-		-
Net Program Costs		-		23
Total Program Costs	**$**	**-**	**$**	**23**
Grand Total Program Costs	**$**	**(13,422)**	**$**	**10,683**
Net Cost of Operations (Notes 14 & 17)	**$**	**(13,422)**	**$**	**10,683**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2013 and 2012
(Dollars in Millions)

	Fiscal Year 2013		Fiscal Year 2012	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances				
Beginning Balances	**$ (7,588)**	**$ 30,361**	**$ (3,138)**	**$ 21,441**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 44,797	$ -	$ 52,927
Appropriations Transferred - In/Out	-	(10)	-	-
Other Adjustments (Rescissions, etc.)	-	(261)	(1)	(271)
Appropriations Used	41,292	(41,292)	43,736	(43,736)
Nonexchange Revenue	10	-	1	-
Nonexpenditure Financing Sources - Transfers-Out	-	-	(29)	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	$ 11	$ -	$ 11	$ -
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(50,748)	-	(37,485)	-
Total Financing Sources	**$ (9,435)**	**$ 3,234**	**$ 6,233**	**$ 8,920**
Net Cost of Operations	**$ 13,422**	**$ -**	**$ (10,683)**	**$ -**
Net Change	**$ 3,987**	**$ 3,234**	**$ (4,450)**	**$ 8,920**
Ending Balances (Note 13)	**$ (3,601)**	**$ 33,595**	**$ (7,588)**	**$ 30,361**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2013 and 2012

(Dollars in Millions)

	Fiscal Year 2013		Fiscal Year 2012	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 10,366	$ 18,579	$ 3,415	$ 15,004
Recoveries of Prior Year Unpaid Obligations	359	35,425	488	18,649
Other Changes in Unobligated Balance (+ or -)	(266)	(39,189)	(499)	(20,691)
Unobligated Balance from Prior Year Budget Authority (Net)	$ 10,459	$ 14,815	$ 3,404	$ 12,962
Appropriations (Discretionary and Mandatory)	44,578	-	52,919	35
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	194,970	-	209,379
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	711	46,926	372	47,210
Total Budgetary Resources (Note 16)	**$ 55,748**	**$ 256,711**	**$ 56,695**	**$ 269,586**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 41,798	$ 245,639	$ 46,329	$ 251,007
Unobligated Balance, End of Year:				
Apportioned	11,952	-	8,562	-
Unapportioned	1,998	11,072	1,804	18,579
Total Unobligated Balance, End of Year	$ 13,950	$ 11,072	$ 10,366	$ 18,579
Total Status of Budgetary Resources (Note 16)	**$ 55,748**	**$ 256,711**	**$ 56,695**	**$ 269,586**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 24,094	$ 171,959	$ 23,240	$ 164,196
Obligation Incurred	41,798	245,639	46,329	251,007
Outlays (Gross) (-)	(42,153)	(220,685)	(44,987)	(224,595)
Recoveries of Prior Year Unpaid Obligations (-)	(359)	(35,425)	(488)	(18,649)
Unpaid Obligations, End of Year	$ 23,380	$ 161,488	$ 24,094	$ 171,959
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ (5)
Change in Uncollected Payments, Federal Sources (+ or -)	-	1	-	1
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (3)	$ -	$ (4)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 24,094**	**$ 171,955**	**$ 23,240**	**$ 164,191**
Obligated Balance, End of Year (+ or -)	**$ 23,380**	**$ 161,485**	**$ 24,094**	**$ 171,955**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 45,289	$ 241,896	$ 53,291	$ 256,624
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(844)	(72,601)	(559)	(64,607)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	1	-	1
Budget Authority, Net (Discretionary and Mandatory)	**$ 44,445**	**$ 169,296**	**$ 52,732**	**$ 192,018**
Outlays, Gross (Discretionary and Mandatory)	$ 42,153	$ 220,685	$ 44,987	$ 224,595
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(844)	(72,601)	(559)	(64,607)
Outlays, Net (Discretionary and Mandatory)	41,309	148,084	44,428	159,988
Distributed Offsetting Receipts (-) (Note 16)	(48,445)	-	(40,654)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (7,136)**	**$ 148,084**	**$ 3,774**	**$ 159,988**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Years Ended September 30, 2013 and 2012

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

Federal Student Aid (FSA) was created as a Performance Based Organization (PBO) within the United States (U.S.) Department of Education (the Department) under the *Higher Education Act of 1965* (HEA) from previously existing Department student financial assistance program offices. FSA operates under the PBO mandate to develop a management structure driven by strong incentives to manage for results. FSA's primary goal is to assist lower-income and middle-income students in overcoming the financial barriers that make it difficult to attend and complete postsecondary education. FSA is responsible for administering direct loans, guaranteed loans, and grant programs, as discussed below.

The William D. Ford Federal Direct Loan (Direct Loan) Program, added to the HEA by the *Student Loan Reform Act of 1993*, authorizes FSA to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. FSA borrows money from the United States Department of Treasury (Treasury) to fund the loans. The program does not charge interest to eligible borrowers while they are in school or in qualified deferment periods. Under this Direct Loan Program, loans are made to individuals who meet eligibility criteria established by statute and attend eligible institutions of higher education—public or private two- and four-year institutions, graduate schools, and vocational training schools. Student borrowers who demonstrate financial need also may receive federal interest subsidies while the students are in school or in a deferment period.

The Federal Family Education Loan (FFEL) Program, authorized by the HEA, operates through state and private nonprofit guaranty agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. The *SAFRA Act*, formerly the *Student Aid and Fiscal Responsibility Act*, which was included in the Health Care and Education Reconciliation Act of 2010 (HCERA) and became effective July 1, 2010, provided that no new FFEL loans would be made after June 30, 2010.

Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) authorized the Secretary of Education (Secretary) to purchase or enter into forward commitments to purchase FFEL loans. The Department implemented three activities under this temporary loan purchase authority. These activities are: (1) loan purchase commitments; (2) loan participation purchases; and (3) an Asset-Backed Commercial Paper (ABCP) Conduit.

Grant appropriations funding the Federal Pell Grant (Pell Grant) Program and campus-based student aid programs enable FSA to provide educational grants and other financial assistance to eligible applicants. Grants are not repaid to the federal government. The Pell Grant Program provides grant aid to low-income and middle-income undergraduate students. Awards vary in proportion to the financial circumstances of students and their families. The campus-based student aid programs provide educational grants and other financial assistance to eligible applicants. These programs include the Supplemental Educational Opportunity Grant, Federal Work Study (FWS) and Federal Perkins Loan Programs. Campus-based programs are not material to these statements and have been included with other programs reported under grant programs.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program was implemented beginning July 1, 2008. This program, added to the HEA by the College Cost Reduction and Access Act, awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

The *American Recovery and Reinvestment Act of 2009* (Recovery Act), enacted on February 17, 2009, as Public Law 111-5, provided funding for improving schools, raising students' achievement, driving reform and producing better results for children and young people for the long-term health of the nation. As of fiscal year 2013, this program is winding down. The Recovery Act program has less than 1 percent remaining to be expended as of September 30, 2013.

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the FSA reporting group, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of FSA, in accordance with accounting principles generally accepted in the United States of America for federal entities, issued by the Federal Accounting Standards Advisory Board, and Office of Management and Budget (OMB) Circular No. A-136 *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control FSA's use of budgetary resources.

FSA's financial statements represent the reporting organization, FSA, within the Department of Education, which is itself a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

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

Transactions and balances among FSA funds have been eliminated from the consolidated financial statements.

Credit Reform Accounting: Federal Credit Reform Act

The *Federal Credit Reform Act of 1990* (Credit Reform Act) became effective on October 1, 1991. Its purpose is to measure the cost of Federal credit programs and to place the cost of each credit program on a basis equivalent with other Federal spending, i.e., calculate the cost of Direct Loan Programs evenly with the cost of Guaranteed Loan Programs. Under the Credit Reform Act, subsidy cost is estimated using the net present value of future cash flows to, and from, the Department.

A loan guarantee is any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. A direct loan is any debt instrument issued to the public by the federal government. The Credit Reform Act establishes the use of Program, Financing, and general fund Receipt Accounts for loan guarantees committed and direct loans obligated after September 30, 1991. It also establishes Liquidating Accounts for activity relating to any loan guarantees committed or direct loans obligated before October 1, 1991. These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the Program and Liquidating Accounts. The non-budgetary accounts are the Financing Accounts.

The Program Account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the Financing Account. A Program Account also receives appropriations for administrative expenses. The Financing Account is a non-budgetary account that records all of the cash flows resulting from Credit Reform Act direct loans or loan guarantees. It disburses loans, collects repayments and fees, pays claims, borrows from U.S. Treasury, earns and pays interest, and receives the subsidy cost payment from the Program Account. The general fund Receipt Account is a budget account used by Treasury for the receipt of amounts paid from the Financing Account when there are negative subsidies for original cost estimates or downward re-estimates of prior subsidy costs.

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements. Actual results may differ from those estimates.

The Credit Reform Act underlies the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees, other than for general administration of the programs, is referred to as “subsidy cost.” Under the Credit Reform Act, subsidy costs for loans obligated beginning in fiscal year (FY) 1992 are estimated at the net present value of projected lifetime costs in the year the loan is obligated. Subsidy costs are re-estimated annually.

Estimates for credit program receivables and liabilities contain assumptions that have a significant impact on the financial statements. The primary components of this assumption set include, but are not limited to, collections (including loan consolidations), repayments, default rates, prevailing interest rates, and loan volume. Actual loan volume, interest rates, cash flows, and other critical components used in the estimation process may differ significantly from the assumptions made at the time the financial statements are prepared. Minor adjustments to any of these components may create significant changes to the estimates and the amounts recorded.

FSA and the Department estimate all future cash flows associated with the Direct Loan, FFEL, and TEACH Programs. Projected cash flows are used to develop subsidy estimates. Subsidy cost can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy cost is recorded as the initial amount of the loan guarantee liability when guarantees are made or as a valuation allowance to government-owned loans and interest receivable (i.e., direct and defaulted guaranteed loans).

FSA and the Department use a cash flow projection model to calculate subsidy estimates for the Direct Loan, FFEL, and TEACH Programs. Each year, the Department re-evaluates the estimation methods for changing conditions. In developing assumptions for future interest rates, the Department uses a probabilistic technique that estimates future interest rates and weighs each one by the assumed probability of each scenario occurring.

For each program, cash flows are projected over the life of the loans, aggregated by loan type, cohort year, and risk category. The loan's cohort year represents the year a loan was obligated or guaranteed, regardless of the timing of disbursements. Risk categories include two-year colleges, graduate schools, proprietary (for-profit) schools, freshmen and sophomores at four-year colleges, as well as juniors and seniors at four-year colleges.

Estimates reflected in these financial statements were prepared using assumptions developed for the FY 2013 Mid-Session Review, a governmentwide exercise required annually by OMB. These estimates are based on the most current information available to FSA and the Department at the time the financial statements were prepared. Assumptions and their impact are updated after the Mid-Session Review to account for significant subsequent changes in activity. Management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of changes, as appropriate.

FSA and the Department recognize that cash flow projections and the sensitivity of changes in assumptions can have a significant impact on estimates. Management has attempted to mitigate fluctuations in the estimates by using trend analysis to project future cash flows. Changes in assumptions could significantly affect the amounts reflected in these financial statements. For example, a minimal change in the projected long-term interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount.

Budget Authority

Budget authority is the authorization provided by law for FSA and the Department to incur financial obligations that will result in outlays. FSA's budgetary resources include unobligated balances of resources from prior years; recoveries of prior-year obligations; and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end are available for new obligations placed against them, as well as upward adjustments of prior-year obligations.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan Program and the TEACH Program. Subsidy and administrative costs of the programs are funded by appropriations. Budgetary resources from collections are used primarily to repay FSA's debt to Treasury. Major sources of collections include principal and interest collections from borrowers, related fees, and interest from Treasury on balances in Credit Financing Accounts that make and administer loans and guarantees.

Borrowing authority is an indefinite budgetary resource authorized under the Credit Reform Act. This resource, when realized, finances the unsubsidized portion of the Direct Loan Program, ECASLA Programs, and the TEACH Program. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy. Treasury prescribes the terms and conditions of borrowing authority and lends to the Financing Account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Non-Budgetary Financing Accounts are reported separately in the Non-Budgetary Credit Reform Financing Accounts column of the Statement of Budgetary Resources (SBR). The amounts recorded in this column are all the cash flow activity resulting from credit reform Financing Accounts. In compliance with A-136 guidance, the activity in the Financing Account is reported separately in the *Budget of the United States Government* and is excluded from the budget surplus or deficit totals. The separate presentation in the SBR allows for a clear distinction between budgetary accounts and non-budgetary credit reform accounts.

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that FSA has authority to use for its operations. Non-entity assets are those held by FSA but not available for use in its operations. FSA combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets in the notes.

Fund Balance with Treasury

The Fund Balance with Treasury includes general, financing, revolving, special, and other funds in the Department's accounts with Treasury available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for FSA. FSA's records are reconciled with those of the Treasury.

A portion of the general fund is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require annual appropriations. Their fund balance is derived from borrowings, as well as collections from the public and other federal agencies. Other funds, which are non-budgetary, primarily consist of deposit and receipt funds. Non-budgetary credit reform Financing Accounts have many similarities to revolving funds.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include receivables for undelivered orders and unpaid expended authority.

Accounts Receivable

Accounts Receivable are amounts due to FSA from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, and disputed costs resulting from audits of educational assistance programs. Amounts due from other federal agencies result from reimbursable agreements entered into by FSA with these agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts.

Estimates for the allowance for loss on uncollectible accounts are based on historical data.

Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of guaranty agency reserves that represent the federal government’s interest in the net Federal Fund assets of state and nonprofit FFEL Program guaranty agencies. Guaranty agency Federal Fund reserves are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. Guaranty agency reserves include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

Sections 422A and 422B of the HEA required FFEL guaranty agencies to establish a Federal Student Loan Reserve Fund (Federal Fund) and an Operating Fund. The Federal Fund and the non-liquid assets developed or purchased by a guaranty agency, in whole or in part with federal funds, are the property of the United States and reflected in the *Budget of the United States Government*. However, such ownership by the federal government is independent of the actual control of the assets.

FSA and the Department disburse funds to a guaranty agency. A guaranty agency, through its Federal Fund, pays lender claims and pays default aversion fees into its own Operating Fund. The Operating Fund is the property of the guaranty agency and is used by the guaranty agency to fulfill responsibilities that include repaying money borrowed from the Federal Fund and performing default aversion and collection activities. Payments made to the Department from guaranty agency federal funds through a statutory recall or agency closures represent capital transfers and are credited to the Department’s Fund Balance with Treasury account.

Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

Credit program receivables for activities under the temporary loan purchase authority include the present value of future cash flows related to purchased loans. Subsidy is transferred, which may be prior to purchasing loans, and is recognized as subsidy expense in the Statement of Net Cost. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers.

Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department and FSA on its borrowings from Treasury and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to pay down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and re-estimated each year.

Non-Budgetary Credit Reform Financing Accounts

Actual cash flows to and from the Government for direct loan and loan guarantee programs are recorded in separate credit reform Financing Accounts within the Treasury. These accounts borrow funds from Treasury, make direct loan disbursements, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury's General Fund Receipt Account. Appropriations for new subsidy and subsidy re-estimates are received in program accounts and transferred to non-budgetary credit reform Financing Accounts. The budgetary resources and activities for these accounts are presented separately in the Combined Statement of Budgetary Resources and the Budget of the United States and are excluded from the determination of the budget deficit or surplus.

Property and Equipment, Net

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

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

Depreciable Property and Equipment
(In Years)

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

Other Assets

FSA's Other Assets (with the public) consist of payments made to grant recipients in advance of their expenditures and in-process disbursements of interest benefits and special allowance payments for the FFEL Program.

Liabilities

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

Accounts Payable

Accounts Payable includes amounts owed by FSA for goods and services received from other entities and scheduled payments transmitted but not yet processed. FSA's accounts payable primarily consist of in-process grant and loan disbursements to the public.

Debt

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and TEACH Programs. The liability to Treasury from borrowings represents unpaid principal at year-end. FSA repays the principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury. These are rates generally fixed based on the rate for 10-year Treasury securities. As discussed in the Credit Programs for Higher Education note, the interest received by FSA from borrowers will vary from the rate paid to Treasury. Principal and interest payments to Treasury are made annually.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet been reimbursed by the agency. The Department will accrue a liability for these allowable expenditures incurred that have not yet been reimbursed. The amount is estimated using statistical sampling as well as information on recent grant expenditures and unliquidated balances.

Net Position

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

Personnel Compensation and Other Employee Benefits

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

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

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

Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully, and are subsidized by the Office of Personnel Management (OPM). The

Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

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

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

Intragovernmental Transactions

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

Reclassifications

Certain reclassifications were made to the FY 2012 financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities, net position, net cost of operations, or budgetary resources. In accordance with the requirements contained in OMB Circular No. A-136, Financial Reporting Requirements, effective for FY 2013's reporting, the presentation of the SBR was changed. The statement was changed to better align the Change in Obligated Balance section of the statement. Also, during FY 2013, as required by Treasury and Departmental guidance, excess collections from pre-1992 FFEL loan guarantees, which are payable to Treasury, are to be reported as non-current liabilities not covered by budgetary resources. This reclassification has resulted in a $3 billion reduction of the FY 2012 reported balance of Intragovernmental Accounts Payable and a corresponding increase in the FY 2012 reported Other Liabilities balance. In accordance with Treasury guidance on capital transfer accounting, excess collections from pre-1992 FFEL loan guarantees, which are payable to Treasury, but that have not yet been transferred, should be reported on Other Financing Sources on the Statement of Changes in Net Position, Transfers-Out was reduced by $12 million while Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other was increased by $12 million.

Subsequent Events

The financial statements, notes, and required supplementary information do not reflect the effects of the subsequent event described below.

ABCP Conduit

The asset-backed commercial paper vehicle (ABCP Conduit) closes in the second quarter of 2014. Following Departmental policy, costs of the ABCP Conduit will be re-estimated after the program closes. A recovery of prior year obligations and the cancellation of borrowing authority in the amount of approximately $71 billion will occur after the final re-estimate is completed.

Note 2. Non-Entity Assets

As of September 30, 2013 and 2012, non-entity assets consisted of the following:

Non-Entity Assets

(Dollars in Millions)

	2013	2012
Non-Entity Assets		
With the Public:		
Cash and Other Monetary Assets	$ 1,482	$ 1,307
Credit Program Receivables, Net	369	351
Accounts Receivable, Net	30	28
Total With the Public	**1,881**	**1,686**
Total Non-Entity Assets	**1,881**	**1,686**
Entity Assets	895,364	751,052
Total Assets	$ 897,245	$ 752,738

Entity and non-entity assets are combined on the Consolidated Balance Sheet. Non-entity assets are offset by liabilities to third parties and have no impact on net position. Non-entity intragovernmental assets consist of deposit fund and receipt clearing account balances. Non-entity assets with the public primarily consist of guaranty agency reserves and Federal Perkins Loan Program loan receivables. The corresponding liabilities for these non-entity assets are reflected in various accounts, including Intragovernmental Accounts Payable, Guaranty Agency Federal Funds Due to Treasury, and Other Liabilities. (See Notes 1, 3, 4, 5 and 6)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury, by fund type as of September 30, 2013 and 2012, consisted of the following:

Fund Balances

(Dollars in Millions)

	2013	2012
General Funds	$ 35,832	$ 33,139
Revolving Funds	34,148	45,299
Special Funds	17	14
Fund Balance with Treasury	**$ 69,997**	**$ 78,452**

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Trust funds generally consist of donations for the hurricane relief activities. Other funds primarily consist of non-entity deposit and receipt funds and clearing accounts.

The Status of Fund Balance with Treasury, as of September 30, 2013 and 2012, consisted of the following:

Status of Fund Balance with Treasury
(Dollars in Millions)

	2013	2012
Unobligated Balance:		
Available	$ 11,952	$ 8,562
Unavailable	11,588	19,076
Obligated Balance, Not Yet Disbursed	46,457	50,814
Fund Balance with Treasury	**$ 69,997**	**$ 78,452**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority.

Note 4. Accounts Receivable

Accounts receivable are established as claims to cash or other assets against other entities. At FSA, administrative accounts receivable arise through legal provisions or program requirements to return funds due to noncompliant program administration, regulatory requirements, or individual service obligations. As such, administrative accounts receivable consist primarily of institutional debt resulting from external audit or program review, program scholarship grant repayments, and employee debt. Accounts Receivable, as of September 30, 2013 and 2012, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2013		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 1	$ -	$ 1
With the Public	103	(13)	90
Total	**$ 104**	**$ (13)**	**$ 91**

	2012		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ -	$ -	$ -
With the Public	123	-	123
Total	**$ 123**	**$ -**	**$ 123**

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL guaranty agency Federal Funds. Changes in the valuation of the Federal Fund increase or decrease the Department's Cash and Other Monetary Assets with a corresponding change in Guaranty Agency Federal Funds Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2013 and 2012.

Cash and Other Monetary Assets

(Dollars in Millions)

	2013	2012
Beginning Balance, Cash and Other Monetary Assets	**$ 1,307**	**$ 1,664**
Increase/(Decrease) in Guaranty Agency Federal Funds, net	175	(357)
Ending Balance, Cash and Other Monetary Assets	**$ 1,482**	**$ 1,307**

The $175 million net increase and $357 million net decrease in the Federal Fund in fiscal years 2013 and 2012, respectively, represent the change in the estimated value of net assets held in the FFEL guaranty agency Federal Funds. This increase reflects the impact of guaranty agencies' operations.

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

The Federal Government currently operates two major student loan programs: the Federal Family Education Loan program and the William D. Ford Federal Direct Loan program. The Health Care and Education Reconciliation Act of 2010 eliminated the authorization to originate new FFEL loans; as of July 1, 2010, all new loans are originated in the Direct Loan Program. The Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Evidence of financial need is required for a student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the William D. Ford Federal Direct Loan Program, referred to as the Direct Loan Program. Direct Loans are originated and serviced through contracts with private vendors. As of September 30, 2013 and 2012, total principal balances outstanding of Direct Loans were approximately $585 billion and $473 billion, respectively.

The Department disbursed approximately $130 billion in Direct Loans to eligible borrowers in FY 2013 and approximately $142 billion in FY 2012. Loans typically are disbursed in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Half of all loan volume is obligated in the fourth quarter of a fiscal year. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

Approximately 9 percent of Direct Loan obligations made in a fiscal year are never disbursed. Loan obligations are established at a summary level based on estimates of schools' receipt of aid applications. The loan obligation may occur before a student has been accepted by a school or before the student begins classes. For Direct Loans obligated in the 2013 cohort, an estimated $14.2 billion will never be disbursed. Eligible schools may originate direct loans through an advance from the Department or by advancing their own funds in anticipation of reimbursement from the Department.

Negative allowance for subsidy is a factor of interest rates, default rates, fees, and other costs. Negative subsidy is an estimate of future cash inflows exceeding future cash outflows. Subsidy, either positive or negative, provides resources for the Department to carry on its loan origination activities under the Direct Loan program or support its past FFEL Program loan guarantees' made on or before June 30, 2010.

Federal Family Education Loan Program. As a result of the *SAFRA Act*, the Department and private lenders did not originate or guarantee any new loans in FY 2013 or FY 2012. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, until the loan is sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2013 and 2012, total principal balances outstanding of guaranteed loans held by lenders were approximately $264 billion and $291 billion, respectively. As of September 30, 2013 and 2012, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $258 billion and $285 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the guaranty agencies from their Federal Fund. Payments by guaranty agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies, but owned by the federal government.

ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an ABCP Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, ABCP Conduit activity has continued.

During FY 2009, the Department, Treasury, and OMB established the terms on which the Department would support an ABCP Conduit to provide liquidity to the student loan market. An ABCP Conduit issues short-term commercial paper to investors; this paper is backed by student loans pledged to the conduit. The conduit used the proceeds of sales of its commercial paper to acquire from lenders interests in student loans. Lenders must have used a portion of conduit payments to make new loans or acquire FFEL loans. The Department purchases certain pledged loans that become more than 210 days delinquent. The conduit has sold to the Department approximately $2.2 billion of these delinquent loans as of September 30, 2013. Under the terms of the Put Agreement with the conduit, the Department may purchase pledged loans 45 days prior to the Put Agreement expiration on January 19, 2014. Loans originated in academic years 2004-05 through 2007-08, and pledged to the conduit prior to July 1, 2010, are eligible to be purchased through the ABCP Conduit.

The conduit, a separate legal entity, has approximately $588 million in commercial paper outstanding. The Department's relationship with the ABCP Conduit requires it to buy delinquent loans and be available to purchase loans at the end of the program, January 2014. As of September 30, 2013, the Department has $71 billion in obligations to cover any buyer-of-lastresort activities and potential purchases of underlying student loans under the ABCP Conduit. These obligations are supported by available borrowing authority. Any obligations not used during the shutdown of the ABCP Conduit program will be deobligated at the end of the program. Further discussion on this subsequent event is discussed in the last section of Note 1.

The estimated FFEL liability for loan guarantees is reported as the present value of estimated net cash outflows. Defaulted FFEL loans are reported net of an allowance for subsidy computed using net present value methodology, including defaults, collections, and loan cancellations. The same methodology is used to estimate the allowance on Direct Loan receivables.

Guaranteed loans that default are initially turned over to guaranty agencies for collection. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection.

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

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

Loan Consolidations. Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the Credit Reform Act and requirements provided by OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, the retirement of Direct Loans being consolidated is considered a receipt of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new, consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort costs. The loan liability and net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect costs associated with anticipated future consolidation loans.

Direct Loan Program consolidations decreased from $36 billion during FY 2012 to $28 billion during FY 2013. The $28 billion includes approximately $0.6 billion in Special Direct Consolidation Loans. Under credit reform accounting, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated.

Modifications of Subsidy Cost. The recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between current discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue. Separate amounts are calculated for modification costs and modification adjustment transfers. The Department had no modifications in fiscal year 2013, but modified loans in fiscal year 2012.

Two modifications were recognized in FY 2012; the first was related to the interest rates used in the calculation of special allowance payments, and the second was the offering of Special Direct Consolidation Loans. Both modifications affect FFEL subsidy costs for cohort year 2010 and prior.

The net effect of loan modifications executed in FY 2012 was an upward subsidy cost of $153 million in FFEL with a corresponding effect on Liability for Loan Guarantees. Of this amount, $352 million in upward cost was related to the consolidation loan initiative while a net downward modification of $199 million resulted from the London InterBank Offered Rate initiative.

Credit Program Receivables

Credit Program Receivables, as of September 30, 2013 and 2012, consisted of the following:

Credit Program Receivables, Net

(Dollars in Millions)

	2013	2012
Direct Loan Program Loan Receivables, Net	$ 679,107	$ 526,035
FFEL Program		
Guaranteed Loan Program, Net (Pre-1992)	2,231	2,697
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	35,144	29,644
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	38,946	41,145
Loan Participation Purchase, Net	67,546	70,888
ABCP Conduit, Net	1,864	1,731
Federal Perkins and Other Program Loan Receivables, Net	369	351
TEACH Program Receivables, Net	453	344
Total	**$ 825,660**	**$ 672,835**

William D. Ford Federal Direct Loan Program. Direct Loan Program Loan Receivables are defaulted and non-defaulted loans owned by the Department and are held by the Department or guaranty agencies. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

Direct Loan Program Loan Receivables, Net

(Dollars in Millions)

	2013	2012
Principal Receivable	$ 584,528	$ 472,877
Interest Receivable	29,332	21,082
Receivables	613,860	493,959
Allowance for Subsidy	65,247	32,076
Direct Loan Program Total	**$ 679,107**	**$ 526,035**

Of the $613.9 billion in receivables, as of September 30, 2013, $28.9 billion (4.7 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $20.2 billion (4.1 percent) a year earlier. As of September 30, 2013, an additional $1.1 billion in defaulted loans held by servicers had not yet been transferred to the Department's defaulted loan servicer; this amount includes defaulted Direct Loans and defaulted loans from other loan programs.

Federal Family Education Loan Program. FFEL Program Loan Receivables are defaulted loans owned by the Department and are held by the Department or guaranty agencies. Guaranteed student loans that default are first placed with guarantee agencies for collection. If collection activities of guarantee agencies are not successful, the defaulted FFEL loans are assigned to the Department for collection. Defaulted FFEL loans are accounted for under credit reform rules, although they are legally not direct student loans. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2013	2012
FFEL Program (Pre-1992)		
Principal Receivable	$ 5,040	$ 5,519
Interest Receivable	5,563	5,358
Receivables	10,603	10,877
Allowance for Subsidy	(8,356)	(8,180)
Liabilities for Loan Guarantees	(16)	-
FFEL Guaranteed Loan Program, Net (Pre-1992)	**2,231**	**2,697**
FFEL Program (Post-1991)		
FFEL Guaranteed Loan Program:		
Principal Receivable	32,649	31,549
Interest Receivable	4,849	4,541
Receivables	37,498	36,090
Allowance for Subsidy	(6,614)	(6,446)
Liabilities for Loan Guarantees	4,260	-
FFEL Guaranteed Loan Program, Net	**35,144**	**29,644**
Temporary Loan Purchase Authority		
Loan Purchase Commitment:		
Principal Receivable	31,899	34,012
Interest Receivable	1,859	1,875
Receivables	33,758	35,887
Allowance for Subsidy	5,188	5,258
Loan Purchase Commitment, Net	**38,946**	**41,145**
Loan Participation Purchase:		
Principal Receivable	56,041	58,834
Interest Receivable	3,297	3,144
Receivables	59,338	61,978
Allowance for Subsidy	8,208	8,910
Loan Participation Purchase, Net	**67,546**	**70,888**
ABCP Conduit:		
Principal Receivable	2,208	2,038
Interest Receivable	193	133
Receivables	2,401	2,171
Allowance for Subsidy	(537)	(440)
ABCP Conduit, Net	**1,864**	**1,731**
FFEL Program Total	**$ 145,731**	**$ 146,105**

All loans purchased by the Department under the temporary loan purchase authority are defaulted and non-defaulted federal assets.

Federal Perkins Loan Program. As of September 30, 2013 and 2012, loan and interest receivables, net of allowance for losses, were $358 million and $343 million, respectively. These receivables are valued at net realizable value with estimated allowance for losses of $154 million and $147 million as of September 30, 2013 and 2012, respectively.

TEACH Program. As of September 30, 2013 and 2012, loan receivables were $453 million and $344 million, respectively. The receivable balance is net of allowance for subsidy of $106 million and $93 million as of September 30, 2013 and 2012, respectively.

Reconciliation of Allowance for Subsidy and Liability for Loan Guarantees

William D. Ford Federal Direct Loan Program. The following schedule provides a reconciliation between the beginning and ending balances of the allowance for subsidy for the Direct Loan Program:

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2013	2012
Beginning Balance, Allowance for Subsidy	**$ 32,076**	**$ 25,346**
Activity		
Fee Collections	(1,557)	(1,585)
Loan Cancellations[1]	1,890	1,250
Subsidy Allowance Amortization	(7,719)	(3,778)
Other	1,000	123
Total Activity	**(6,386)**	**(3,990)**
Components of Subsidy Transfers		
Interest Rate Differential	37,063	32,372
Defaults, Net of Recoveries	(1,887)	(2,356)
Fees	1,801	1,792
Other[2]	(9,967)	(8,901)
Current Year Subsidy Transfers	**27,010**	**22,907**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[3]	11,754	(7,651)
Technical and Default Re-estimates	793	(4,536)
Subsidy Re-estimates	**12,547**	**(12,187)**
Ending Balance, Allowance for Subsidy	**$ 65,247**	**$ 32,076**

[1] Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.

[2] Other consists of contract collection costs, program review collections, fee and other accruals

[3] The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

Federal Family Education Loan Program. The FFEL Guaranteed Student Loan Financing Account has a negative estimated Liability for Loan Guarantees of $4.3 billion as of September 30, 2013. This indicates expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. As of September 30, 2012, the Department's Liability for Loan Guarantees was approximately $1 billion on anticipated loan defaults. Under Generally Accepted Accounting Principles, as under federal Generally Accepted Accounting Principles, the negative estimated liability has been classified as Credit Program Receivables on the Consolidated Balance Sheet. According to "Federal Accounting Standards Advisory Board Standard No. 2, Accounting for Direct Loans and Loan Guarantees," a negative liability is reasonable, as that the accounting standard was written with deference to budgetary rules as promulgated by OMB. The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantees for the insurance portion of the FFEL Program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2013	2012
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ (1,013)**	**$ (9,984)**
Activity		
Interest Supplement Payments	1,336	1,756
Claim Payments	9,125	9,291
Fee Collections	(2,239)	(2,344)
Interest on Liability Balance	1,783	1,440
Other[1]	(12,564)	(12,748)
Total Activity	**(2,559)**	**(2,605)**
Components of Loan Modifications		
Loan Modification Costs	-	(153)
Modification Adjustment Transfers	-	(6)
Loan Modifications	**-**	**(159)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	-
Technical and Default Re-estimates	7,832	11,735
Subsidy Re-estimates	**7,832**	**11,735**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**4,260**	**(1,013)**
FFEL Liquidating Account Liability for Loan Guarantees	(16)	(24)
Liabilities for Loan Guarantees	**$ 4,244**	**$ (1,037)**

[1] Other activity is comprised of negative special allowance collections, collections on defaulted FFEL loans, and loan cancellations due to death, disability, or bankruptcy. In addition, other miscellaneous collections, expenditures, and accruals related to operations are recorded.

The presentation of the FY 2012 Liability for Loan Guarantees is in the liability section of the Department's Balance Sheet, while the presentation of the FY 2013 liability is in the Credit Program Receivables Balance Sheet line item. The Liability for Loan Guarantees schedule presents both years.

The following schedules provide reconciliations between the beginning and ending balances of the allowance for subsidy for the Loan Purchase Commitment component and the Loan Participation Purchase component of the FFEL Program. Loans in these programs are acquired loans by the Department. These FFEL components are accounted for using credit reform accounting methodology and affect credit program receivables accordingly.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2013	2012
Beginning Balance, Allowance for Subsidy	**$ 5,258**	**$ 4,415**
Activity		
Subsidy Allowance Amortization	(771)	(684)
Loan Cancellations	106	84
Direct Asset Activities and Other	51	37
Total Activity	**(614)**	**(563)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	-
Technical and Default Re-estimates	544	1,406
Subsidy Re-estimates	**544**	**1,406**
Ending Balance, Allowance for Subsidy	**$ 5,188**	**$ 5,258**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2013	2012
Beginning Balance, Allowance for Subsidy	**$ 8,910**	**$ 8,564**
Activity		
Subsidy Allowance Amortization	(1,319)	(1,167)
Loan Cancellations	197	157
Direct Asset Activities and Other	43	(37)
Total Activity	**(1,079)**	**(1,047)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	-
Technical and Default Re-estimates	377	1,393
Subsidy Re-estimates	**377**	**1,393**
Ending Balance, Allowance for Subsidy	**$ 8,208**	**$ 8,910**

Financing Account Interest Expense and Interest Revenue

The Department borrows from Treasury to fund the unsubsidized portion of lending activities. The Department calculates and pays Treasury interest on its borrowing at the end of each year. During the year, interest is earned on outstanding direct loans, outstanding FFEL loans purchased by the Department, and on uninvested funds.

The Department accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by the Department. Interest receivable is accrued on defaulted guaranteed loans, with an offset to the allowance for subsidy. Changes in timing of interest accrual have zero effect on the financial statements. The Department does not record interest revenue on defaulted guaranteed loans. The Department implemented a new Debt Management Collection System in October FY 2012. As a result of the new system's capabilities, the Department is now accruing interest on a monthly basis. In addition, no budgetary resources or status of resources are affected, including expended and unexpended obligations. The amounts are affected by the timing of interest accruals; however, the amounts related to these timing differences are not material to the footnote disclosures. (See Note 15)

Subsidy amortization is calculated as the difference between interest revenue and interest expense. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

William D. Ford Federal Direct Loan Program. The following schedule summarizes the Direct Loan Financing Account interest expense and interest revenue for the years ended September 30, 2013 and 2012:

Direct Loan Program

(Dollars in Millions)

	2013	2012
Interest Expense on Treasury Borrowing	$ 22,661	$ 20,643
Total Interest Expense	**$ 22,661**	**$ 20,643**
Interest Revenue from the Public	$ 26,972	$ 20,156
Amortization of Subsidy	(7,720)	(3,778)
Interest Revenue on Uninvested Funds	3,409	4,265
Total Interest Revenue	**$ 22,661**	**$ 20,643**

Subsidy Expense

William D. Ford Federal Direct Loan Program

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2013	2012
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ 37,063	$ 32,372
Defaults, Net of Recoveries	(1,887)	(2,356)
Fees	1,801	1,792
Other	(9,967)	(8,901)
Current Year Subsidy Transfers	**27,010**	**22,907**
Subsidy Re-estimates	12,547	(12,187)
Direct Loan Subsidy Expense	**$ 39,557**	**$ 10,720**

William D. Ford Federal Direct Loan re-estimated subsidy cost was adjusted downward by $12.5 billion in FY 2013. Updated discount rates for the 2012 and 2011 cohorts in the credit subsidy calculator decreased cost by $11.8 billion. Deferment and forbearance rate changes decreased cost by $1.5 billion. Costs increased $1.5 billion due to increases in default and disability rates. Changes in prepayment rates reflect slower than expected prepayment activity, leading to increased interest earnings resulting in $1.1 billion in downward subsidy cost. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost by $1.8 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2012.

William D. Ford Federal Direct Loan re-estimated subsidy cost was adjusted upward by $12.2 billion in FY 2012. Costs increased $10.3 billion due to updated economic assumptions, including probabilistic estimating, discount rates, and weighted consolidation loan interest rates. Direct Loan death, disability, and bankruptcy rates increased cost by $478 million due to increased disability claims. Costs increased $538 million due to slight decreases in loan volume, concentrated in negative subsidy loan types and default rates increased resulting in $604 million in cost. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations, for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost $2.0 billion. Re-estimated costs only include those cohorts that were 90 percent disbursed; cohort years 1994–2011.

Federal Family Education Loan Program

FFEL Program Subsidy Expense
(Dollars in Millions)

	2013		2012	
FFEL Guaranteed Loan Program Subsidy Re-estimates	$	7,832	$	11,735
Loan Purchase Commitment Subsidy Re-estimates		544		1,406
Loan Participation Purchase Subsidy Re-estimates		377		1,393
FFEL Program Subsidy Re-estimates		**8,753**		**14,534**
FFEL Guaranteed Loan Program Modification Costs		-		(153)
FFEL Program Subsidy Expense	**$**	**8,753**	**$**	**14,381**

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by $7.8 billion in FY 2013. Costs decreased $5.2 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Costs increased $1 billion due to increases in bankruptcy and disability rates. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for leaders would increase projected FFEL costs by $12.3 billion. Re-estimated costs only include those cohorts that were 90 percent disbursed; cohort years 1992–2010.

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by $11.7 billion in FY 2012. Costs decreased $10.3 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Costs decreased $1.2 billion given the lower than expected demand for Special Direct Consolidation Loans—a short-term consolidation initiative offered during FY 2012. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations, for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $13.1 billion. Re-estimated costs only include those cohorts that were 90 percent disbursed; cohort years 1992-2010.

Subsidy Rates

The subsidy rates applicable to the 2013 loan cohort year follow:

Subsidy Rates—Cohort 2013

	Interest Differential	Defaults	Fees	Other	Total
Direct Loan Program	(26.22%)	0.88%	(1.33%)	7.48%	(19.19%)
TEACH Program	3.47%	0.41%	0.00%	7.13%	11.01%

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year. The subsidy expense for new direct loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year may include re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2013 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

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

Administrative Expenses

Administrative Expenses, for the years ended September 30, 2013 and 2012, consisted of the following:

Administrative Expenses
(Dollars in Millions)

	2013		2012	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 639	$ 413	$ 543	$ 321
Other Expense	25	16	26	16
Total	**$ 664**	**$ 429**	**$ 569**	**$ 337**

Note 7. Property and Equipment, Net

Property and Equipment, as of September 30, 2013 and 2012, consisted of the following:

Property and Equipment, Net

(Dollars in Millions)

	2013		
	Cost	**Accumulated Depreciation**	**Net Asset Value**
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 129	$ (127)	$ 2
Furniture and Fixtures	2	(2)	-
Property and Equipment, Net	**$ 131**	**$ (129)**	**$ 2**

	2012		
	Cost	**Accumulated Depreciation**	**Net Asset Value**
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 125	$ (119)	$ 6
Furniture and Fixtures	2	(2)	-
Property and Equipment, Net	**$ 127**	**$ (121)**	**$ 6**

The depreciation expense has not changed from FY 2012 and remains $8 million as of September 30, 2013.

The majority of the asset costs relate to financial management systems and other information technology and communications improvements. The Department acquires information technology to enhance its capabilities to manage student loan and grant operations.

Leases

FSA leases information technology and telecommunications equipment as part of a contractor-owned contractor-operated services contract. Lease payments associated with the equipment are classified as operating leases and as such are expensed as incurred. The non-cancelable lease term is one year, with the right to extend the lease term by exercising additional one-year options.

Note 8. Other Assets

Other Assets (with the public) consist of payments made to grant recipients in advance of their expenditures and in-process invoices for interest benefits and special allowances for the FFEL Program. Other Assets (with the public) were $13 million and $15 million as of September 30, 2013 and 2012, respectively.

Note 9. Accounts Payable

Accounts Payable, as of September 30, 2013 and 2012, consisted of the following:

Accounts Payable
(Dollars in Millions)

	2013	2012
Direct Loan Booking Accrual	$ 2,923	$ 2,984
In Process Disbursements:		
Direct Loans	573	588
Grants	237	200
FFEL Claim Payments	52	163
Contractual Services	172	-
Other	(15)	23
Accounts Payable to the Public	**3,942**	**3,958**
Intragovernmental Accounts Payable	**1**	**1**
Total Accounts Payable	**$ 3,943**	**$ 3,959**

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

Accounts Payable Other abnormal balance of $(15) million is primarily due to FFEL Guaranteed Loan Program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 2013 and 2012, consisted of the following:

Debt
(Dollars in Millions)

	2013			
	Beginning Balance	Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 549,332	$ 177,682	$ (28,653)	$ 698,361
FFEL Program				
Guaranteed Loan Program	43,254	-	-	43,254
Loan Purchase Commitment	42,341	602	(4,345)	38,598
Loan Participation Purchase	77,292	519	(9,794)	68,017
ABCP Conduit	1,735	1,000	(192)	2,543
TEACH Program	370	128	(13)	485
Total	**$ 714,324**	**$ 179,931**	**$ (42,997)**	**$ 851,258**

	2012			
	Beginning Balance	Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 392,374	$ 175,881	$ (18,923)	$ 549,332
FFEL Program				
Guaranteed Loan Program	29,484	13,770	-	43,254
Loan Purchase Commitment	43,859	719	(2,237)	42,341
Loan Participation Purchase	79,302	1,621	(3,631)	77,292
ABCP Conduit	964	1,050	(279)	1,735
TEACH Program	281	119	(30)	370
Total	**$ 546,264**	**$ 193,160**	**$ (25,100)**	**$ 714,324**

The amount available for repayments on borrowings to Treasury is derived from many factors. For instance, beginning-of-the-year cash balances, collections, and new borrowings have an impact on the cash available to repay Treasury. Cash is also held to cover future liabilities, such as contract collection costs and disbursements in transit. Borrowing from Treasury decreased by $13.2 billion and 7 percent from FY 2012. The majority of the increase in debt resulted from the Direct Loan Program borrowing for loan origination. Additionally, the FFEL and TEACH programs had increased borrowings.

The maturity date for borrowing from Treasury is based on the time period used in subsidy calculation, not on the contractual term of the Department's or private lender's loan to the borrower. The period of time used for subsidy calculation may exceed the contractual term of a loan to a borrower. Borrowings from Treasury mature on September 30 of the estimated final year of a cohort.

Note 11. Other Liabilities

Other Liabilities, as of September 30, 2013 and 2012, consisted of the following:

Other Liabilities

(Dollars in Millions)

	2013		2012	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Covered by Budgetary Resources				
Current				
Employer Contributions and Payroll Taxes	$ 2	$ -	$ 2	$ -
Accrued Payroll and Benefits	-	9	-	9
Deferred Revenue	-	31	-	36
Liabilities in Miscellaneous Receipt Accounts	6,050	-	3,749	-
Total Other Liabilities Covered by Budgetary Resources	**6,052**	**40**	**3,751**	**45**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	10	-	10
Non-Current				
Accrued Unfunded FECA Liability	1	-	2	-
Liabilities in Miscellaneous Receipt Accounts	358	-	342	-
Capital Transfers [1]	2,375	-	2,914	-
Accrued FECA Actuarial Liability	-	5	-	5
Total Other Liabilities Not Covered by Budgetary Resources	**2,734**	**15**	**3,258**	**15**
Other Liabilities	**$ 8,786**	**$ 55**	**$ 7,009**	**$ 60**

[1] See Reclassification in Note 1.

Other liabilities include current and non-current liabilities. The current liabilities covered by budgetary resources primarily consist of downward subsidy re-estimates ($6.1 billion), which when executed will be paid to the General Fund of the Treasury.

The non-current liabilities not covered by budgetary resources primarily relate to capital transfers ($2.4 billion) and the student loan receivables of the Federal Perkins Loan Program ($0.4 billion).

Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled $2,749 million and $3,273 million as of September 30, 2013 and 2012, respectively.

As of September 30, 2013 and 2012, liabilities on the Balance Sheet totaled $867.3 billion and $730.0 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $864.5 billion as of September 30, 2013, and $726.6 billion as of September 30, 2012.

Note 12. Accrued Grant Liability

FSA's Accrued Grant Liability was $1,727 million and $2,269 million as of September 30, 2013 and 2012, respectively.

Note 13. Net Position

Unexpended appropriations, as of September 30, 2013 and 2012, consisted of the following:

Unexpended Appropriations
(Dollars in Millions)

	2013	2012
Unobligated Balances		
Available	$ 11,952	$ 8,562
Not Available	403	294
Undelivered Orders	21,240	21,505
Unexpended Appropriations	**$ 33,595**	**$ 30,361**

FSA had Cumulative Results of Operations of $(3,601) million and $(7,588) million as of September 30, 2013 and 2012, respectively. Cumulative Results of Operations consists mostly of unfunded upward subsidy re-estimates, other unfunded expenses, and net investments of capitalized assets.

Other Financing Sources on the Statement of Changes in Net Position was primarily comprised of negative subsidy transfers, downward subsidy re-estimates, capital transfers, and other, as of September 30, 2013 and 2012 as presented in the following table:

Negative Subsidy Transfers, Downward Re-Estimates, and Other
(Dollars in Millions)

	2013			
	Negative Subsidy Transfers	**Downward Subsidy Re-Estimates**	**Other**	**Ending Balance**
Direct Loan	$ (27,010)	$ (12,603)	$ -	$ (39,613)
FFEL	-	(11,065)	-	(11,065)
Grants	-	-	(52)	(52)
TEACH	-	(18)	-	(18)
Total	**$ (27,010)**	**$ (23,686)**	**$ (52)**	**$ (50,748)**

	2012			
	Negative Subsidy Transfers	**Downward Subsidy Re-Estimates**	**Other**	**Ending Balance**
Direct Loan	$ (22,907)	$ 1,025	$ -	$ (21,882)
FFEL	-	(15,699)	131	(15,568)
Grants	-	-	(35)	(35)
TEACH	-	-	-	-
Total	**$ (22,907)**	**$ (14,674)**	**$ 96**	**$ (37,485)**

Note 14. Intragovernmental Cost and Exchange Revenue by Program

As required by the *Government Performance and Results Act Modernization Act of 2010*, FSA's reporting organization has been aligned with Strategic Goal 1 presented in the Department's *Strategic Plan 2011—2014*. Strategic Goal 1, Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults, is a sharply defined directive that guides divisions to carry out the vision and programmatic mission of FSA.

The goals of the Recovery Act are consistent with the Department's current strategic goals and programs. For reporting purposes, an American Recovery and Reinvestment Act net cost program has been created. Gross Cost and Exchange Revenue is the cost incurred less any exchange revenue earned from activities.

The Department determines Gross Cost and Exchange Revenue by tracing amounts back to the relevant program office.

Gross costs and earned revenue are classified as intragovernmental (exchange transactions between FSA and other entities within the federal government) or with the public (exchange transactions between FSA and non-federal entities). "Increase College Access, Quality, and Completion" program negative net cost of operations is due to negative subsidy cost transfers and the downward re-estimates of prior subsidy cost. The following table presents FSA's gross cost and exchange revenue by program for FY 2013 and FY 2012.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2013	2012
Increase College Access, Quality, and Completion		
Intragovernmental Gross Cost	$ 28,513	$ 26,750
Public Gross Cost	(15,247)	9,216
Total Gross Program Costs	13,266	35,966
Intragovernmental Earned Revenue	(3,685)	(5,343)
Public Earned Revenue	(23,003)	(19,963)
Total Program Earned Revenue	(26,688)	(25,306)
Total Program Cost	**(13,422)**	**10,660**
American Recovery and Reinvestment Act		
Intragovernmental Gross Cost	-	-
Public Gross Cost	-	23
Total Gross Program Costs	-	23
Intragovernmental Earned Revenue	-	-
Public Earned Revenue	-	-
Total Program Earned Revenue	-	-
Total Program Cost	**-**	**23**
Net Cost of Operations	**$ (13,422)**	**$ 10,683**

Note 15. Interest Expense and Interest Revenue

For FY 2013 and FY 2012, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2013					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 22,661	$ -	$ 22,661	$ 3,409	$ 19,252	$ 22,661
FFEL Program						
Guaranteed Loan Program	2,083	(1,783)	300	300	-	300
Loan Purchase Commitment	1,244	-	1,244	79	1,165	1,244
Loan Participation Purchase	2,293	-	2,293	203	2,090	2,293
ABCP Conduit	124	-	124	44	80	124
TEACH Program	16	-	16	2	14	16
Total	**$ 28,421**	**$ (1,783)**	**$ 26,638**	**$ 4,037**	**$ 22,601**	**$ 26,638**

	2012					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 20,643	$ -	$ 20,643	$ 4,265	$ 16,378	$ 20,643
FFEL Program						
Guaranteed Loan Program	2,083	(1,440)	643	643	-	643
Loan Purchase Commitment	1,318	-	1,318	73	1,245	1,318
Loan Participation Purchase	2,471	-	2,471	237	2,234	2,471
ABCP Conduit	90	-	90	32	58	90
TEACH Program	15	-	15	4	11	15
Total	**$ 26,620**	**$ (1,440)**	**$ 25,180**	**$ 5,254**	**$ 19,926**	**$ 25,180**

Federal interest expense is recognized on the Department's outstanding Borrowings from Treasury (Debt). The Direct Loan and FFEL Programs have $698 billion and $153 billion in Debt, respectively, as of September 30, 2013. Federal Interest Revenue is earned on Fund Balance with Treasury for the Direct Loan and FFEL Programs. The interest rate set by OMB is the same for interest expense and income.

Non-Federal interest revenue is interest earned from the public on Credit Program Receivables held by the Department. The Credit Program Receivable balances for the Direct Loan and FFEL Program are $679 billion and $146 billion, respectively, as of September 30, 2013. Non-federal interest expense results from the amortization of loan subsidy.

Note 16. Statement of Budgetary Resources

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2013, budgetary resources were $312,459 million and net agency outlays were $140,948 million. As of September 30, 2012, budgetary resources were $326,281 million and net agency outlays were $163,762 million.

Permanent Indefinite Budget Authority

The Direct Loan, FFEL, and TEACH Programs have permanent indefinite budget authority through legislation. Parts B and D of the HEA (for the FFEL Program and Direct Loan Program, respectively) pertain to the existence, purpose, and availability of this permanent indefinite budget authority.

Reauthorization of Legislation

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

Obligations Incurred by Apportionment Category

Obligations incurred by apportionment category, as of September 30, 2013 and 2012, consisted of the following:

Obligations Incurred by Apportionment Category

(Dollars in Millions)

	2013	2012
Direct:		
Category A	$ 1,019	$ 980
Category B	286,137	295,938
Exempt from Apportionment	281	418
Obligations Incurred	**$ 287,437**	**$ 297,336**

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

Unused Borrowing Authority

Unused borrowing authority, as of September 30, 2013 and 2012, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2013	2012
Beginning Balance, Unused Borrowing Authority	**$ 145,238**	**$ 141,977**
Current Year Borrowing Authority	194,970	209,379
Funds Drawn From Treasury	(179,931)	(193,160)
Borrowing Authority Withdrawn	(21,866)	(12,958)
Ending Balance, Unused Borrowing Authority	**$ 138,411**	**$ 145,238**

FSA is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and TEACH Programs. Unused Borrowing Authority is a budgetary resource and is available to support obligations. FSA periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2013 and 2012, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2013	2012
Budgetary	$ 21,304	$ 21,573
Non-Budgetary	158,444	168,791
Undelivered Orders (Unpaid)	**$ 179,748**	**$ 190,364**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in Unexpended Appropriations on the Net Position. Undelivered orders for federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 13)

Distributed Offsetting Receipts

The majority of the Distributed Offsetting Receipts line item on the SBR represents amounts paid from the Direct Loan Program and FFEL Program Financing Accounts to general fund receipt accounts for downward re-estimates and negative subsidies. Distributed Offsetting Receipts, for the years ended September 30, 2013 and 2012, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2013	2012
Negative Subsidies and Downward Re-estimates:		
FFEL Program	$ 9,946	$ 16,371
Direct Loan Program	38,436	24,258
TEACH Program	17	-
Total Negative Subsidies and Downward Re-estimates	48,399	40,629
Other	46	25
Distributed Offsetting Receipts	**$ 48,445**	**$ 40,654**

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

Budgetary accounting as shown in the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Funds of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the FY 2012 Statement of Budgetary Resources for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.

Note 17. Reconciliation of Budgetary Obligations to Net Cost of Operations

The Reconciliation of Budgetary Obligations to Net Cost of Operations provides information on how budgetary resources obligated during the period relate to the net cost of operations by: (1) removing resources that do not fund net cost of operations, and (2) including components of net cost of operations that did not generate or use resources during the year.

The Reconciliation of Budgetary Obligations to Net Cost of Operations, as of September 30, 2013 and 2012, are presented below:

Reconciliation of Budgetary Obligations to Net Cost of Operations

(Dollars in Millions)

	2013	2012
Resources Used to Finance Activities:		
Obligations Incurred	$ 287,437	$ 297,336
Spending Authority from Offsetting Collections and Recoveries	(109,229)	(84,302)
Offsetting Receipts	(48,445)	(40,654)
Net Budgetary Resources Obligated	**129,763**	**172,380**
Transfers In/Out Without Reimbursements (+/-)	(10)	-
Imputed Financing from Costs Absorbed by Others	11	11
Other Financing Sources	(50,748)	(37,477)
Net Other Resources	**(50,747)**	**(37,466)**
Net Resources Used to Finance Activities	**79,016**	**134,914**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
Increase/(Decrease) in Budgetary Resources Obligated but Not Yet Provided	10,168	(9,073)
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(3,922)	3,329
Credit Program Collections	58,293	52,178
Acquisition of Fixed Assets	(2)	-
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(191,364)	(197,846)
Resources from Non-Entity Activity	50,923	37,512
Net Resources That Do Not Finance the Net Cost of Operations	**(75,904)**	**(113,900)**
Net Resources Used to Finance the Net Cost of Operations	**3,112**	**21,014**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Depreciation	8	8
Subsidy Amortization and Interest on the Liability for Loan Guarantees	8,100	4,239
Other	20	(16)
Total Components Not Requiring or Generating Resources	**8,128**	**4,231**
Accrued Re-estimates of Credit Subsidy Expense	(2,382)	3,922
Increase in Exchange Revenue Receivable from the Public	(22,288)	(18,441)
Other	8	(43)
Total Components Requiring or Generating Resources in Future Periods	**(24,662)**	**(14,562)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(16,534)**	**(10,331)**
Net Cost of Operations	**$ (13,422)**	**$ 10,683**

Note 18. American Recovery and Reinvestment Act of 2009

The Recovery Act provided $16,543 million for student aid administration and student financial assistance programs managed and administered by FSA. Funds provided for student financial assistance programs included additional Pell Grant authority for low and middle-income undergraduate students, an increase to the per Pell grant amount, and additional funding made available in the federal work study program. Additional student aid administration funding was provided to increase the number of Title IV student loan servicing vehicles and to improve operational performance to collect and deliver loan and grant data. As of September 30, 2013, $16,542 million has been expended and one million dollars remains available for expenditure; which has remained the same since September 30, 2012.

Note 19. Contingencies

Guaranty Agencies

FSA may assist guaranty agencies experiencing financial difficulties. No provision has been made in the financial statements for potential liabilities. FSA has not done so in fiscal years 2013 or 2012 and does not expect to in future years.

Federal Perkins Loan Program

The Federal Perkins Loan Program is a campus-based program that provides financial assistance to eligible postsecondary school students. In FY 2013, the Department provided funding of 82.8 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.2 percent of program funding. For the latest academic year ended June 30, 2013, approximately 499 thousand loans were made $1 billion at 1,492 institutions, averaging $2,021 per loan. The Department's equity interest was approximately $6.7 billion as of September 30, 2013.

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

Litigation and Other Claims

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

Other Matters

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

Required Supplementary Stewardship Information

Human Capital investments are those expenses included in net cost for general public education and training programs that are intended to increase or maintain national economic productive capacity.

Year to date expenses incurred for human capital investments consisted of the following as of September 30, 2013 and the preceding four fiscal year ends:

Summary of Human Capital Expenses
(Dollars in Millions)

	2013	2012	2011	2010	2009
Federal Student Aid Expense					
Direct Loan Subsidy	($39,557)	($10,720)	($28,630)	($1,567)	($9,603)
FFEL Program Subsidy	(8,753)	(14,381)	(16,126)	(14,344)	(29,940)
Perkins Loans, Pell and Other Grant	33,542	34,310	39,008	26,799	17,302
Recovery Act	0	23	18	8,869	7,571
Salaries and Administrative	222	192	193	208	186
Total	**($14,546)**	**$9,424**	**($5,537)**	**$19,965**	**($14,484)**

The William D. Ford Federal Direct Loan (Direct Loan) Program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the United States (U.S.) Department of Treasury. This program has expanded dramatically since the passage of the *SAFRA Act*, formerly the *Student Aid and Fiscal Responsibility Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), under which no new loan originations were permitted to be made from the Federal Family Education Loan (FFEL) program after June 30, 2010, so that loans that may have previously been made through the FFEL program are now made through the Direct Loan Program. In addition, the Special Direct Consolidation Loan (SDCL) initiative allowed borrowers who had at least one Direct Loan Program loan or U.S. Department of Education (the Department)-held FFEL Program loan and at least one commercially-held FFEL Program loan to consolidate their eligible commercially-held FFEL Program loans into a SDCL during a limited window of time from January 17 through June 30, 2012. In addition, borrowers were allowed to add additional eligible loans within the 180-day period after the initial SDCL had been made.

The FFEL Loan Program has originated no new loans since June 30, 2010, but its permanent budget authority allows it to continue to operate with state and private nonprofit guaranty agencies to honor loan guarantees and for the Department to pay interest supplements on outstanding loans by private lenders to eligible students. The FFEL Loan Program expenses include the Loan Participation Purchase and Loan Purchase Commitment expenses of $(377) million and $(544) million respectively.

Perkins Loan and Grant programs include the Federal Pell Grant Program that awards direct grants through participating institutions to undergraduate students with financial need. Participating institutions either credit the appropriated funds to the student’s school account or pay the student directly once per term.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans. The President's 2013 Budget proposes to overhaul the TEACH Grant program as of the end of the 2012–2013 academic year, and replace it with a new, targeted teacher recruitment and retention program called the Presidential Teaching Fellows. This new program would provide grants to states that meet certain conditions to supply scholarships of up to $10,000 to talented individuals attending the most effective programs in the state. These individuals would commit to teaching for at least three years in a high need school and subject. To be eligible for funds, states would measure the effectiveness of their teacher preparation programs based on the student achievement data of their graduates among other measures; hold teacher preparation programs accountable for results; and upgrade licensure and certification standards.

Federal Student Aid's programs link with the overall initiatives of the Department in enhancing education—a fundamental stepping-stone to higher living standards for American citizens. While education is vital to national economic growth, education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

In the past, economic outcomes, such as wage and salary levels, have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Both individuals and society as a whole continue to place increased emphasis on educational attainment as the workplace has become increasingly technological, and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of investing in postsecondary education.

Required Supplementary Information

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2013

(Dollars in Millions)

	Combined		American Recovery and Reinvestment Act	Non-ARRA Combined	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:					
Unobligated Balance, Brought Forward, October 1	$ 10,366	$ 18,579	$ -	$ 10,366	$ 18,579
Recoveries of Prior Year Unpaid Obligations	359	35,425	1	358	35,425
Other Changes in Unobligated Balance (+ or -)	(266)	(39,189)	-	(266)	(39,189)
Unobligated Balance from Prior Year Budget Authority (Net)	$ 10,459	$ 14,815	$ 1	$ 10,458	$ 14,815
Appropriations (Discretionary and Mandatory)	44,578	-	-	44,578	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	194,970	-	-	194,970
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	711	46,926	-	711	46,926
Total Budgetary Resources (Note 16)	**$ 55,748**	**$ 256,711**	**$ 1**	**$ 55,747**	**$ 256,711**
Status of Budgetary Resources:					
Obligations Incurred (Note 16)	$ 41,798	$ 245,639	$ 1	$ 41,797	$ 245,639
Unobligated Balance, End of Year:					
Apportioned	11,952	-	-	11,952	-
Unapportioned	1,998	11,072	-	1,998	11,072
Total Unobligated Balance, End of Year	$ 13,950	$ 11,072	$ -	$ 13,950	$ 11,072
Total Status of Budgetary Resources (Note 16)	**$ 55,748**	**$ 256,711**	**$ 1**	**$ 55,747**	**$ 256,711**
Change in Obligated Balance:					
Unpaid Obligations:					
Unpaid Obligations, Brought Forward, October 1	$ 24,094	$ 171,959	$ 1	$ 24,093	$ 171,959
Obligation Incurred	41,798	245,639	1	41,797	245,639
Outlays (Gross) (-)	(42,153)	(220,685)	-	(42,153)	(220,685)
Recoveries of Prior Year Unpaid Obligations (-)	(359)	(35,425)	(1)	(358)	(35,425)
Unpaid Obligations, End of Year	$ 23,380	$ 161,488	$ 1	$ 23,379	$ 161,488
Uncollected Payments:					
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	1	-	-	1
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (3)	$ -	$ -	$ (3)
Memorandum (Non-add) Entries:					
Obligated Balance, Start of Year (+ or -)	**$ 24,094**	**$ 171,955**	**$ 1**	**$ 24,093**	**$ 171,955**
Obligated Balance, End of Year (+ or -)	**$ 23,380**	**$ 161,485**	**$ 1**	**$ 23,379**	**$ 161,485**
Budget Authority and Outlays, Net:					
Budget Authority, Gross (Discretionary and Mandatory)	$ 45,289	$ 241,896	$ -	$ 45,289	$ 241,896
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(844)	(72,601)	-	(844)	(72,601)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	1	-	-	1
Budget Authority, Net (Discretionary and Mandatory)	**$ 44,445**	**$ 169,296**	**$ -**	**$ 44,445**	**$ 169,296**
Outlays, Gross (Discretionary and Mandatory)	$ 42,153	$ 220,685	$ -	$ 42,153	$ 220,685
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(844)	(72,601)	-	(844)	(72,601)
Outlays, Net (Discretionary and Mandatory)	41,309	148,084	-	41,309	148,084
Distributed Offsetting Receipts (-) (Note 16)	(48,445)	-	-	(48,445)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (7,136)**	**$ 148,084**	**$ -**	**$ (7,136)**	**$ 148,084**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2013

(Dollars in Millions)

	Direct Student Loan Program		Teach Grant Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ -	$ 3,016	$ 9	$ -
Recoveries of Prior Year Unpaid Obligations	-	23,229	1	20
Other Changes in Unobligated Balance (+ or -)	-	(26,086)	(6)	(20)
Unobligated Balance from Prior Year Budget Authority (Net)	$ -	$ 159	$ 4	$ -
Appropriations (Discretionary and Mandatory)	3,274	-	15	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	193,721	-	128
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	25,917	-	26
Total Budgetary Resources (Note 16)	**$ 3,274**	**$ 219,797**	**$ 19**	**$ 154**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 3,274	$ 216,446	$ 15	$ 153
Unobligated Balance, End of Year:				
Apportioned	-	-	-	-
Unapportioned	-	3,351	4	1
Total Unobligated Balance, End of Year	$ -	$ 3,351	$ 4	$ 1
Total Status of Budgetary Resources (Note 16)	**$ 3,274**	**$ 219,797**	**$ 19**	**$ 154**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ -	$ 86,011	$ 5	$ 82
Obligation Incurred	3,274	216,446	15	153
Outlays (Gross) (-)	(3,274)	(191,612)	(15)	(140)
Recoveries of Prior Year Unpaid Obligations (-)	-	(23,229)	(1)	(20)
Unpaid Obligations, End of Year	$ -	$ 87,616	$ 4	$ 75
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	1
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ (3)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ -**	**$ 86,011**	**$ 5**	**$ 78**
Obligated Balance, End of Year (+ or -)	**$ -**	**$ 87,616**	**$ 4**	**$ 72**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 3,274	$ 219,638	$ 15	$ 154
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(42,913)	-	(30)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	1
Budget Authority, Net (Discretionary and Mandatory)	**$ 3,274**	**$ 176,725**	**$ 15**	**$ 125**
Outlays, Gross (Discretionary and Mandatory)	$ 3,274	$ 191,612	$ 15	$ 140
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(42,913)	-	(30)
Outlays, Net (Discretionary and Mandatory)	3,274	148,699	15	110
Distributed Offsetting Receipts (-) (Note 16)	(38,436)	-	(17)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (35,162)**	**$ 148,699**	**$ (2)**	**$ 110**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2013

(Dollars in Millions)

	Federal Family Education Loan Program		Perkins Loans and Grants	Administrative Funds
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 1,511	$ 15,563	$ 8,741	$ 105
Recoveries of Prior Year Unpaid Obligations	19	12,176	308	30
Other Changes in Unobligated Balance (+ or -)	(222)	(13,083)	(38)	-
Unobligated Balance from Prior Year Budget Authority (Net)	$ 1,308	$ 14,656	$ 9,011	$ 135
Appropriations (Discretionary and Mandatory)	3,102	-	36,853	1,334
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	1,121	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	711	20,983	-	-
Total Budgetary Resources (Note 16)	**$ 5,121**	**$ 36,760**	**$ 45,864**	**$ 1,469**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 3,525	$ 29,040	$ 33,609	$ 1,374
Unobligated Balance, End of Year:				
Apportioned	-	-	11,896	56
Unapportioned	1,596	7,720	359	39
Total Unobligated Balance, End of Year	$ 1,596	$ 7,720	$ 12,255	$ 95
Total Status of Budgetary Resources (Note 16)	**$ 5,121**	**$ 36,760**	**$ 45,864**	**$ 1,469**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 36	$ 85,866	$ 23,471	$ 581
Obligation Incurred	3,525	29,040	33,609	1,374
Outlays (Gross) (-)	(3,507)	(28,933)	(34,042)	(1,315)
Recoveries of Prior Year Unpaid Obligations (-)	(19)	(12,176)	(308)	(30)
Unpaid Obligations, End of Year	$ 35	$ 73,797	$ 22,730	$ 610
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 36**	**$ 85,866**	**$ 23,471**	**$ 581**
Obligated Balance, End of Year (+ or -)	**$ 35**	**$ 73,797**	**$ 22,730**	**$ 610**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 3,813	$ 22,104	$ 36,853	$ 1,334
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(844)	(29,658)	-	-
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 2,969**	**$ (7,554)**	**$ 36,853**	**$ 1,334**
Outlays, Gross (Discretionary and Mandatory)	$ 3,507	$ 28,933	$ 34,042	$ 1,315
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(844)	(29,658)	-	-
Outlays, Net (Discretionary and Mandatory)	2,663	(725)	34,042	1,315
Distributed Offsetting Receipts (-) (Note 16)	(9,946)	-	(46)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (7,283)**	**$ (725)**	**$ 33,996**	**$ 1,315**

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Independent Auditors' Report

Federal Student Aid
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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

December 11, 2013

James W. Runcie
Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Mr. Runcie:

The enclosed reports present the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal year 2013 to comply with the Higher Education Act amendments of 1998. The reports should be read in conjunction with FSA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CliftonLarsonAllen) to audit the financial statements of FSA as of September 30, 2013, and for the year then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

CliftonLarsonAllen found:

- The fiscal year 2013 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- Two significant deficiencies in internal control over financial reporting;
- No instances of reportable noncompliance with certain provisions of laws and regulations tested or other matters.

Evaluation and Monitoring of Audit Performance

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

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

Page 2 – James W. Runcie

Our review was not intended to enable us to express, and we do not express, an opinion on FSA's financial statements, or conclusions about the effectiveness of internal control or on compliance with laws and regulations or other matters.

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

We appreciate the cooperation given CliftonLarsonAllen and my office during the audit. If you have any questions or would like to discuss the reports, please contact me at (202) 245-6900, or your staff may contact Patrick J. Howard, Assistant Inspector General for Audit, at (202) 245-6949 or through e-mail at Pat.Howard@ed.gov.

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

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

Independent Auditors' Report

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Education

Chief Operating Officer
Federal Student Aid

In our audit of the fiscal year (FY) 2013 financial statements of Federal Student Aid (FSA), a component of the U.S Department of Education (Department), we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- Two significant deficiencies in internal control over financial reporting;
- No instances of reportable noncompliance with certain provisions of laws and regulations tested or other matters.

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) Management's Discussion and Analysis (MD&A), other required supplementary information (RSI), and other information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, (5) management's response to findings and (6) the current status of prior year findings.

Report on the Financial Statements

We have audited the accompanying financial statements of FSA, which comprise the consolidated balance sheet as of September 30, 2013, and the related consolidated statements of net cost and changes in net position, the combined statement of budgetary resources for the year then ended, and the related notes to the financial statements. The objective of our audit was to express an opinion on the fairness of these financial statements.

Management's Responsibilities

FSA management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation, measurement, and presentation of the RSI in accordance with the prescribed accounting principles generally accepted in the U.S., (3) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements and the RSI; and (4) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audit in accordance with Office of Management and Budget (OMB) Bulletin No. 14-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02).

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Student Aid as of September 30, 2013, and its net costs, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that FSA's MD&A and other RSI illustrated on pages 1 through 46 and 123 through 128, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the MD&A or other RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT (Continued)

Other Information
The Letter from the Chief Operating Officer of FSA, the Annual Performance Report on pages 47 through 78, and Other Information on pages 155 through 158 contain a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Financial Statements
The FY2012 financial statements of FSA were audited by other auditors whose report, dated November 16, 2012, expressed an unmodified opinion on those statements.

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

Report on Internal Control over Financial Reporting

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

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

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

Functionality and internal controls over some loan servicing systems need improvement

FSA experienced significant issues with the initial functionality of two new loan servicing systems implemented at the beginning of FY2012. These issues directly impacted the reliability of borrower account information and the related financial statement balances throughout FY2012. Management identified, and

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT (Continued)

the implemented corrective actions addressed, a number of the underlying system issues in FY2012. However, some of the remaining FY2012 issues, including new issues of lesser significance identified in FY2013, continued to impact the reliability of borrower account information and related financial statement balances throughout FY2013. The primary issues affecting the reliability of FSA's financial reporting during FY2013 included:

- Defaulted student loans, valued at $1.1 billion, had not yet been transferred to the new defaulted loan servicing system due to system functionality and new servicer set up issues at September 30, 2013.
- The defaulted loan servicing system was unable to report transfer transactions to the general ledger reliably during the year, resulting in large transfer differences with both the general ledger and with the non-defaulted loan servicers.
- Additional errors affecting the interest rate and calculation of interest on defaulted loans were identified, affecting six million borrowers for an estimated $79 million at September 30, 2013.
- Both new systems continued to experience financial reporting errors and delays in recording cash receipts during the year, resulting in ongoing differences with the U.S. Treasury reported balances.
- Both new systems continued to experience errors and delays in the reporting of the application of loan payments to the general ledger, resulting in aged unapplied cash balances.
- Unrecorded and erroneously recorded transactions in both new systems continued to affect FSA's ability to complete timely and accurate account reconciliations.
- Systemic issues in the non-defaulted loan servicing system affected the accuracy of borrower accounts and the general ledger.
- Programming errors related to the truncation of accrued interest on large non-defaulted loan balances were identified in FY2013, affecting 54 loans for an estimated $9 million in unrecorded interest.

Correcting the impact of these issues on individual borrower accounts has been an intensive process, requiring FSA to 1) identify the cause for the error, 2) establish controls for preventing proliferation of the issues, 3) identify affected borrowers, 4) correct the system functionality for key business processes, 5) where applicable, correct the underlying data, and 6) recalculate the correct borrower loan balances. The affected borrowers, who represent a small portion of FSA's loan portfolio, will be (or have been) notified of adjustments to their balances as a result of this process. Corrective actions are further complicated by FSA transferring many of the affected accounts from the new systems to other loan servicers in FY2013. As of September 30, 2013, the portfolio of the new non-defaulted loan system was transferred out to other servicers, effectively mitigating the risk of proliferation of issues.

Ensuring the effect of these system functionality issues is properly accounted for in FSA's internal and external financial reports has also required extensive resources dedicated to managing the complex reconciliation processes and the resolution of improperly posted transactions.

INDEPENDENT AUDITORS' REPORT (Continued)

FSA management needs to mitigate persistent Information Technology (IT) control deficiencies

Due to the unique requirements of FSA's grant, loan and administrative business activities, FSA oversees a large portfolio of government-owned/government operated, government-owned/contractor-operated, and contractor-owned/ contractor-operated information systems. Five FSA systems and one Department system comprise the key financial systems supporting FSA's financial activities. The third party servicers who manage FSA's general support systems are monitored by management through the use of Service Level Agreements and independent reviews. For several years, financial and other audits have identified numerous system deficiencies that affect the security and reliability of the information within these systems. Our audit continued to identify similar control deficiencies in the following areas:

Security management

- FSA's IT policies were outdated or did not fully address specific controls required by the National Institute of Standards and Technology (NIST)
- Incomplete System Security Plans
- Annual security control assessments not completed
- System risk assessments not kept up-to-date
- Lack of tracking and passed deadlines for corrective actions related to IT control weaknesses
- Security awareness training for new personnel not completed
- Role based security awareness training for personnel with significant system security responsibilities not completed

Personnel security

- Background reinvestigations not being tracked effectively at the Department

Access controls

- Lack of documented approval for system access
- Untimely termination of system access for separated employees and contractors
- Inactive accounts not disabled
- Inappropriate authorization for users with access to both development and production environments, resulting in a segregation of duties issue
- Duplicate user accounts
- Incomplete user recertification
- Expired or undocumented external interconnection security agreements

Incident response

- Inaccurate tracking of security incidents at the Department

Configuration management

- System configuration settings not in compliance with FSA policy

Contingency planning

- Contingency plan not kept up-to-date

INDEPENDENT AUDITORS' REPORT (Continued)

Additionally, four of seven independent reviews of FSA's third party servicers identified the following IT control issues:

- Developer access to the production environment for one system
- Improper restriction and monitoring of privileged access
- Lack of adherence to configuration management plans
- Lack of contingency procedures, back up procedures, inadequate disaster recovery testing, and failure to maintain adequate offsite data backups
- Lack of an adequate organization-level risk assessment process
- Data management strategies not formally identified, documented, and authorized

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether FSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 14-02.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the RSI and all other information included with the financial statements.

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

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT (Continued)

inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FSA. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to FSA's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

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

Status of Prior Year's Control Deficiencies

We have reviewed the status of FSA's corrective actions with respect to the findings included in the prior year's *Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated November 16, 2012. The status of prior year findings is presented in Exhibit B.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Arlington, Virginia
December 11, 2013

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

Functionality and Internal Controls Over Some Loan Servicing Systems Need Improvement

In order to process the millions of transactions resulting from the rapidly growing portfolio of direct student loans, FSA has contracted with various loan servicers who record loan transactions, process collections, manage borrower accounts and borrower communications, report transactions to FSA's general ledger, and assist FSA in reconciling the general ledger to the various proprietary loan origination and servicing systems and platforms. In early FY2012, two new loan servicing systems, one exclusively dedicated to servicing defaulted student loans, were brought into production. Both systems contained various functionality issues, resulting in improper loan servicing, errors in account balances, and untimely financial reporting and account reconciliations. Although the most significant functionality issues were identified and addressed in FY2012, FSA continued to experience difficulties in resolving their effects throughout FY2013. In their efforts to implement corrective actions, FSA identified additional programming errors affecting borrower balances. The primary issues affecting the reliability of FSA's financial reporting during FY2013 included:

- Defaulted student loans, valued at $1.1 billion, had not yet been transferred to the new defaulted loan servicing system due to system functionality and new servicer set up issues at September 30, 2013.
- The defaulted loan servicing system was unable to report transfer transactions to the general ledger reliably during the year, resulting in large transfer differences with both the general ledger and with the non-defaulted loan servicers.
- Additional errors affecting the interest rate and calculation of interest on defaulted loans were identified, affecting six million borrowers for an estimated $79 million at September 30, 2013.
- Both new systems continued to experience financial reporting errors and delays in recording cash receipts during the year, resulting in ongoing differences with the U.S. Treasury reported balances.
- Both new systems continued to experience errors and delays in the recording of the application of loan payments to the general ledger, resulting in aged unapplied cash balances.
- Unrecorded and erroneously recorded transactions in both new systems continued to affect FSA's ability to complete timely and accurate account reconciliations.
- Systemic issues in the non-defaulted loan servicing system affected the accuracy of borrower accounts and the general ledger.
- Programming errors related to the truncation of accrued interest on large non-defaulted loan balances were identified in FY2013, affecting 54 loans for an estimated $9 million in unrecorded interest.

These issues are discussed in detail below.

<u>Transfer of defaulted loans to the new defaulted loan servicing system</u>
Defaulted student loans were not transferred timely to the new defaulted loan servicing system, the Debt Management and Collection System (DMCS), due to system functionality and new servicer set up issues. DMCS continued to experience difficulty in processing redefaulted loans where the initial default was processed in the legacy system, since the legacy data on the initial

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

default was not transferred over from the legacy system into DMCS. Late in FY2013, the major functionality issues preventing the transfer of redefaulted loans to DMCS were resolved. This allowed redefaulted loans for 54,000 borrowers, valued at $752 million, to be successfully transferred to DMCS during FY2013. However, there remained a redefaulted loan backlog at September 30, 2013 consisting of 66,824 borrowers with loan balances of $941 million. Working with the defaulted loan servicer, management has developed a plan that is expected to complete the transfer and clear the backlog of redefaulted loans by the end of May 2014. Further, new not-for-profit loan servicers established in FY2013 were not immediately set up to transfer defaulted loans to the new defaulted loan servicing system.

As a result of the system functionality and the new servicer set up issues, loans beyond 365 days of delinquency, valued at $1.1 billion, have not yet been transferred to DMCS at September 30, 2013.

While the balance of these defaulted loans was properly reported in the accompanying financial statements, the servicers holding these loans did not initiate defaulted loan servicing activities during this time. It is not clear what impact, if any, this delay will have on the collectability of these loans.

<u>Timely recording of the defaulted loan transfer transactions to the general ledger</u>
The defaulted loan servicing system was unable to record transfer transactions to the general ledger timely during the year, resulting in large differences in the net balance of transfers with the general ledger and the non-defaulted loan servicers. In reviewing the portfolio reconciliations between DMCS and the general ledger for direct loans, we noted differences greater than $2.5 billion in principal and $300 million in interest throughout the first quarter arising from the system's failure to report changes in DMCS to the monthly financial activity transactions file transmitted to the general ledger. This system functionality issue was largely corrected in March 2013, at which time the difference decreased to $72 million in principal and $108 million in interest. At June 30 and September 30, 2013, these differences amounted to $25 million in principal and $15 million in interest.

We also noted large variances in the portfolio reconciliations between DMCS and the general ledger for defaulted and acquired FFEL loans, which were reduced to much smaller differences at September 30, 2013.

FSA's reconciliation procedures identified approximately $69 million in transfer-out related transaction correction entries that were incorrectly coded as write-offs in DMCS. These were subsequently recoded as transfers in DMCS. Approximately $712 million of transfer out transactions did not pass the general ledger system edit check process. A multi-step correction process was then performed for these transactions to be correctly processed in the general ledger as transfers out of DMCS.

Despite the progressive reduction of the overall difference between the DMCS transactions reported in the monthly financial activity files that were transmitted to the general ledger, loan transfers in and out of DMCS continue to not be recorded timely. At September 30, 2013, management reported that there was a difference of $137 million between the defaulted loan transfers to DMCS reported by other servicers and the amounts reported by DMCS to the general ledger. Further, at September 30, 2013, DMCS had transferred $296 million in rehabilitated loans to other servicers for which the receiving servicer had not recorded the

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

transfer-in entry to the general ledger. These differences represent servicer level differences and do not impact the accuracy of the loan receivable balances reported in the accompanying financial statements.

Errors affecting the interest rate and calculation of interest on defaulted loans
During their efforts to correct the DMCS system functionality issues, FSA and its defaulted loan servicer identified additional interest rate conversion and coding errors in FY2013 that affected six million borrower accounts with a an estimated gross adjustment to the loan principal and the related accrued interest balance of $79 million. The corrective actions related to this issue are complicated by rehabilitated defaulted loans that have since been transferred to other servicers and defaulted loans that have since been discharged, paid-in-full or compromised. While several interest rate corrections have been completed in FY2013, the execution of the remaining corrections is expected to take place in FY2014.

Errors and delays in recording cash receipts during the year resulted in differences with the U.S. Treasury reporting for both new systems
Borrower payments are sent to a Federal lockbox, where data on batches of deposits and other cash transactions, referred to as "schedules", are transmitted to both the servicers' systems and the U.S. Treasury's Collections Information Repository (CIR). FSA requires servicers to record the schedules in the servicing system within one to two business days and then transmit the information electronically to FSA's general ledger. Due to functionality issues with the two new systems, a large number of schedules were rejected from recording in the general ledger upon initial transmittal. Every time a transaction transmission was rejected from posting, the servicers had to correct and resubmit the erroneous transactions. However, the delay in recording transactions gave rise to differences between FSA's general ledger balances and the balances reported by the U.S. Treasury. The transactions recorded in the U.S. Treasury's CIR but not recorded in FSA's general ledger totaled approximately $164 million, $231 million, $138 million, and $6 million at December 30, 2012, March 31, 2013, August 31, 2013 and September 30, 2013, respectively. The decrease in reporting differences at the end of the fiscal year reflects the significant completion of the corrective actions implemented during the year, which were closely monitored by FSA management.

Errors and delays during the year resulted in aged balances of unapplied loan payments for both new systems
Schedules of cash transactions received from the Federal lockbox are initially recorded in a suspense fund. FSA's loan servicers also receive electronic data on all borrower collections that comprise the cash transaction schedule. Payments should be applied to the borrower's account within 24 hours of receipt. When loan servicers apply payments to borrowers' accounts, the corresponding amount is removed from the suspense fund and transferred to the appropriate fund (e.g., direct loan, FFEL, etc.). The payment application transactions recorded in the servicer system are sent electronically for recording in FSA's general ledger. Both new servicing systems continued to experience financial reporting errors and delays during the year, resulting in aged suspense fund balances older and larger than FSA targets. As a result of close monitoring action, much of the suspense account issues identified during the year were addressed at year end. The balance of transactions in suspense at September 30, 2013 for both new systems was a negative $62 million, with approximately $44 million or 71% of the balance greater than 60 days old. The negative suspense account balance was caused by recorded cash applications greater than recorded deposits. As discussed in the preceding paragraph,

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

some initial suspense deposit transactions failed posting edits, whereas the subsequent cash application transactions to the borrowers' accounts were posted timely.

Unrecorded and erroneously recorded transactions in both new systems continued to affect FSA's ability to complete timely and accurate account reconciliations
Each loan servicer is required to submit daily files of summarized activity to the general ledger. Throughout the year, management reported that both servicer systems had a large number of other transactions that had failed the general ledger edits and posted to an error file. Management reported that, at June 30, the defaulted loan management system had 485,000 transactions on the general ledger error file. At August 31 and September 30, 2013, 253,000 and 66,000 transactions, respectively, were in the error file. Given the large number of transactions not properly posted, there were numerous reconciling items between the loans receivable and accrued interest balances in the general ledger and the balances in the new systems. This impacted the servicer's ability to prepare, review and submit monthly reconciliations to FSA timely through all of FY2013. In addition, many reconciliations also contained reconciling differences that were outstanding over 30 days. Reconciling differences at September 30, 2013 for the two new systems totaled approximately $142 million.

Systemic issues in the non-defaulted loan servicing system affected the accuracy of borrower accounts and the general ledger
During their monitoring of the new non-defaulted loan servicing system, ACS, Inc. Education Servicing System (ACES), FSA management continued to identify systemic issues related to transaction processing. For example, FSA's reconciliation procedures identified approximately $31 million of transactions, primarily transfer transactions, that were incorrectly recorded in the general ledger as write offs, although they were not processed in ACES as write-offs.

Our sample testing revealed multiple processing actions applied in the servicing system to write-off transactions, increasing the risk of misstatement. Further, during our testing of the loan portfolio, we identified some loans that were affected by the prior year system configuration issues that failed to capitalize interest accrued over certain deferment and forbearance periods. Management estimates this issue resulted in lost interest of approximately $55 million since July 2012.

As part of its corrective action plans, management processed a significant number of corrections in the current year, amounting to more than $110 million. However, management identified additional adjustments in the amount of $157 million that continued to affect the loan portfolio at September 30, which are expected to be corrected in the following fiscal year.

All of the issues discussed above can be directly related to the effect of not properly testing a new information system before putting the system into production. In order to mitigate risks going forward, management has elected to let the contract for ACES expire and has transferred the ACES loan portfolio to other servicers, who have been tasked with correcting the misstated loan balances. Management has also awarded a new contract for the management of the DMCS system application in future years. Management and its contractors have dedicated significant resources to identify, track, and correct the system functionality and the corresponding data; quantify the impact of the errors; and ensure that the financial statements properly reflect the effect of these issues. Other servicer issues noted during our audit included:

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

<u>Programming errors related to the truncation of accrued interest on large non-defaulted loan balances were identified</u>
Some non-defaulted loan servicing systems were affected by programming errors that caused them to truncate any daily interest amounts in excess of $99.99, resulting in the underaccrual of interest on very large loan balances. Management estimates this issue only impacts 54 loans, with an estimated effect of $9 million of unrecorded interest. While the additional interest accrual will be significant for the affected borrowers, we determined that the amount was not material to the financial statements.

<u>Recommendations:</u>

We recommend the Chief Operating Officer of FSA:

1a. Ensure all servicing application functionality is corrected to meet FSA's requirements for servicing loans and reporting financial activity and balances timely and accurately.

1b. Continue to monitor the scheduled transfers of defaulted loans to DMCS and ensure that all new loan servicers are fully set up to transfer defaulted loans to the defaulted loan servicer.

1c. Continue to correct loan balances affected by the functionality issues and properly inform the impacted borrowers of the corrected account balances.

1d. Continue to monitor servicers' efforts to reduce the balance of unposted cash transactions, unrecorded borrower transactions, and general ledger posting differences, including the posting of transfer transactions in and out of DMCS.

1e. Establish protocols for management approval for write-offs and manual adjustments of unresolved differences once corrective actions are no longer cost effective.

1f. Continue to monitor the timeliness and accuracy of account reconciliations prepared by the servicers.

2. FSA Management Needs to Mitigate Persistent Information Technology (IT) Control Deficiencies

Due to the unique requirements of FSA's grant and loan activities, FSA oversees a large portfolio of government-owned/government operated, government-owned/ contractor-operated, and contractor-owned/contractor-operated information systems. Five FSA systems and one Department system comprise the key systems critical to FSA's financial statement reporting.

The third party service providers who manage FSA's general support systems and applications are monitored by management through the use of Service Level Agreements and independent reviews. Managing the information and system security across FSA is the responsibility of FSA's Chief Information Security Officer (CISO), with support from the Department's CISO. For several years, financial and other audits have identified numerous system deficiencies that affect the security and reliability of the information within these systems. Our audit continued to identify similar control deficiencies in the following areas:

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

Security management

- FSA's IT policies were outdated or did not fully address specific controls required by the National Institute of Standards and Technology (NIST)
- Incomplete System Security Plans
- Annual security control assessments not completed
- System risk assessments not kept up-to-date
- Lack of tracking and passed deadlines for corrective actions related to IT control weaknesses
- Security awareness training for new personnel not completed
- Role based security awareness training for personnel with significant system security responsibilities not completed

Personnel Security

- Background reinvestigations not being tracked effectively at the Department

Access Controls

- Lack of documented approval for system access
- Untimely termination of system access for separated employees and contractors
- Inactive accounts not disabled
- Inappropriate authorization for users with access to both development and production environments, resulting in a segregation of duties issue
- Duplicate user accounts
- Incomplete user recertification
- Expired or undocumented external interconnection security agreements

Incident Response

- Inaccurate tracking of security incidents at the Department

Configuration management

- System configuration settings not in compliance with Department policy

Contingency Planning

- Contingency plan not kept up-to-date

Additionally, four of the seven independent reviews of FSA third party service providers identified the following IT control issues:

- Developer access to the production environment of one system
- Improper restriction and monitoring of privileged access
- Lack of adherence to configuration management plans
- Lack of contingency procedures, back up procedures, inadequate disaster recovery testing, and failure to maintain adequate offsite data backups
- Lack of an adequate organizational-level risk assessment process
- Data management strategies not formally identified, documented, and authorized

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

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

Security management

An effective information security management program should have a framework and process for assessing risk, effective security procedures, and processes for monitoring and reporting the effectiveness of these procedures.

We found FSA's IT policies were outdated or did not fully address specific controls required by National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 (revision 3), *Recommended Security Controls for Federal Information Systems and Organizations*.[1] Additionally we found deficiencies in the system security plans (SSP) for three systems.

Furthermore, an annual self assessment was not performed for three of the six systems tested. Since a self assessment was not performed for these systems, the risk assessments were not updated, resulting in an increased risk that the CISO, information system security officers (ISSOs), and system owners were not informed of the ongoing security state and risks to these systems. Upon notification of this issue to management, the self assessments were performed; however, the assessments included only a test of the design of controls, not testing to validate controls were operating effectively. In addition, although a controls assessment was performed for the other three systems tested, we noted several control tests were incomplete for one of three systems.

With regard to corrective action of IT control weaknesses, we noted there were 325 individual Plans of Action and Milestones (POA&M) that had passed their 2013 scheduled dates of completion for one system without documented justification for missed completion dates or adjusted expected completion dates. We also noted that corrective action of certain control weaknesses for another system was not formally tracked. Without formally documenting the weaknesses, along with the mitigation plans, estimated dates of completion and status of corrective actions, there is no formal process in place to track and ensure the weaknesses are remediated.

Finally, we noted three sampled new system users did not complete the required security awareness training for two of the systems tested. Also, individuals with significant system

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

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

security responsibilities had not completed role based training in the past two years for one system tested.

Personnel Security

Personnel security involves screening individuals before granting them access to computer resources commensurate with the risk and magnitude of the harm the individual could cause. We found background reinvestigations not being tracked effectively, as a sampled individual with significant system security responsibilities had an overdue reinvestigation. Management initiated this investigation upon our notification.

Access Controls

Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Agencies should have formal policies and procedures and related control activities should be properly implemented and monitored. One key element of access control is *boundary protection*. Properly managed interfaces between FSA systems and external parties help reduce the risk of unauthorized access. NIST SP 800-47, *Security Guide for Interconnecting Information Technology Systems,* specifies that an agreement should be documented for the interconnection between organizations. A Memorandum of Understanding (MOU) documents the terms and conditions for sharing data and information resources in a secure method. An Interconnection Security Agreement (ISA) identifies the technical and security requirements for establishing, operating, and maintaining the interconnection and supports the MOU. We found expired MOUs and instances in which no documented MOU or ISA existed for external interconnections for four of the six systems tested.

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

- Access approval for system users was not documented for two of the systems tested
- Accounts for terminated employees and contractors were not disabled for two of the systems tested
- Inactive accounts were not disabled for one system
- One system had duplicate accounts
- User access recertification was incomplete for three of the systems tested
- Users with access to both the development and production environments for one system tested, resulting in a segregation of duties issue

Incident Response

Incident response includes the identification and tracking of system events, analysis, and investigation of the events and implementation of corrective action. We noted inaccurate tracking of incidents by the Department.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

Configuration Management

Configuration management ensures changes to systems are approved and systems are configured securely in accordance with policy. In our audit, we found four systems with configuration settings that were not in compliance with FSA policy. For a fifth system, although management communicated a business need for non compliance with policy, a Risk Acceptance Form was not documented as required by FSA policy.

Contingency Planning

Contingency planning is key to ensuring continuity of operations should system disruption occur. Of the six systems tested, we found one of the contingency plans was not up-to-date.

We noted the FY 2013 FSA FMFIA Assurance Letter reported similar IT control deficiencies. Additionally, the Department's FY2013 Federal Information Security Management Act (FISMA) review identified the following issues in seven of the eleven reporting metrics: configuration management, identity and access management, incident response and reporting, risk management, security training, remote access management, and contingency planning. The findings in the seven reporting metrics included repeat or modified repeat findings from audit reports issued over the last three years.

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

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

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

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

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

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

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

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

In recognition of the need to improve internal control related to information security, in the latter part of FY2012, FSA and Department senior management brought on board CISOs at the Senior Executive level with the skill set, broad government experience and leadership qualities to transform the information security program into a more robust, risk management program. During the past year, the FSA and Department CISOs have worked together to put a framework in place for more effectively managing risk by reviewing control weaknesses across the organization, determining root cause, and tracking remediation activities. The security posture of the systems is reviewed on a monthly basis by reviewing control weaknesses noted from audits, self assessments, vulnerability scans, and associated POA&Ms. As part of this initiative, monthly meetings are conducted with the ISSOs in which training related to remediation of controls issues is provided. In addition, the Department documented, and is in the process of implementing, a risk management framework for applying continuous monitoring based on NIST SP 800-37, *Guide for Applying the Risk Management Framework to Federal Information*

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit A
Significant Deficiencies

Systems. Furthermore, the Department has funded a security operations center for centralizing the management of FSA and Department security issues. These activities show progress and commitment from FSA and Department senior managers to strengthening internal controls. The risk management improvement process initiated by the Department and FSA's CISOs has the potential to provide such strategic IT management.

Recommendations:

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

2a. Refine and fully implement the agency-level program to monitor compliance in conjunction with the Department's organization-wide information security program and NIST requirements at both the agency and system level.

2b. Implement a process ensuring accountability for individuals responsible for remediating the identified control deficiencies in FSA's systems, including cooperation between the Technology Office and Business Operations.

2c. Implement a process for holding contractors accountable for remediation of control deficiencies in FSA's systems.

2d. Implement a process for holding third party service providers accountable for the remediation of control deficiencies associated with their information systems.

INDEPENDENT AUDITORS' REPORT
Exhibit B
Status of Prior Year Recommendations

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

FY 2012 Recommendation	***Fiscal Year 2013 Status***
Material Weakness 1 – *Controls Surrounding FSA's Debt Management Collection System and ACS, Inc. Education Servicing System Need Improvement*	
1. Ensure that the DMCS servicer resolves and completes the remaining requirements in order to bring DMCS to a fully operational status. In the interim, establish temporary work-around solution for the remaining requirements, where applicable.	In process; see Significant Deficiency 1
2. Complete system fixes to resolve the issues surrounding interest accruals (DMCS) and incorrect loan balances (ACES). If necessary, establish temporary work-around solutions to ensure that interest will be appropriately recorded on the department's interim and year-end financial statements.	In process; see Significant Deficiency 1
3. Review controls and operating procedures related to the service organization and understand the demarcation of the control environment between the servicer and FSA.	Closed
4. Require conformance and effectiveness of the previously noted controls and coordinate closely with the servicer to closely manage progress, status and corrective actions.	In process, see Significant Deficiency 1
5. Improve contract management and oversight of contractors on mission critical systems especially as it relates to servicers and providers that provide the Department or FSA with a Service Organization Control (SOC-1) report.	In process; see Significant Deficiency 2
Significant Deficiency 1 – *Continued Focus on Credit Reform Estimates and Financial Reporting Processes is Warranted*	
1. Continue to improve the analytical tools used for the loan estimation process, working to develop formats and content that synthesize and capture loan level data available in the department's systems.	In process; management letter comment
2. Increase the frequency of the Credit Reform Working Group meetings and take full advantage of their analytical reports to have robust discussions about loan activity and the impact of estimates with different area managers.	In process; management letter comment
3. Implement formal detail review procedures over the input of variables into the Student Loan Model, input of cash flows into the OMB calculator and other calculations surrounding the process to avoid potential errors that may negatively affect the	In process; management letter comment

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT
Exhibit B
Status of Prior Year Recommendations

FY 2012 Recommendation	*Fiscal Year 2013 Status*
reestimates. Also, perform a detailed review of the input of source data included in the Department's analytical tools to avoid errors and ensure that all analytical tools reconcile with one another to allow for their use as detect controls for loan program cost estimates.	
4. Strengthen the documentation related to assumption development, including documentation, discussion and rationale of changes in the methodologies. Improve documentation detail by including a description of the purpose of worksheets, description of formulas used, and how each work step corresponds to the methodology. Consider developing calibrating processes to ensure data quality and model accuracy.	In process; management letter comment
5. Consider the impact of changes in general economic conditions when developing assumptions. Evaluate the selection of time periods used for weighting average calculations on a periodic basis as economic conditions change.	In process; management letter comment
6. Consider ways to better leverage management's efforts under OMB Circular A-123, Appendix A as a way to provide additional focus and attention to the controls surrounding the credit reform estimation process.	In process; management letter comment
Significant Deficiency 2 – *Controls Surrounding Information Systems Need Enhancement*	
1. Strengthen access controls to protect mission critical systems.	In process; see Significant Deficiency 2
2. Improve the configuration management process to ensure consistent security configuration of servers and mainframe security packages across the organization and improve configuration settings to comply with Department and FSA policy.	In process; see Significant Deficiency 2
3. Enhance its security training and awareness program.	In process; see Significant Deficiency 2
4. Revise current methods of identifying and logging suspicious activity as it relates to unauthorized accounts and data.	In process; see Significant Deficiency 2

INDEPENDENT AUDITORS' REPORT
Exhibit B
Status of Prior Year Recommendations

FY 2012 Recommendation	***Fiscal Year 2013 Status***
5. Improve incidence response and reporting procedures.	In process; see Significant Deficiency 2
6. Improve contract management and oversight of contractors on mission critical systems.	In process; see Significant Deficiency 2
7. Holistically address the information systems environment throughout the department and implement improvements by considering the vulnerabilities and corrective actions reported for the organization as part of the PO&AM system and reports.	In process; see Significant Deficiency 2

Federal Student Aid
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December 4, 2013

MEMORANDUM

TO: Kathleen Tighe
Inspector General

FROM: John W. Hurt, III
Chief Financial Officer
Federal Student Aid

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Year 2013 Financial Statements
Federal Student Aid
ED-OIG/A17N0002

Please convey our sincere thanks to everyone on your staff and the CliftonLarsonAllen, LLP, team who supported the successful completion of the Financial Statement Audit Fiscal Year 2013. Federal Student Aid reviewed the draft audit reports provided on November 25, 2013. We concur with the findings and recommendations as identified in the Report on Compliance and Other Matters and Report on Internal Control Over Financial Reporting.

Federal Student Aid will continue our extraordinary efforts to remediate the deficiencies associated with the Debt Management and Collection System. We will continue to work with the Federal Student Aid and Department of Education's staff to further strengthen controls over information systems.

We are committed to maintaining an unqualified opinion and will develop and implement appropriate corrective action plans to address the significant control deficiencies cited in these reports.

Once again, we thank the Office of Inspector General and CliftonLarsonAllen for their efforts to complete a successful audit of Federal Student Aid's financial statements.

Other Information

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Other Information

Department of Education
Federal Student Aid
Schedule of Spending
For Year Ended September 30, 2013 and 2012
(Dollars in Millions)

The Schedule of Spending presents the total amounts agreed to be spent broken out by (a) what money was available to spend and (b) how the money was spent. The total amounts agreed to be spent on the this schedule are the same as the obligations incurred amounts reported on the Statement of Budgetary Resources, which provides useful information on the budgetary resources provided to a federal agency as well as the status of those resources at the end of a fiscal year. USASpending.gov, a searchable website established by the Office of Management and Budget, provides information on federal awards and is accessible to the public.

	September, 2013		September, 2012	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Section I: What Money is Available to Spend?				
This section presents resources that were available to spend by the Department.				
Total Resources	$ 55,748	256,711	$ 56,695	269,586
Amount Available but Not Agreed to be Spent	(11,952)	-	(8,562)	-
Amount Not Available to be Spent	(1,998)	(11,072)	(1,804)	(18,579)
Total Amounts Agreed to be Spent	**$ 41,798**	**245,639**	**$ 46,329**	**251,007**
Section II: How was the Money Spent?				
This section presents services and items purchased, is grouped by major program, and is based on outlays.				
Increase College Access, Quality, and Completion				
Credit Program Loan Disbursements and Claim Payments	$ 79	141,500	$ 55	154,291
Credit Program Subsidy Transfers	6,391	48,399	8,312	40,629
Federal Interest Payments	-	28,423	-	26,620
Other Credit Program Payments	3	1,692	4	2,581
Federal Student Loan Reserve Fund Valuation	279	-	419	-
Grants	34,038	-	34,963	-
Personnel Compensation and Benefits	174	-	177	-
Contractual Services	1,165	671	1,016	474
Rent, Utilities, and Communication	18	-	13	-
Land, Structures, and Equipment	3	-	3	-
Travel and Transportation	2	-	2	-
Other [1/]	1	-	2	-
	$ 42,153	**220,685**	**$ 44,966**	**224,595**
American Recovery and Reinvestment Act and Education Jobs Fund				
Grants	$ -	-	$ 21	-
	$ -	**-**	**$ 21**	**-**
Total Spending	**$ 42,153**	**220,685**	**$ 44,987**	**224,595**
Amounts Remaining to be Spent [2/]	(355)	24,954	1,342	26,412
Total Amounts Agreed to be Spent	**$ 41,798**	**245,639**	**$ 46,329**	**251,007**

[1/] Other primarily consists of building rental payments, equipment purchases, and transportation.

[2/] The "Amounts Remaining to be Spent" line item shown in the schedule above represents the difference between spending and amounts agreed to be spent during the fiscal year presented. Actual spending during a particular fiscal year may include spending associated with amounts agreed to be spent during previous fiscal years, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

Improper Payment Information Act Reporting Details

For improper payments information, FSA's activities are part of an overall Departmental integrated reporting effort. Please refer to the Improper Payments Reporting Details narrative found in the Other Information section located within the Department's ***AFR***.

Summary of Financial Statement Audit and Management Assurances

For details on FSA programs, please refer to the *Analysis of Systems, Controls and Legal Compliance* discussion found in the Management's Discussion and Analysis section of this document as well as the *Summary of Financial Statement Audit and Management Assurances* narrative located in the Other Information section of the Department's ***AFR***.

Management Challenges

For details on FSA Management Challenges, please refer to relevant items included in the *Office of Inspector General's Management Challenges for FY 2014 Executive Summary* found in the Other Information section located within the Department's ***AFR***.

Appendices

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Appendix A: Glossary of Acronyms and Terms

Acronym	**Description**
A	
ABCP Conduit	Asset-Backed Commercial Paper Conduit
ACES	ACS Education Servicing System
ACSI	American Customer Satisfaction Index
AFR	*Agency Financial Report*
C	
CCRAA	*College Cost Reduction and Access Act of 2007*
CFPB	Consumer Financial Protection Bureau
Conduit	Asset-Backed Commercial Paper Conduit
COO	Chief Operating Officer
CPS	Central Processing System
Credit Reform Act	*Federal Credit Reform Act of 1990*
CSRS	Civil Service Retirement System
D	
the Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DMCS2	Debt Management and Collection System
DOL	U.S. Department of Labor
DRG	Default Resolution Group
E	
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
ED	U.S. Department of Education
EVS	Employee Viewpoint Survey
F	
FACT	Financial Awareness Counseling Tool

Acronym	Description
FAFSA	Free Application for Federal Student Aid
FECA	*Federal Employees' Compensation Act*
Federal Fund	Federal Student Loan Reserve Fund
FERS	Federal Employees Retirement System
FFEL	Federal Family Education Loan
FFELP	Federal Family Education Loan Program
FSA	Federal Student Aid
FSA Strategic Plan, FY 2012–16	*Federal Student Aid: Strategic Plan, Fiscal Years 2012–16*
FWS	Federal Work-Study
FY	Fiscal Year
G	
GAO	Government Accountability Office
H	
HCERA	*Health Care and Education Reconciliation Act of 2010*
HEA	*Higher Education Act of 1965,* as amended
I	
IT	Information Technology
M	
Met	Performance result met or exceeded target
N	
N/A	Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.
NCES	National Center for Education Statistics
NFP	Not-For-Profit
Not met	Performance result did not meet target
O	
OCTS	Ombudsman Case Tracking System

Acronym	**Description**
OMB	Office of Management and Budget
OMB Circular A-123	OMB Circular A-123, *Management's Responsibility for Internal Control*
OPM	Office of Personnel Management
OPR	Organizational Performance Review
P	
PBO	Performance-Based Organization
Pell Grant	Federal Pell Grant Program
R	
Recovery Act	*American Recovery and Reinvestment Act of 2009*
S	
SBR	Statement of Budgetary Resources
Secretary	Secretary of Education
SDCL	Special Direct Consolidation Loan
SSAE	Statement on Standards for Attestation Engagements
SOC1	Service Organization Control 1
T	
TEACH	Teacher Education Assistance for College and Higher Education Grant
Title IV	Title IV of *the Higher Education Act of 1965*, as amended
TIVAS	Title IV Additional Servicers
TPD	Total and Permanent Disability
Treasury	United States Department of the Treasury
U	
U.S.	United States

Acronym	Description
V	
VFA	Voluntary Flexible Agreement
X	
Xerox, LLC	Xerox Education Solutions, Limited Liability Corporation

Appendix B: Availability of the Federal Student Aid Annual Report

FSA's publicly available *FY 2013 Annual Report* is accessible on FSA's and the Department's websites at:

StudentAid.gov/strategic-planning-reporting

http://www.ed.gov/about/reports/annual/index.html

The *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16* and previous years' *Annual Reports* are also available on the websites listed above.

To become connected to Federal Student Aid through social media, visit the Federal Student Aid website at **Studentaid.ed.gov**.

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