U.S. Department of Education

FY 2018 AGENCY FINANCIAL REPORT

U.S. Department of Education
Betsy DeVos
Secretary

Office of the Chief Financial Officer
Larry Kean
Delegated to Perform the Duties of Chief Financial Officer

November 15, 2018

NOTICE OF AVAILABILITY OF ALTERNATE FORMATS

This report is available at **http://www.ed.gov/about/reports/annual/index.html**. On request, the report also is available in alternative formats, such as Braille, large print, or compact disc. For more information, please contact our Alternate Format Center at 202-260-0852 or the 504 coordinator via e-mail at **om_eeos@ed.gov**.

To become connected to the Department through social media, please visit the Department's website at **www.ed.gov**. Our Twitter page is at **@usedgov**, and our blog is at **Homeroom**.

NOTICE TO LIMITED ENGLISH PROFICIENT PERSONS

Notice of Language Assistance: If you have difficulty understanding English, you may request language assistance services, free of charge, for this Department information by calling 1-800-USA-LEARN (1-800-872-5327) (TTY: 1-800-877-8339), or by e-mailing us at **Ed.Language.Assistance@ed.gov**.

For Fiscal Year 2018, in addition to the *Agency Financial Report* (AFR), the Department will post to its website the *Annual Performance Report* (APR). The APR and the Congressional Budget Justification will be posted on the Department's website at **http://www.ed.gov/about/reports/annual/index.html** with the FY 2020 budget.

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

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

ABOUT THIS REPORT

The purpose of the United States Department of Education's (the Department) Fiscal Year (FY) 2018 *Agency Financial Report* (AFR) is to inform Congress, the President, other external stakeholders, and the American people on how the Department used the federal resources entrusted to it to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department accomplishes its mission and the related strategic goals and objectives by administering programs that range from preschool education through postdoctoral research; enforcing civil rights laws to provide equal access and treatment; and supporting research that examines ways that states, schools, districts, and postsecondary institutions can improve America's education system. As evidenced by the information contained in this AFR, the Department has demonstrated that it is a good steward of financial resources and has put in place well-controlled and well-managed business and financial management systems and processes.

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

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

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

CERTIFICATE OF EXCELLENCE

The Department won its 14th award of the prestigious Certificate of Excellence in Accountability Reporting by the Association of Government Accountants for its FY 2017 AFR.

HOW THIS REPORT IS ORGANIZED

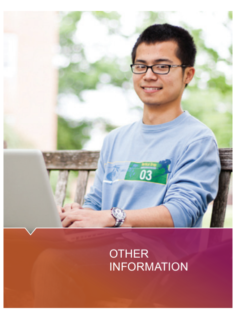
The AFR is designed to focus on use of federal resources provided to or distributed by the Department to support its mission, with a particular emphasis on the challenges ahead.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL SECTION

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



OTHER INFORMATION

This section provides payment integrity reporting details, a summary of financial statement audit and management assurances, and the Office of Inspector General's Management and Performance Challenges for FY 2019 Executive Summary.

APPENDICES

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

KEY ACCOMPLISHMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

On February 12, 2018, the Department published its new *Strategic Plan* for Fiscal Years (FY) 2018–22, as well as a set of 4 new Agency Priority Goals (APGs). To read more on performance, see page 5.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On November 29, 2017, Federal Student Aid (FSA) announced the blueprint for its Next Generation Financial Services Environment (Next Gen FSA). To read more on the Department's progress and plans for Next Gen FSA, see pages 7 and 25.

FINANCIAL SECTION

The Department received an unmodified or "clean" opinion on its financial statements for the 17th consecutive year. Please see page 76 for the Auditors Report.

FINANCIAL SECTION

The Statement of Net Cost and related notes were revised to align with the new goals in the Department's *Strategic Plan* for FY 2018–22 and to significantly enhance cost transparency for the Department's programs.

OTHER INFORMATION

In FY 2018, the Department developed a statistically-valid methodology to be implemented in FY 2019 to estimate improper payments for its risk susceptible programs. This new methodology will improve the accuracy of the estimates.

OTHER INFORMATION

FSA has launched a new initiative to enable more comprehensive analysis of Office of Inspector General (OIG) fraud referrals. FSA will leverage resultant data analytics to identify risks and vulnerabilities to fraud. See page 115 for additional information.

APPENDICES

An education resource has been added to Appendix A, Education Resources Information Center (ERIC). ERIC is the world's largest free digital library of education research.

APPENDICES

A web link for the Regional Education Laboratory (REL) Program has been added to Appendix A. The REL Program supports the use of research and evidence to help improve student performance.

MESSAGE FROM THE SECRETARY

November 14, 2018

As we at the Department continue to focus on students and their success, I would like to note the Department's accomplishments this past fiscal year, and plans for the next year.

Our work is guided by four main priorities: supporting State and local efforts to improve learning outcomes for P–12 students; expanding postsecondary education options and improving outcomes; strengthening the quality, accessibility and use of education data; and reforming the effectiveness, efficiency and accountability of the Department.

Our priority of supporting State and local efforts to improve learning outcomes for P–12 is premised on the fact that every student is an individual, with different experiences, different needs, different learning styles and different goals. Students can benefit from more freedom. State and local communities are starting to embrace the flexibility that the *Every Student Succeeds Act* (ESSA) affords.

ESSA provides flexibilities for states to pilot different types of programs. One pilot is the Innovative Assessment Demonstration Authority (IADA) program, which was designed to lower barriers to innovation and encourages local involvement in the development of the next generation of assessments. States can pilot innovative assessments on a small scale, develop strategies for implementing those assessments statewide and avoid replicative testing of students. States can make assessments more relevant and connected to the classroom while still providing valid, reliable and transparent data on student achievement and growth. Also authorized under ESSA, the Student-Centered Funding Pilot Program allows local educational agencies to create a funding system designed to equitably allocate local, State and Federal resources based on student needs. This flexibility will allow school districts to combine eligible Federal funds with State and local funds to allocate resources to schools based on the number of students and the corresponding level of need.

In pursuing our priority of expanding postsecondary options and improving outcomes, we will provide prospective students with actionable, accurate information for college enrollment and borrowing decisions. The Department plans to utilize a web-based tool to provide program-level outcomes, including median debt and median earnings for all higher education programs, at all Title IV participating institutions. This tool will improve transparency by providing comparable information for all programs, which can help students understand what earnings they might expect based on those of prior graduates. Providing accurate and relevant data will also increase the accountability of institutions by making it more difficult for institutions to misrepresent program outcomes of prior graduates.

The Department is also implementing a plan to transform Federal student aid and improve customer service by modernizing the technology and operational components supporting Federal student aid programs. On October 1, 2018, the office of Federal Student Aid (FSA) launched a redesigned, mobile-friendly Free Application for Federal Student Aid (FAFSA®) website. Students and parents can now complete and submit the FAFSA form on a mobile device in addition to a computer. FSA also launched the myStudentAid mobile app featuring the myFAFSA functionality that allows students and parents to submit a FAFSA® form. The fafsa.gov homepage was also integrated into StudentAid.gov, making it easier to apply for financial aid directly from FSA's leading online portal. To continue customer service improvement, FSA future plans also include consolidation of all of its customer-facing websites into a single, user-friendly hub to complement the new mobile platform and give students, parents and borrowers a seamless experience from application through repayment.

To address future loan-servicing needs, FSA researched how world-class financial services organizations design and operationalize their customer service engagement practices, as well as web and mobile, middleware, data processing, analytics, storage and hosting capabilities. Through this market research, FSA is refining its strategy to implement the Next Generation Financial and Services Environment (Next Gen FSA).

Finally, the President's promise to make the Federal government more efficient and effective has been initiated with his Executive Order "Comprehensive Plan for Reorganizing the Executive Branch." The Department is enacting this order, with reform activities based on principles of: reducing redundancy and maximizing efficiency; maximizing transparency; leveraging staff expertise; and maximizing creative problem-solving and teamwork. As part of that reform, the Department is reorganizing itself by realigning functions and improving internal processes. The aim is that this reform will result in higher quality and more timely service to the public; improved policy and program coordination; greater focus on the Secretary's priorities; and reduction of internal transactional costs.

To meet the challenges of the 21st century economy, the proposed merger of the departments of Education and Labor would reduce the Federal footprint and make government more responsive to a wide range of needs faced by American students and workers.

Good stewardship of taxpayers' funds is a priority for our Department, and I have been assured that the financial data included in this AFR are complete and reliable in accordance with Federal requirements. The financial report includes information and assurances about the Department's financial management systems and controls as well as control and compliance challenges noted by the Department and its auditors. Similarly the Department's Annual Performance Report and the Annual Performance Plan provides information on the completeness and reliability of the performance data.

While the Department has made strides this past fiscal year, the needs of communities, families and students remain great. Each and every student needs learning environments that are agile, relevant and exciting for a challenging, lifelong learning journey. Because students represent 100 percent of our future, those of us at the Department continue to strive to give them 100 percent of our effort every day.

Betsy DeVos

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CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THE MANAGEMENT'S DISCUSSION AND ANALYSIS

The U.S. Department of Education (the Department) continued to enhance the content quality, report layout, and public accessibility of the Fiscal Year (FY) 2018 Agency Financial Report (AFR) by improving graphics and providing more useful, balanced, and easily understood information about the Department's loan programs, including additional cost and risk information. Additionally, we augmented information provided in the body of the AFR with relevant web content to provide users with additional information about the Department's operations and performance. To take advantage of the hyperlinks embedded in the report, the Department recommends reading it **on the Internet**. To help us continue to improve the quality and usefulness of information provided in our AFR, we encourage our public and other stakeholders to provide feedback and suggestions at **AFRComments@ed.gov**.

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

MISSION AND ORGANIZATIONAL STRUCTURE

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

THE DEPARTMENT'S APPROACH TO PERFORMANCE

This section provides a brief summary of the Department's performance goals and results for FY 2018. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2018 will be provided in the Department's *Annual Performance Report* to be released online at the same time as the President's FY 2020 Budget in February 2019. For more information, prior-year performance reports can be found on the Department's website. We also urge readers to seek programmatic data as it is reported in the Congressional Budget Justification, as well as on the web pages of individual programs. Any questions or comments about the Department's performance reporting should be e-mailed to **PIO@ed.gov**. For more details on performance, please refer to the Department's budget and performance web page at **www.Performance.gov**.

FORWARD-LOOKING INFORMATION

The Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on Enterprise Risk Management (ERM), Direct Loans, Next Gen FSA, Technology Business Management Solutions (TBMS), and Shared Services.

FINANCIAL HIGHLIGHTS

The Department expends a substantial portion of its budgetary resources and cash on multiple loan and grant programs intended to support state and local efforts to improve learning outcomes for all prekindergarten through 12th grade (P–12) students in every community and to expand postsecondary education options and improve outcomes to foster economic opportunity and informed, thoughtful, and productive citizens. Accordingly, the Department included more high-level details about sources and uses of the federal funds received and net costs by program.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

ABOUT THE DEPARTMENT

OUR MISSION

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

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

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

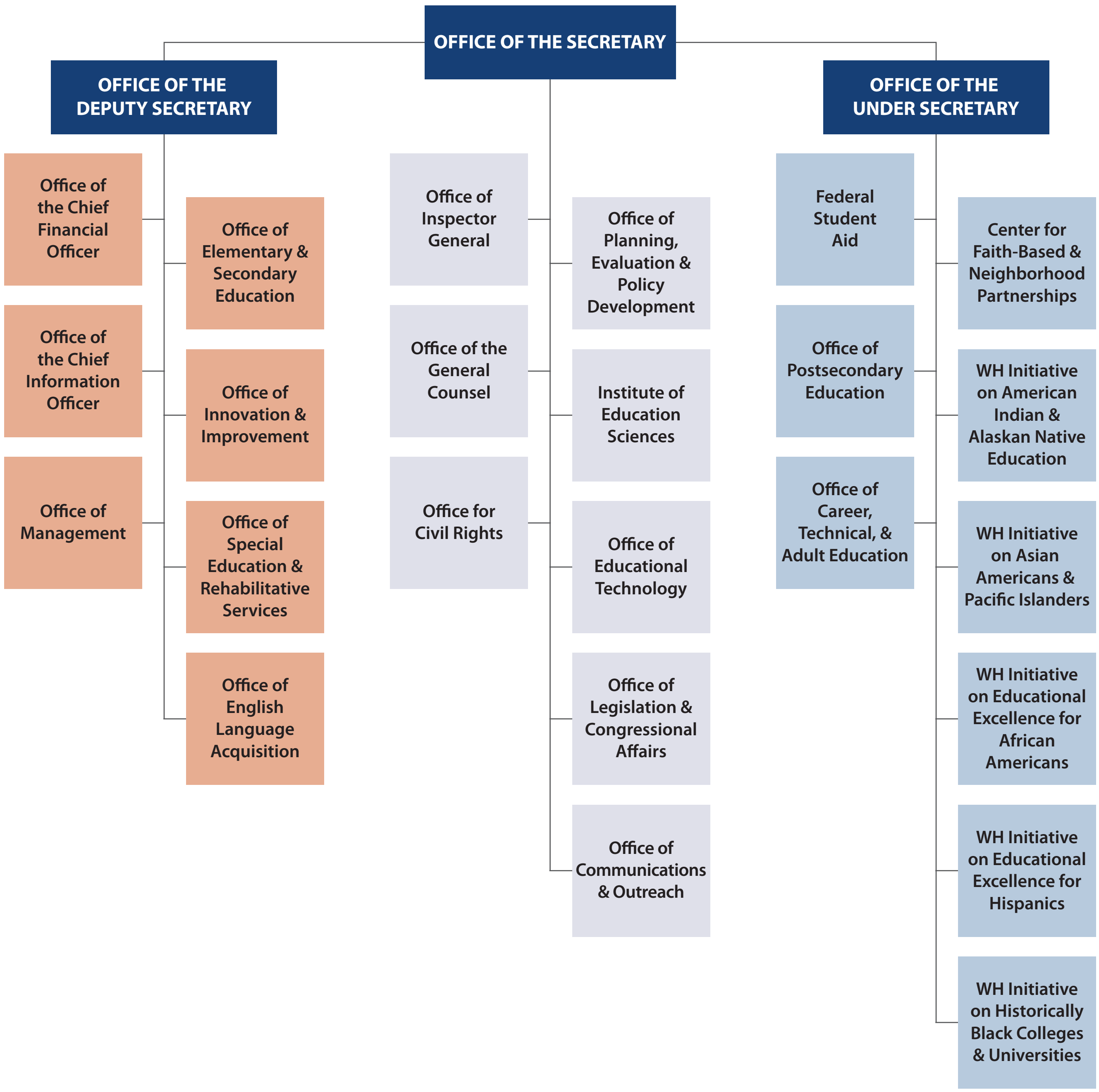
- establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds;
- supporting data collection and research on America's schools;
- identifying major issues in education and focusing national attention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

Our Public Benefit. The Department executes the laws passed by Congress to promote student academic achievement and preparation for global competitiveness. The Department works with students, parents, educational institutions, school districts, and states to foster educational excellence and to ensure equal access to a high quality education for all students. While recognizing the primary role of states and school districts in providing high quality education, the Department is committed to helping ensure students throughout the nation develop skills to succeed in school, pursue postsecondary options, and transition to the workforce. The Department's vision is to improve educational outcomes for all students.

Many of the Department's programs involve awarding grants to state and local educational agencies and providing grants and loans to postsecondary students. The Department's largest outlays are for its portfolio of student loans (see the **Financial Highlights** and **Notes** sections). Grant programs constitute the second-largest driver of outlays. The grant programs include: student aid to help pay for college through Pell Grants, Work Study, and other campus-based programs; grants awarded based on statutory formulas mostly for elementary and secondary education; and competitive grant programs to promote innovation. The Department also supports research, collects education statistics, and enforces civil rights statutes. We manage and spend financial resources on programs designed to support parents, teachers, principals, school leadership, institutions, and states in the pursuit of instilling knowledge and transferring skills to students.

OUR ORGANIZATION IN FISCAL YEAR 2018

This chart reflects the coordinating structure of the U.S. Department of Education. **Interactive** and **text versions** of the FY 2018 coordinating structure of the Department are available.



THE DEPARTMENT'S APPROACH TO PERFORMANCE

PERFORMANCE MANAGEMENT FRAMEWORK

In accordance with the *GPRA Modernization Act of 2010*, the Department's framework for performance management starts with the four-year *Strategic Plan*, which serves as the foundation for establishing long-term priorities. It also supports the development of performance goals, objectives, and measures by which the Department can gauge achievement of its stated outcomes. In coordination with the *Strategic Plan*, the Department established two-year Agency Priority Goals (APGs). Progress towards the Department's *Strategic Plan* and its APGs are measured using data-driven review and analysis. Additional information is available in the *Annual Performance Report and Annual Performance Plan*.

The *FY 2018–22 Strategic Plan* is comprised of four strategic goals. The Department continues to welcome input from Congress, state and local partners, and other education stakeholders about the *Strategic Plan*. Questions or comments about the *Strategic Plan* should be emailed to **PIO@ed.gov**.

FY 2018–22 Strategic Goals and Strategic Objectives[1]

Strategic Goal 1: Support state and local efforts to improve learning outcomes for all P–12 students in every community.	
Strategic Objective 1.1	Increase high-quality educational options and empower students and parents to choose an education that meets their needs.
Strategic Objective 1.2	Provide all P–12 students with equal access to high-quality educational opportunities.
Strategic Objective 1.3	Prepare all students for successful transitions to college and careers by supporting access to dual enrollment, job skills development and high-quality science, technology, engineering and mathematics (STEM).
Strategic Objective 1.4	Support agencies and institutions in the implementation of evidence-based strategies and practices that build the capacity of school staff and families to support students' academic performance.
Strategic Goal 2: Expand postsecondary educational opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful and productive citizenry.	
Strategic Objective 2.1	Support educational institutions, students, parents and communities to increase access and completion of college, lifelong learning and career, technical and adult education.
Strategic Objective 2.2	Support agencies and educational institutions in identifying and using evidence-based strategies or other promising practices to improve educational opportunities and successfully prepare individuals to compete in the global economy.
Strategic Objective 2.3	Support agencies and educational institutions as they create or expand innovative and affordable paths to relevant careers by providing postsecondary credentials or job-ready skills.
Strategic Objective 2.4	Improve quality of service for customers across the entire student aid life cycle.
Strategic Objective 2.5	Enhance students' and parents' ability to repay their federal student loans by providing accurate and timely information, relevant tools and manageable repayment options.
Strategic Goal 3: Strengthen the quality, accessibility and use of education data through better management, increased privacy protections and transparency.	
Strategic Objective 3.1	Improve the Department's data governance, data life cycle management and the capacity to support education data.
Strategic Objective 3.2	Improve privacy protections for, and transparency of, education data both at the Department and in the education community.
Strategic Objective 3.3	Increase access to, and use of, education data to make informed decisions both at the Department and in the education community.
Strategic Goal 4: Reform the effectiveness, efficiency and accountability of the Department.	
Strategic Objective 4.1	Provide regulatory relief to educational institutions and reduce burden by identifying time-consuming regulations, processes and policies and working to improve or eliminate them, while continuing to protect taxpayers from waste and abuse.
Strategic Objective 4.2	Identify, assess, monitor and manage enterprise risks.
Strategic Objective 4.3	Strengthen the Department's cybersecurity by enhancing protections for its information technology infrastructure, systems and data.
Strategic Objective 4.4	Improve the engagement and preparation of the Department's workforce using professional development and accountability measures.

[1] The FY 2018 Statement of Net Cost and related notes have been updated to align with the new *FY 2018–22 Strategic Plan*.

THE DEPARTMENT'S AGENCY PRIORITY GOALS (APGs)

The Department identified four APGs for FY 2018–19. Improving education starts with allowing greater decision-making authority at the state and local levels and empowering parents and students with educational options. These APGs aim to increase educational choice, improve the customer service the Department provides student aid borrowers, ensure protections of student privacy, and reduce red tape. The effective implementation of the Department's APGs will depend, in part, on the effective use of high-quality and timely data, including evaluations and performance measures. Quarterly updates for the APGs are available on **www.Performance.gov**.

APG	Related Strategic Objective
Improve the access to, and the quality and transparency of, school choice options for K–12 students. By September 30, 2019, the Charter School Program (CSP) will support the creation and expansion of 300 new charter schools nationally. The CSP will also support the enrollment of 50,000 students in new charter schools. Additionally, by September 30, 2019, the Department will disseminate eight resources, at least one per quarter, on evidence-based and promising practices related to school choice.	**Strategic Objective 1.1:** Increase high-quality educational options and empower students and parents to choose an education that meets their needs.
Improve borrowers' access to quality customer service. By September 30, 2019, Federal Student Aid will improve customers' access to and availability of quality customer service by decreasing the overall average speed of answer to 60 seconds or less, decreasing abandoned rates to three percent or less and requiring all non-default federal student loan servicers to expand and standardize call center hours.	**Strategic Objective 2.4:** Improve quality of service for customers across the entire student aid life cycle.
Improve student privacy and data security at Institutions of Higher Education (IHEs) through outreach and compliance efforts. By September 30, 2019, the Department will increase information security program outreach activities to IHEs by 40% in order to help protect IT systems and data privacy and commence audits of IHEs subject to A-133 and *Gramm-Leach-Bliley Act* (GLBA), resulting in 36 IHEs (from a baseline of zero) completing an audit of GLBA-related information security safeguards with no significant findings.	**Strategic Objective 3.2:** Improve privacy protections for, and transparency of, education data both at the Department and in the education community.
Provide regulatory relief to education stakeholders. By September 30, 2019, the Department will reduce the regulatory burden on education stakeholders by submitting to OMB no less than 25 deregulatory actions (against a baseline of zero (0) for FYs 2015 and 2016).	**Strategic Objective 4.1:** Provide regulatory relief to educational institutions and reduce burden by identifying time-consuming regulations, processes and policies and working to improve or eliminate them, while continuing to protect taxpayers from waste and abuse.

Goal 1. Support state and local efforts to improve learning outcomes for all P–12 students in every community.

Strategic Goal 1 focuses on outcomes related to the transition from the *No Child Left Behind Act* to implementation of the *Every Student Succeeds Act* (ESSA), which reauthorized the *Elementary and Secondary Education Act* in December 2015. The hallmark of the ESSA is the flexibility it provides for states to do what is best for children while preserving important protections for economically disadvantaged students, children with disabilities, English learners, and other vulnerable students. The law requires that states take steps to ensure all students have access to excellent teachers and positive, safe learning environments that equip them for college and career success.

The Agency Priority Goal associated with Strategic Goal 1 focuses on expanding educational choice options for parents and students. Specifically, the APG aims to improve the access to, and the quality and transparency of, school choice options for K–12 students.

APG for FY 2018–2019: Improve the access to, and the quality and transparency of, school choice options for K–12 students.

By September 30, 2019, the Charter School Program (CSP) will support the creation and expansion of 300 new charter schools nationally. The CSP will also support the enrollment of 50,000 students in new charter schools. Additionally, by September 30, 2019, the Department will disseminate eight resources, at least one per quarter, on evidence-based and promising practices related to school choice.

To achieve this APG, the Department focused on the implementation of its Charter School Program, including conducting new competitions and providing technical assistance to current grantees. Through CSP, the Department supported 134 new charter schools in school year 2017–18. The FY 2018 performance target for new charter schools was set at 150. Of significant note, preliminary data indicate that the total number of students enrolled in CSP-supported schools is over 1.6 million, which exceeds the FY 2018 target of 1,564,854 (Prior Year + 25,000). Additionally, the Department released five evidence-based and promising practice resources related to educational choice. The Department expects to continue to support research in this area through a National Center for Research on Education Access and Choice (REACH). In July 2018, the Department awarded a five-year grant to the REACH Center to complete two central activities: carrying out studies and developing the National Longitudinal School Choice Database (NLSCD). Through a set of 34 studies (quantitative and qualitative), the REACH Center will examine five types of state and district policies regarding school choice to identify how these policies can be structured to improve the education received by disadvantaged students. Additional information on this APG is available on **www.Performance.gov**.

Goal 2. Expand postsecondary educational opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful and productive citizenry.

Strategic Goal 2 focuses on expanding the Department's efforts to support innovative and accessible paths to postsecondary credentials and job-ready skills training. In addition to supporting expanded postsecondary opportunities, the Department has a number of initiatives focused on affordability. These initiatives ensure borrowers have the best information available to make postsecondary program selection and associated borrowing decisions. The Department also continues to help students understand their financial aid options and repayment obligations. The Agency Priority Goal associated with Strategic Goal 2 focuses on improving borrowers' access to quality customer service.

APG for FY 2018–2019: Improve borrowers' access to quality customer service.

By September 30, 2019, Federal Student Aid will improve customers' access to and availability of quality customer service by decreasing the overall average speed of answer to 60 seconds or less, decreasing abandoned rates to three percent or less and requiring all non-default federal student loan servicers to expand and standardize call center hours.

Improving access to information and the speed of response will allow customers to have expanded access to the resources they need to manage their federal student loans successfully, which will empower students and help them to reduce the risk of delinquency and default. The office of Federal Student Aid (FSA) plans to have the Next Generation Financial Services Environment (Next Gen FSA) transform the student aid customer experience with the use of industry best-in-class financial services technologies. Due to the rapid development of Next Gen FSA, FSA reevaluated and suspended its plan for the expansion of call center hours across all servicers. Despite this change, FSA continued to communicate with servicers regarding expectations for improvements to average speed to answer (ASA) and average abandon rate (AR) metrics. For FY 2018, the overall average speed to answer was 65.97 seconds (from 76.9 seconds in FY 2017; FY 2018 performance target is less than 70 seconds) and the abandonment rate was 3.9 percent (from 3.8 percent in FY 2017; FY 2018 performance target is less than three percent). FSA delivered the first tangible result of Next Gen FSA that customers will be able to see and touch: a redesigned **fafsa.gov**. The website's pages fit the screen size and shape of any device, including desktop computers, laptop computers and mobile devices, such as smartphones or tablets. The beta mobile application, for the 2017–2018 FAFSA® form, was rolled out in August 2018. On October 1, 2018, FSA launched the fully functional myStudentAid mobile app, featuring the myFAFSA component, which allows individuals to complete and submit the 2019–20 FAFSA® form. FSA's flagship website for professionals, the Financial Aid Toolkit, received 139,168 visits in FY 2018. FSA also leveraged social media, in-person events, and the Information for Financial Aid Professionals (IFAP) website to disseminate news, information, and updates that IHEs need to participate in the Title IV programs successfully. Additional information on this APG is available on **www.Performance.gov**.

The website visits for FinancialAidToolkit.ed.gov (the website for counselors and mentors) has decreased from FY 2017 to FY 2018. In FY 2017, FSA launched the FAFSA on October 1 and required tax data from an earlier tax year than in the past. That year, we conducted a large multichannel marketing effort to ensure our customers knew of the changes. One piece of this effort was to engage our partners and direct them to the Toolkit website for resources. In FY 2018, we did not conduct a marketing campaign around the FAFSA. As a result the visits to the Toolkit website dropped. In FY 2019, we plan to once again conduct a large multichannel marketing effort around the launch of the 2019–20

FAFSA. We anticipate the number of visits to the FinanicalAidToolkit.ed.gov will increase in FY 2019.

Goal 3. Strengthen the quality, accessibility and use of education data through better management, increased privacy protections and transparency.

Strategic Goal 3 focuses on strengthening data-driven decision-making in education by focusing on the ways we manage and make available education data, while protecting student privacy. The Department is committed to improving how staff and stakeholders access, use, and share meaningful data on education while protecting privacy. These improvements enable the Department and other stakeholders in the education community to better provide the public with the information necessary to make informed decisions on behalf of their communities, states, and local districts. The Agency Priority Goal associated with Strategic Goal 3 focuses on improving student privacy and data security at IHEs through outreach and compliance efforts. Additional information on this APG is available on **www.Performance.gov**.

APG for FY 2018–2019: Improve student privacy and data security at Institutions of Higher Education (IHEs) through outreach and compliance efforts.

By September 30, 2019, the Department will increase information security program outreach activities to IHEs by 40% in order to help protect IT systems and data privacy and commence audits of IHEs subject to A-133 and the *Gramm-Leach-Bliley Act* (GLBA), resulting in 36 IHEs (from a baseline of zero) completing an audit of GLBA-related information security safeguards with no significant findings.

The Department plans to achieve this APG through collaborative efforts involving training, outreach, monitoring, and reporting. In FY 2018, FSA and the Department's Privacy Technical Assistance Center (PTAC) collaborated to conduct 63 outreach activities targeting data privacy and IT security requirements of IHE. Many of the outreach activities performed were sessions at large conferences (e.g., the sessions at the FSA training conference that PTAC gave with 400+ attendees per session) and 97% of attendees at two PTAC sessions in California and Arkansas agreed or strongly agreed that it was helpful. The Office of Management and Budget did not include the new audit standards for GLBA-related information security safeguards in the audit compliance supplement this year. As such, the Department cannot yet report on the number of IHEs passing an audit of GLBA-related information security safeguards. Additional information on this APG is available on **www.Performance.gov**.

Goal 4. Reform the effectiveness, efficiency and accountability of the Department.

The Department's organizational capacity relies not only on our human capital but also on other resources, including physical, material, financial, and informational resources. Strategic Goal 4 focuses on improving the Department's processes, such as reviewing regulations, and where appropriate, on repealing, replacing or modifying regulations. The APG associated with Strategic Goal 4 aims to provide regulatory relief to education stakeholders.

APG for FY 2018–2019: Provide regulatory relief to education stakeholders.

By September 30, 2019, the Department will reduce the regulatory burden on education stakeholders by submitting to OMB no less than 25 deregulatory actions (against a baseline of zero (0) for FYs 2015 and 2016).

The Department intends to reduce the regulatory burden on stakeholders through review, rescission, and modification of outdated, burdensome regulations and guidance. The goal will be achieved through a comprehensive review of the Department's regulations and guidance to identify those that are overly burdensome, inconsistent with Administration priorities, unnecessary, outdated, or ineffective. Based on that review, the Department will determine whether such regulations or guidance need to be modified or rescinded and will then take appropriate action consistent with applicable law. For FY 2018, the Department submitted a total of 24 deregulatory actions, including four significant deregulatory actions reflected on reginfo.gov and 20 requests for significance determination of deregulatory actions submitted to OMB via e-mail (FY 2018 performance targets are two and 13, respectively). The Department published two key deregulatory actions: the Significant Disproportionality Delay Rule and the State Authorization Distance Education Delay Rule. These actions provide an estimated $13.1 million in cost savings for the regulated communities over the next two years. This number includes $7.5 million in cost savings for the Significant Disproportionality Delay Rule and $5.6 million for the State Authorization Distance Education Delay Rule.

FINANCIAL HIGHLIGHTS

INTRODUCTION

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

The Department consistently produces complete, accurate, and timely financial information. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board and the format and content specified by OMB Circular No. A-136, Financial Reporting Requirements. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 17 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2018 are on pages 28–67 and the Independent Auditors' Report begins on page 76.

BALANCE SHEETS

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

The Department's assets totaled $1,328.0 billion as of September 30, 2018. The vast majority of the assets relate to credit program receivables, which comprised 91.2 percent of all assets. Direct Loans comprise the largest share of these receivables, totaling $1,115.1 billion. All other assets totaled $117.1 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,279.2 billion as of September 30, 2018. As with assets, the vast majority of the Department's liabilities are associated with credit programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with Direct Loans totaled $1,150.6 billion as of September 30, 2018.

Figure 1. Assets by Type

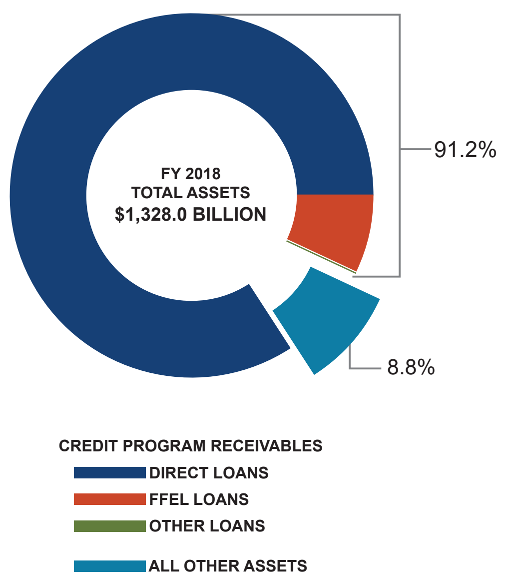


Figure 2. Liabilities by Type

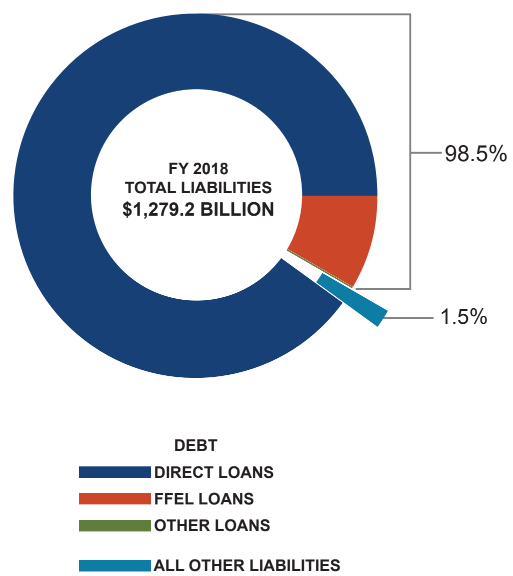
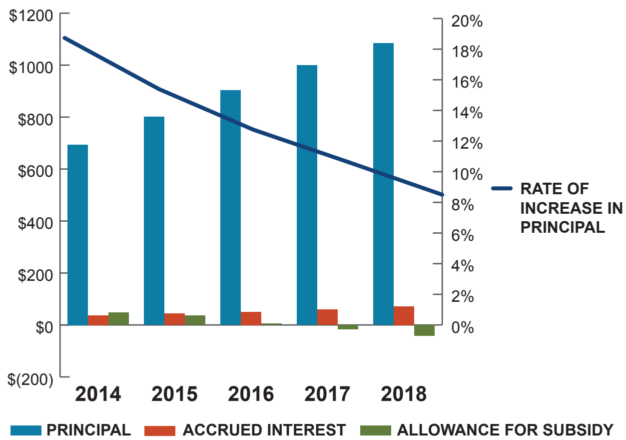


Figure 3. Components of Direct Loan Receivables, Net
(Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2014	2015	2016	2017	2018
Principal	**$ 694.0**	**$ 800.8**	**$ 902.8**	**$ 998.8**	**$1,083.7**
Rate of Increase in Principal	18.7%	15.4%	12.7%	10.6%	8.5%
Accrued Interest	$ 37.1	$ 44.3	$ 50.8	$ 59.5	$ 72.0
Allowance for Subsidy	$ 47.4	$ 35.5	$ 5.3	$ (16.8)	$ (40.7)
Total No. of Direct Loan Recipients (in Millions)	**27.9**	**29.9**	**31.5**	**33.0**	**34.2**

Figure 3 shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program has originated fewer new loans each year since FY 2014 as a result of stagnant and in some cases declining enrollment, coinciding with the recovery from the 2007–09 recession. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers now have more options to stretch out their repayment terms and reduce their monthly payments.

In accordance with the *Federal Credit Reform Act of 1990* (FCRA), the Department's financial statements report the value of direct loans and loan guarantees (credit program receivables) at the net present value of their future cash flows, discounted at a fixed rate established based on Treasury securities. The difference between the recorded principal and interest balance and the net present value of the loans is referred to as the "allowance for subsidy" which can be positive or negative.

Prior years' positive allowance for subsidy balances represented estimates of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. These positive allowance for subsidy balances resulted primarily from the difference between the interest rates charged by the Department to borrowers and the interest rates charged to the Department on amounts borrowed from Treasury to make the loans. The reduction in the positive allowance since FY 2014 is due primarily to higher subsidy costs, the main cause being high participation in income-driven repayment plans. As of FY 2017, the allowance for subsidy changed to a negative balance. In practical terms, this means that the present value of funds expected to be recovered is now less than the principal outstanding.

Table 1. Payment Status of Direct Loan Principal and Interest Balances
(Dollars in Billions)

Loan Status	Fiscal Year				
	2014	2015	2016	2017	2018
Total No. of Direct Loan Recipients (in Millions)	**27.9**	**29.9**	**31.5**	**33.0**	**34.2**
Total Dollar Amount of Direct Loans Outstanding	**$ 731.2**	**$ 845.1**	**$ 953.6**	**$1,058.4**	**$1,155.7**
Current Repayment[1]	247.2	332.0	406.8	467.9	531.4
In School, Grace Period, and Education Deferments	281.8	284.3	289.6	291.7	291.7
Forbearance and Noneducation Deferments	97.8	103.0	106.5	122.5	121.9
Delinquent (Past Due 31–360 Days)	54.6	65.1	71.8	79.5	92.2
Default/ Bankruptcy/ Other	49.8	60.7	78.9	96.8	118.5

[1] Loans in Current Repayment status include loans that are being repaid on-time. However, these on-time loans can include loans for which the amount of interest accruing is higher than payments that are being made, which can occur in the case of loans on income-driven repayment plans.

Participation in income-driven repayment plans has increased as (a) plans have become available that are more advantageous to borrowers, (b) plans have become available that expand the potential pool of borrowers, and (c) the Department has conducted targeted outreach to borrowers to make them aware of their potential eligibility for these plans. The percentage of borrowers in income-driven repayment plans has grown from 10.6 percent in FY 2013 to 30.0 percent in FY 2018.

Table 1 shows the payment status of the Direct Loan principal and interest balances outstanding over the past 5 years. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans being repaid pursuant to income-driven repayment plans.

Loans in the Delinquent category are past due anywhere from 31 to 360 days late. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. While technical default is 271 days delinquent, default is defined as 361 days delinquent for reporting purposes. The percentage of loans in default continues to grow, even as delinquencies and new defaults have declined, because defaulted loans can be difficult to collect or rehabilitate. The percentage of the portfolio in current repayment, which rose from 34 percent in FY 2014 to 46 percent in FY 2018, has eclipsed payments temporarily postponed and has grown far faster than loans in default.

The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows. Figure 4 shows the Direct Loan program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. Figure 6 (see page 12) illustrates the Direct Loan program financing process and provides financing and disbursing trend data.

STATEMENTS OF NET COST

The consolidated statements of net cost report the Department's components of the net cost of operations for each fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the cost of credit and grant programs, and operating costs. Exchange revenue is primarily interest earned on credit program loans. Figure 5 shows the Department's gross costs and earned revenue over the past five years.

Figure 4. Direct Loan Program Cumulative Financing Activity
(Dollars in Billions)

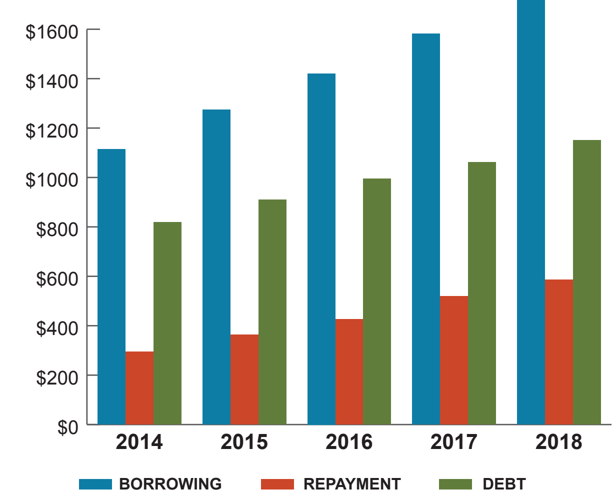


Figure 5. Gross Costs & Earned Revenue
(Dollars in Billions)

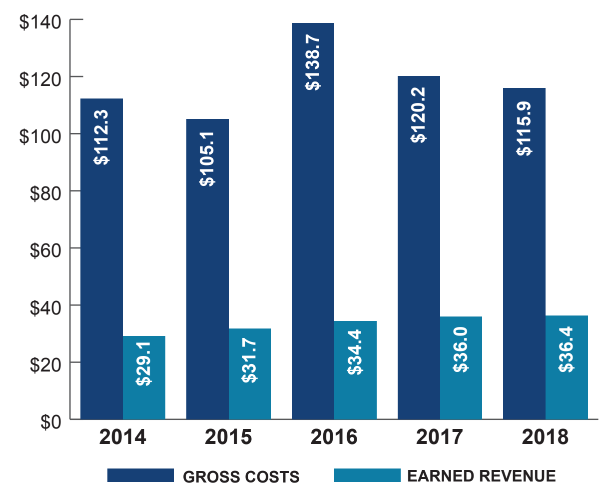
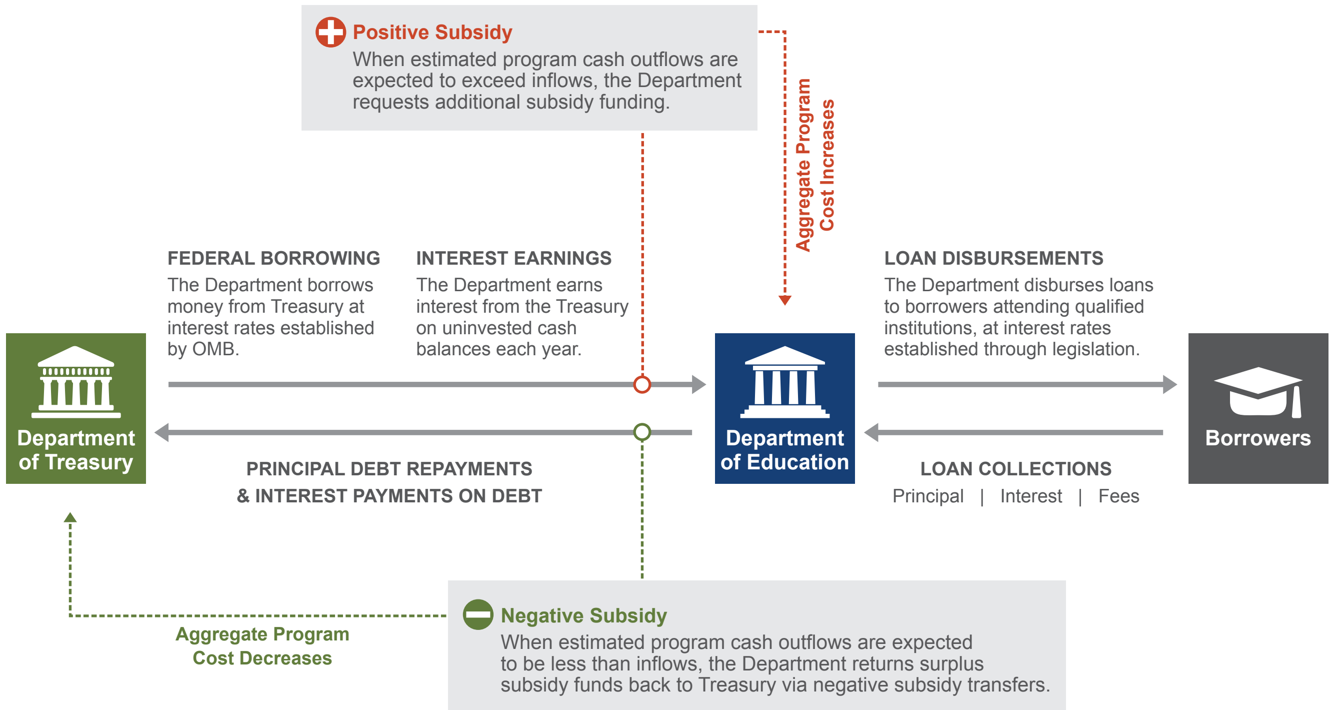


Figure 6. William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)					
Fiscal Year	2014	2015	2016	2017	2018
Net Borrowing	**120.6**	**90.9**	**84.4**	**67.3**	**89.1**
Borrowing from Treasury	171.2	159.7	147.0	160.5	155.3
Debt Repayments to Treasury	(50.6)	(68.7)	(62.6)	(93.2)	(66.2)
Interest Expense to Treasury	(25.2)	(27.6)	(30.5)	(31.3)	(32.3)
Interest Earned from Treasury	3.7	4.2	3.9	4.3	3.9
Cumulative Taxpayer Cost / (Savings)	(47.4)	(35.5)	(5.3)	16.8	40.7
Current Subsidy Expense (Revenue)	8.1	(0.9)	16.1	5.3	7.4

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)					
Fiscal Year	2014	2015	2016	2017	2018
Loan Disbursements	**134.1**	**142.2**	**140.5**	**142.5**	**134.1**
Stafford Subsidized	25.9	24.0	23.8	23.4	20.3
Stafford Unsubsidized	54.7	52.7	52.3	51.4	49.0
PLUS	18.9	19.2	19.0	18.7	23.1
Consolidation[1]	34.5	46.4	45.5	49.0	41.6
Loan Collections[2]	**48.8**	**65.1**	**73.2**	**82.0**	**84.9**
Principal	36.3	50.0	55.9	62.6	63.5
Interest	10.8	13.4	15.5	17.6	19.5
Fees	1.8	1.8	1.8	1.9	1.9

* Numbers may not add up due to rounding.

[1] Consolidation amounts stem from a number of loan programs, including most notably the Federal Family Education Loan (FFEL) program, in addition to Direct Loans.

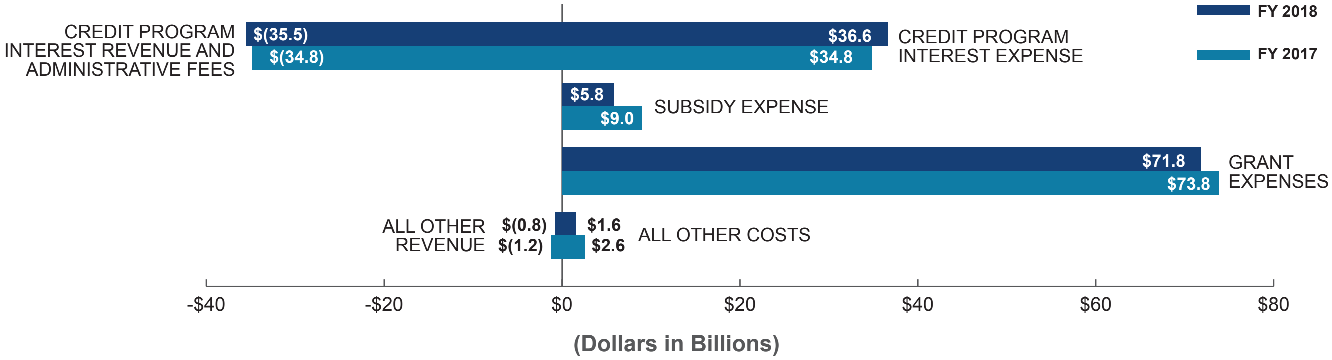
[2] Loan collections include prepayments, including prepayments in full due to consolidation of underlying loans.

GROSS COSTS AND EXCHANGE REVENUE BY TYPE

The major components of the Department's gross costs and earned revenue include three primary components:

- Credit program interest expense offset by credit program interest revenue and administrative fees as the result of subsidy amortization;
- Credit program subsidy expense (see Analysis of Direct Loan Program Subsidy Expense below); and
- Grant expenses (see Figure 9).

Figure 7. Major Components of Gross Cost and Earned Revenue



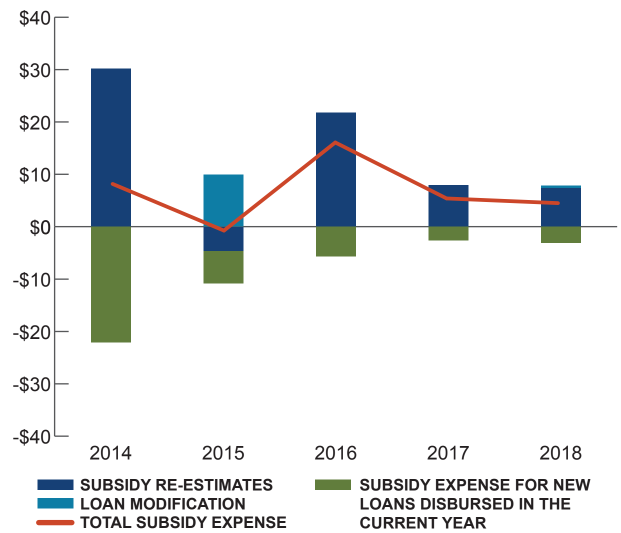
ANALYSIS OF DIRECT LOAN PROGRAM SUBSIDY EXPENSE

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

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (subsidy modifications). Figure 8 shows these three components of the Direct Loan program subsidy expense for the past five years.

Factors, such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees and other costs, and assumptions concerning borrowers' selection of repayment plans, impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy expense for new

Figure 8. Direct Loan Program Subsidy Expense
(Dollars in Billions)



	2014	2015	2016	2017	2018
Subsidy Expense for New Loans Disbursed in the Current Year	$(22.1)	$ (6.2)	$ (5.7)	$ (2.6)	$ (3.1)
Subsidy Re-estimates	30.2	(4.6)	21.8	7.9	7.4
Loan Modification	-	9.9	-	-	0.1
Total Subsidy Expense	**$ 8.1**	**$ (0.9)**	**$16.1**	**$ 5.3**	**$ 4.4**

loans disbursed in the current year has been negative in recent years primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default.

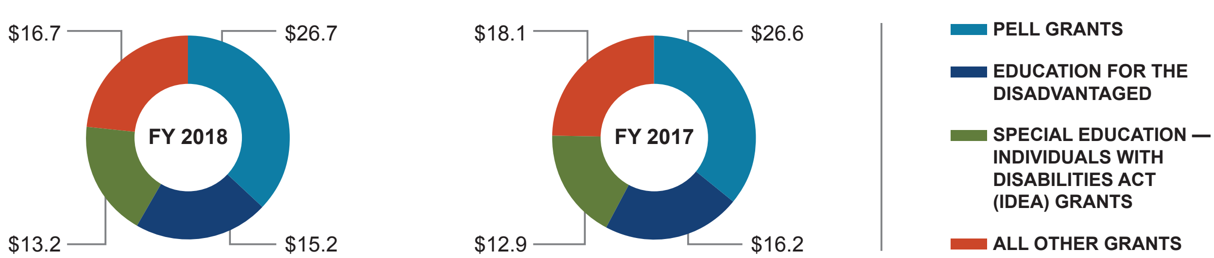
Direct Loan program re-estimated subsidy cost was adjusted upward by $7.4 billion in FY 2018. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2017. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, volume, and enter repayment rates.

- **Income-Driven Repayment (IDR) Model Changes—** In 2018, the Department updated several assumptions within its IDR submodel and refined the logic for borrowers switching between IDR plans. These updates led to a net downward re-estimate of $4.1 billion.
- **Repayment Plan Selection—**The Department incorporated new repayment plan data that showed a continuing increase in IDR plan usage. The update also reflects changes in interpretation of repayment plan codes for Direct Loan consolidations. Much of the consolidation loan volume that was previously classified as standard (ten-year fixed) is now classified as extended. Also, the Department changed the methodology for assigning and forecasting plans from an origination cohort basis to an enter repayment cohort basis. Lastly, the Department placed limits on forecasted growth of IDR participation to reflect an anticipated saturation point. The combined effect of these changes was a net upward re-estimate of $2.1 billion.
- **Default Rates—**The Department made updates to the default rate model in FY 2018, primarily reflecting updates in the data, which led to a net upward re-estimate of $14.8 billion.

The Department has more than 100 grant and loan programs (www.ed.gov/programs/inventory.html). The Department's FY 2018 expenses for grant programs totaled $71.8 billion. The three largest grant programs are:

- **Pell Grants—**provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on: the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell grants are the single largest source of grant aid for postsecondary education.
- **Education for the Disadvantaged—**primarily consists of Title I grants that provide financial assistance through state educational agencies to local educational agencies and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in State-run institutions, attending community day programs, and correctional facilities.
- **Special Education—**primarily consists of *Individuals with Disabilities Education Act* (IDEA) grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers from birth through age two and their families. Also provides discretionary grants to institutions of higher education and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training, and information centers.

Figure 9. Grant Costs by Appropriation (Dollars in Billions)



In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process and formula grants, using formulas determined by Congress with no application process.

STATEMENTS OF CHANGES IN NET POSITION

The consolidated statements of changes in net position report the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

STATEMENTS OF BUDGETARY RESOURCES

The combined statements of budgetary resources present information on how budgetary resources were made available and their status at the end of the fiscal year. Information in the statements is based on budgetary transactions as prescribed by OMB and Treasury.

The Department's budgetary resources totaled $358.5 billion for the period ended September 30, 2018, decreasing from $398.5 billion, or approximately 10.0 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $113.1 billion and non-budgetary credit reform resources of $245.4 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

The Department's gross outlays totaled $298.6 billion for the period ended September 30, 2018. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Credit program gross outlays were offset by $124.4 billion of collections—primarily principal, interest, and subsidy collections.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the Department's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Figure 10. Budgetary Resources

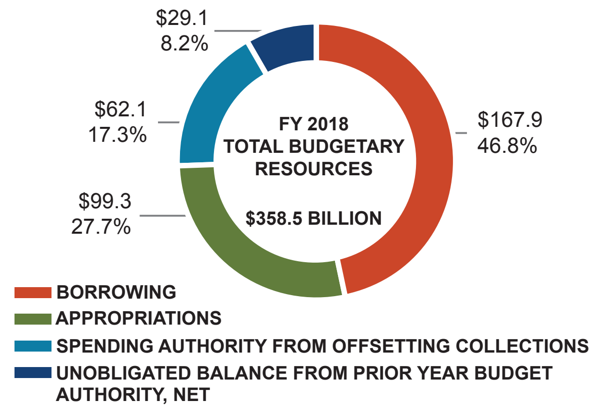
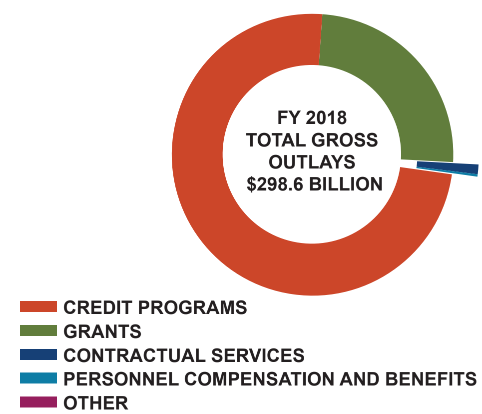


Figure 11. Gross Outlays by Type



	Billions	%
CREDIT PROGRAMS	**$ 221.3**	**74.3%**
DIRECT LOAN PROGRAM	205.0	68.9%
FFEL PROGRAM	15.6	5.2%
OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION	0.7	0.2%
GRANTS	**$ 73.8**	**24.6%**
PELL GRANTS	28.2	9.4%
EDUCATION FOR THE DISADVANTAGED	15.3	5.1%
SPECIAL EDUCATION - INDIVIDUALS WITH DISABILITIES ACT (IDEA) GRANTS	12.9	4.3%
ALL OTHER GRANTS	17.4	5.8%
CONTRACTUAL SERVICES	**$ 2.8**	**0.9%**
PERSONNEL COMPENSATION AND BENEFITS	**$ 0.6**	**0.2%**
OTHER	**$ 0.1**	**0.0%**
TOTAL	**$ 298.6**	**100.0%**

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

The Secretary of Education's 2018 Statement of Assurance provided below is the final report produced by the Department's annual assurance process. Although the Department has not identified any material weaknesses, it acknowledges that there are significant weaknesses and management challenges to be addressed that are identified elsewhere in this report.

STATEMENT OF ASSURANCE
FISCAL YEAR 2018
November 14, 2018

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

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

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

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

Based on the results of the Department's assessments described above, our system of internal controls provides Department management with reasonable assurance that the objectives of sections 2 and 4 of the FMFIA were achieved as of September 30, 2018.

Betsy DeVos

Betsy DeVos

INTRODUCTION

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

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

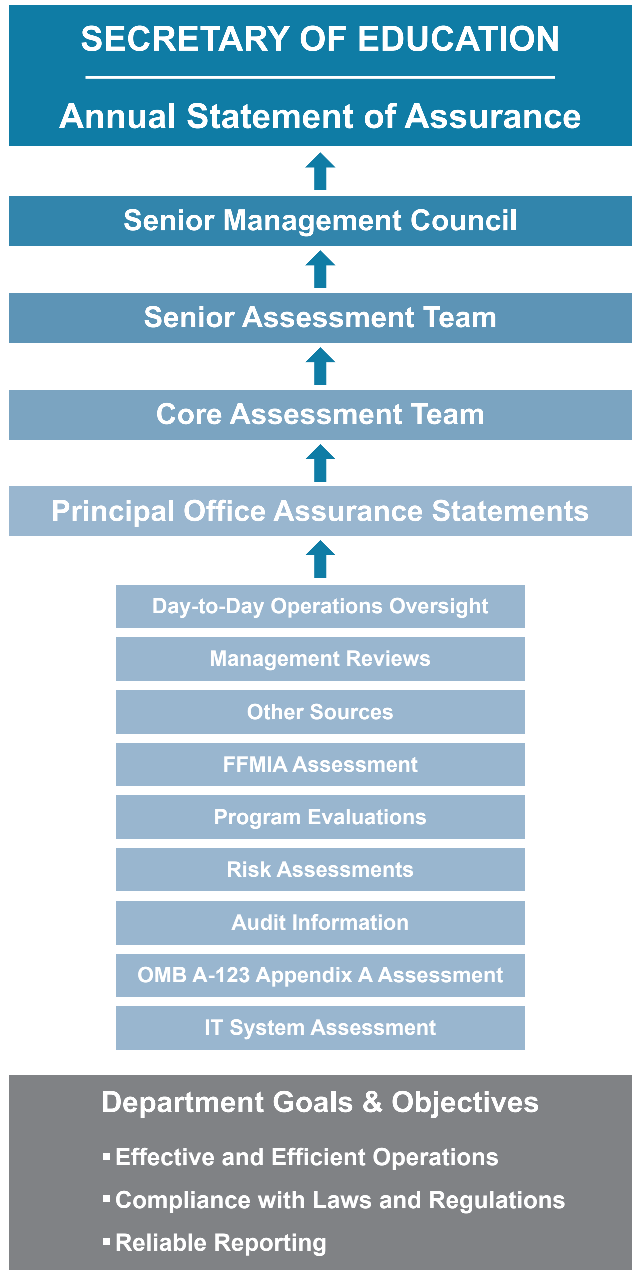
This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2018 to meet the three objectives.

Control Framework

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

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

Figure 12. Internal Control Framework and Assurance Process



The Office of the Chief Financial Officer (OCFO) manages the assurance process on behalf of Department leadership. The Department established governance over the process, consisting of a Senior Management Council, a Senior Assessment Team (SAT), and a Core Assessment Team (CAT). The Senior Management Council is comprised of senior leaders from across the Department. It is the primary governance structure for ensuring overall management and efficiency of Department activities, especially with respect to process, procedures, and administrative structures, including providing strategic direction for the implementation of the internal control program. The SAT and CAT include representatives from OCFO, the Office of the Chief Information Officer (OCIO), student loan and grant-making program offices, Risk Management Service, and other operational support offices (including the Office of Management). The SAT and CAT provide greater oversight and monitoring of activities related to internal control assessments.

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

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

ANALYSIS OF CONTROLS

Overall, the Department relies on the principal office annual assurances, supported by risk-based internal control evaluations and testing, to provide reasonable assurance that its internal controls are well designed and in place and working as intended. The Department also considers issues identified by external auditors. During FY 2016, the Department revised its annual assurance process to conform to the new requirements contained in the revised U.S. Government Accountability Office publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book"). In FY 2018, the Department further revised the process to conform to the revised OMB Circular A-123 issued on July 15, 2016.

In FY 2018, the Department identified no material control weaknesses related to effective, efficient program operations and no areas of noncompliance with laws and regulations other than those noted in the Internal Control Exceptions section below. Although no material weaknesses were identified, the Department realizes that it has areas of control that need further strengthening, such as those disclosed in this report, the Independent Auditors' Report, and the major challenges identified by the Department's OIG in its OIG FY 2019 Management Challenges report. The Department continues to demonstrate its commitment to addressing, mitigating, or resolving its identified management challenges.

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

Internal Control over Financial Reporting

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

- comprehensive process documentation for the Department's significant business processes and subprocesses,
- maintenance of a control catalogue comprised of 3,934 key financial, operational, and Information Technology (IT) controls that align to the business processes (the Department documented 398 key controls and FSA documented 3,536 key controls [1,541 Business Process and Entity-Level controls and 1,995 IT controls]),

- technical assistance provided to principal offices to help them understand and assess key financial controls,
- a risk-based testing strategy, and
- a process to develop corrective action plans when control deficiencies are found and to track progress against those plans.

During FY 2018, the Department assessed the design and operating effectiveness of 2,767 key financial, operational, and IT process controls (the Department assessed 119 key controls and FSA assessed 2,648 key controls [1,287 Business Process and Entity-Level controls and 1,361 IT controls]).

Although some control deficiencies were detected, the Department did not identify any significant deficiencies or material weaknesses. Corrective actions have been initiated for the deficiencies identified. As a function of this assessment, the Department tested the key financial controls over the *Digital Accountability and Transparency Act of 2014* (DATA Act) reporting and concluded that the controls are designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL MANAGEMENT SYSTEMS

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

The Department's core financial systems are under the umbrella of the Education Central Automated Processing System (EDCAPS), serving approximately 8,500 Departmental internal users in Washington, D.C., and 10 regional offices throughout the United States, as well as 39,600 external users. In FY 2018, the Department conducted an annual risk assessment of EDCAPS and tested 92 IT security controls, out of a baseline of 630 IT security controls. EDCAPS is composed of five main linked components:

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

The Department designated the FMSS as a mission-critical system that provides core financial management services, and focused its system strategy on the following areas during FY 2018:

- Managing and implementing cross-validation rules throughout the fiscal year to prevent invalid accounting transactions from being processed,
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the USASpending.gov initiative as part of the *Federal Funding Accountability and Transparency Act of 2006*,
- Transmitting the entire Department's payments through the Department of Treasury Secure Payment System,
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the DATA Act implementation, and
- Initiating the upgrade of the FMSS Oracle E-Business Suite application to Oracle R12, to ensure continued vendor support, improved security, improved infrastructure, and enhanced functionality.

In FY 2019, EDCAPS will continue to provide customer service and improve security of its systems by completing the Department's implementation of Oracle E-Business Suite R12. In doing so, the Department will be current and ready to provide a more secure and better integrated financial management application.

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

Federal Information Security Modernization Act of 2014

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

The Department's and FSA's information security programs completed a number of significant activities in FY 2017 and FY 2018 to improve cybersecurity capabilities and functions, some of which included:

- In August of 2017, OCIO began publishing monthly ED Cyber Security Framework (CSF) Risk Scorecards. The CSF Risk Scorecard is published as part of ED's Information Security Continuous Monitoring (ISCM) efforts to identify cybersecurity risks, issues, and opportunities for improvements in our cybersecurity protections. The ED CSF Risk Scorecard is a detailed analysis tool for Authorizing Officials, Information System Owners, and Information System Security Officers to:
    - Describe the current cybersecurity posture;
    - Describe a target state for cybersecurity;
    - Identify and prioritize opportunities for improvement within the context of a continuous and repeatable process;
    - Assess progress toward the target state; and
    - Communicate among internal and external stakeholders about cybersecurity opportunities and risks.
    - The Department has also continued to strengthen its partnership with the Department of Homeland Security to deploy Continuous Diagnostics and Mitigation capabilities and strengthen the Department's ISCM program.
- 100 percent of Department users completed the annual computer security and privacy awareness training course in FY 2018. The Department strictly enforced compliance with annual security and privacy awareness training requirements, and disabled network accounts for noncompliant users. In addition, the Department won the Security Awareness Training Scenario category in the Federal Information Systems Security Educators Association's Annual Security Awareness, Training, and Education Contest.
- In January of 2018, OCIO undertook an effort to reshape the Department's cybersecurity policy and guidance. A new information security instruction and standards framework was developed to allow for the following:
    - Flexibility
    - Alignment with the Framework for Improving Critical Infrastructure Cybersecurity in coordination with M-17-25
    - Alignment with the current budgeting and risk reporting structures
    - Support for outcomes sensitive to the OCIO objectives
    - Responsiveness to the risk environment
    - Reduction in review and approval timelines
    - Workflow automation

ANALYSIS OF LEGAL COMPLIANCE

The Department identified two instances of noncompliance with laws and regulations in FY 2018. Additionally, reviews and assessments conducted pursuant to information technology-related laws and regulations identified challenges still facing the Department.

Improper Payments Information Act of 2002

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

In its annual improper payment compliance audit for FY 2017, the OIG concluded that the Department was not compliant with IPERA because it did not meet one of IPERA's six compliance requirements for the Pell Grant (Pell) program. The Department reported an improper payment rate for the Pell program that did not meet the prior year published reduction target. The Department met all six IPERA compliance requirements for the Direct Loan program. For FY 2018, the improper payment rates for the Pell and Direct Loan programs met the prior-year published reduction targets.

This determination of noncompliance with IPERA does not represent a material weakness in the Department's internal controls. The Department's current nonstatistical estimation methodology limits the ability to establish accurate out-year reduction targets. To address this issue, the Department coordinated with OMB and other stakeholders in 2018 to develop a statistically-valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. This new methodology will improve the accuracy of the Department's improper payment estimates and the Department's ability to set and meet reduction targets.

Debt Collection Improvement Act of 1996

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

Due to unique program requirements of the Higher Education Act of 1965 (HEA), the Department requested guidance from Treasury's Bureau of Fiscal Service, Office of General Counsel for the application of this revised DCIA requirement to Title IV debt. Treasury provided its interpretation of this requirement for Title IV debt in July 2015. Per Treasury's interpretation, compliance for Title IV debt requires that the Title IV debt be: 1) in technical default (i.e., 271 days delinquent per Title IV aging) and 2) a receivable of the federal government. Therefore, the DCIA Treasury Offset Program referral requirement for Title IV debt owned by FSA at the time of delinquency is 271 days delinquent and for debt acquired via a FFEL guarantee default claim or default Perkins Loan assignment is 120 days delinquent (per DCIA aging which begins upon acceptance of a defaulted debt). As of September 30, 2018, the Department and FSA were not in compliance with the DCIA Treasury Offset Program referral requirement for Title IV debt as interpreted by Treasury because FSA had not yet revised its loan servicing systems, procedures, and internal processes in response to this interpretation. During FY 2018, FSA continued to implement changes to its default loan servicing system and business process for referring eligible debts to the Treasury Offset Program sooner. In addition, FSA provided guidance to the Guaranty Agencies that will facilitate sending debts to Treasury sooner. FSA anticipates this first round of changes will be implemented during FY 2019. Afterwards, FSA will a) revise its compliance reporting procedures to enable FSA to establish a new DCIA compliance baseline and b) analyze the remaining compliance gap to determine next steps. This area of noncompliance is noted in the independent auditors' report, exhibit C.

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

FORWARD-LOOKING INFORMATION

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

Enterprise Risk Management

The Department is focused on improving enterprise risk management (ERM) to maximize the Department's value to students and taxpayers through achievement of the Department's strategic goals and objectives. The Department's implementation of ERM includes three critical strategies that are more fully described under Strategic Objective 4.2, *Identify, assess, monitor and manage enterprise risks*:

1. Creating a risk-aware culture that includes transparent discussions of risks.
2. Implementing an ERM framework and capability that leverages existing risk management activities and governance bodies.
3. Managing risks in a more coordinated and strategic manner.

Beginning in FY 2019, when the ERM framework is fully implemented, the Department plans to include risk information as a central consideration in all critical day-to-day and strategic decision-making activities, including resource allocations. In FY 2018, the Department established a new governance structure for ERM and focused on building a top-down understanding of and commitment to managing risk more effectively across the organization. Under the new governance structure, senior leaders from all offices will participate in establishing and implementing enterprise-wide risk management strategies to promote strategic risk-taking and coordinated approaches to managing cross-cutting management challenges.

While the Department continues working to mature its ERM capability and develop a more complete portfolio of risks to inform decision-making at all levels of the organization, the Senior Management Council has focused on providing strategic direction to effectively manage its most significant risks. The risks summarized below are several of the most significant challenges and opportunities facing the Department that will continue to receive management priority in FY 2019 and beyond.

DIRECT LOAN PROGRAM

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

Managing Student Loan Debt

Each year, federal student loans help millions of Americans obtain a college education—an investment that, on average, has high returns. While the average return to a college degree remains high, some students leave school poorly equipped to manage their debt.

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

Recent trends in student loan repayment data show that:

- More than 80 percent of Direct Loan recipients with loans actively in repayment are current on their loans.
- As of June 2018, nearly 7.1 million Direct Loan recipients were enrolled in income-driven repayment plans, representing a 13 percent increase from June 2017 and a 34 percent increase from June 2016.

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

- Continue conducting outreach efforts to inform student loan borrowers of their repayment options.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Generation Financial Services Environment (Next Gen FSA).

- Continue to support additional tools like the College Scorecard and Financial Aid Shopping Sheet to increase transparency around higher education costs and outcomes, in an effort to help students and families make informed decisions before college enrollment.

Managing Risks and Uncertainty Facing the Direct Loan Program's Cost Estimates

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

Legislative, Regulatory, and Policy Risk

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

Income-Driven Repayment Plans: Several new income-driven repayment (IDR) plans have been introduced in recent years, including Income-Based Repayment, Pay as You Earn (PAYE), and Revised Pay As You Earn. IDR plans tend to be more costly to the government than non-IDR plans; for the 2018 loan cohort, it is estimated that the government will recover 29 percent less for loans in income-driven repayment plans as compared to loans in standard plans. It is important to be careful in making such comparisons, however, as the underlying characteristics of borrowers selecting plans (and the corresponding dynamics of behavior driving selection in plans) also plays a role in driving the cost of loans enrolled in specific plans. In general, the proliferation of IDR plans has made income-driven repayment terms more generous (and more costly to the government) and made the plans available to a greater number of borrowers. Having more plans complicates repayment plan selection, since the tradeoffs between available plans vary by borrower and may not always be entirely clear. Selected comparisons between projected originations and borrower repayments under the different income-driven repayment plans are available on the **Department's website**. Future commitment to market and increased participation in these plans are areas of uncertainty.

Public Service Loan Forgiveness: Enacted in 2007, the Public Service Loan Forgiveness (PSLF) program allows a Direct student loan borrower to have the balance of their Direct student loans forgiven after having made 120 qualifying monthly payments under a qualifying repayment plan, while working full time for a qualifying public service employer (such as government or certain types of nonprofit organizations). In general, forgiveness provided via PSLF raises the cost of the Direct Loan program; however, there is still uncertainty as to how many borrowers will take advantage of the program. Much of this uncertainty arises because borrowers do not need to apply for the program until after having made the 120 qualifying monthly payments.

Data on approved PSLF applications first became available in FY 2018, since borrowers first became eligible for PSLF starting October 1, 2017. As of September 30, 2018, the total number of borrowers who received forgiveness totaled 206. The value of this forgiveness totaled $12.32 million. Despite the relatively modest figures of approved applications to date, the number of borrowers who have certified their employment in a public service organization continues to increase. As of September 30, 2018, the number of borrowers with certified employment totaled 936,029. The low number of approved PSLF applications in relation to employment certifications may be partially due to the complicated nature of the program, in particular the determination of what constitutes a qualifying payment. Many borrowers who file employment certification forms early in their careers may also move into private sector employment before reaching the 10 years and thus may (a) never apply for forgiveness or (b) apply for forgiveness much later, after returning to public service work. In the *Consolidated Appropriations Act*, FY 2018, Congress provided $350 million in funding to forgive up to $500 million in loan balances which were ineligible for immediate PSLF solely due to having made a payment under a nonqualifying repayment plan. Future congressional action that may affect eligibility for PSLF will continue to be an area of uncertainty. Lastly, the Department continues to remain informed on, and manage the risk that may arise in relation to, the uncertainty about the effect of further borrower outreach on boosting participation in the PSLF program.

Total and Permanent Disability: The *Tax Cut and Jobs Act of 2017*, signed into law on December 22, 2017, exempted the discharge of student loans due to total and permanent disability (TPD) from taxable income. TPD discharges had previously been considered taxable income. However, loan amounts discharged due to TPD may continue to be considered taxable income for state tax purposes. On April 16, 2018, the Department of Education announced that it would start matching records from the Department's National Student Loan Data System with Department of Veterans Affairs systems, in order to expedite the processing of total and permanent disability discharges. Borrowers matched through this process will be mailed a customized letter that will explain eligibility for loan discharge and include a TPD application. The borrower can sign and return the application to complete the process of applying for a TPD discharge. The individual effects of each of these changes, as well as the potential interaction between them, will remain an area of uncertainty until enough actual data can be observed to analyze their impact.

Estimation Risk

Actual student loan outcomes may deviate from estimated student loan outcomes, which is not unexpected given the long projection window of up to 40 years. The Direct Loan program is subject to a large number of future borrower-level events and economic factors that heavily impact the ultimate cost of issued loans. For example, estimates that need to be made for loans originating in FY 2017 include how long students will remain in school; what repayment plan will be chosen; whether the loan will be consolidated; whether the borrower will die, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed school, borrower defense, etc.); if the loan will go into deferment or forbearance; if the loan will go into default and, if so, what collections will be received on the defaulted loan; and, if the loan is in income-driven repayment, what the borrower's employment (public sector or not) and income and family status will be over the next 25 years. These types of projections are not only extremely difficult to make but also are subject to change if future student behaviors deviate from past experience. Changes in private student loan markets, such as the recent increase in refinancing of federal student loans into private student loans, also add a layer of uncertainty to student loan estimates. Lastly, the Direct student loan portfolio has grown from approximately $382 billion in FY 2011 to around $1.2 trillion as of the end of FY 2018. This growth naturally results in larger re-estimates, since a re-estimate worth 1 percent of the portfolio today would be more than three times as large as a similar re-estimate in FY 2011 ($11.2 billion vs. $3.8 billion).

Macroeconomic Risk

The ultimate amount, timing and value of future borrower repayments under the Direct Loan program are heavily affected by certain economic factors, especially since the introduction of income-based repayment plans. Some examples include the following:

Interest Rates: Direct Loan subsidy estimates are very sensitive to changes in interest rates. Under the current program terms, the fixed borrower rates for direct loans are established in advance of the upcoming school year, while the Treasury fixed interest rate on borrowings to fund those loans is not set until after those awards are fully disbursed, which can be as much as 18 months later. Unexpected changes in interest rates during this time can significantly impact the subsidy cost of these loans.

Unemployment: The financial crisis of 2008 and ensuing spike in unemployment rates had a dramatic effect on both student loan volume and student loan performance. Student loan volume peaked along with unemployment, as many displaced workers sought higher education opportunities. Student loan performance suffered as many borrowers repaying their loans were left with much less disposable income with which to make their loan payments. For example, the cohort default rate for students was at a high of 14.7 percent for loans entering repayment in 2010, while the most recent rate is 10.8 percent for loans entering repayment in 2015. While recessions and economic downturns are cyclical phenomena, their exact timing and impact on the cost estimates remain an area of uncertainty.

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

Operational Risk

Unforeseen issues in administering and servicing student loans may impact the cost estimates. For example, in March 2017, a tool used to transfer automatically a family's tax information to both student aid applications and IDR plan applications was taken down due to security concerns. Although usage of the tool for IDR recertification has since been brought back up, it is yet uncertain what, if any, impact this outage may have had on student loan cost estimates. However, this example highlights that there is an inherent risk that future, unpredictable disruptions in the administrative status quo may impact student loan cost estimates.

NEXT GEN FSA

About FSA

As the nation's largest provider of financial aid for education beyond high school, FSA delivers more than $120 billion in aid each year to students and their families. Through programs authorized under the *Higher Education Act of 1965*, as amended, FSA provides grants, loans, and work-study funds for college or career school. FSA also oversees the approximately 6,000 postsecondary institutions that participate in the federal student aid programs. In every interaction with students and their families, FSA strives to be the most trusted and reliable source of student financial aid information and services in the nation.

The Vision

FSA has one of the largest consumer loan portfolios in the country at $1.4 trillion.[1] It is critical that we provide a customer experience that is on par with world-class financial services firms and to establish our organization as one of the most trusted brands in the student aid industry. The Next Generation Financial Services Environment (Next Gen FSA) will enable FSA to realize this vision by modernizing the way we connect with our customers, while streamlining our student aid systems and processes. This broad effort will deliver an exceptional customer experience for millions of Americans across the entire student aid life cycle, from fostering greater awareness about the availability of financial aid, to applying for aid, to repaying loans.

Today's Environment

In the current federal financial aid process, students and families must negotiate a complex and fragmented landscape, interacting with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. Too often, this poor customer experience creates confusion, resulting in borrowers failing to understand their repayment options and the financial implications of their student debt, borrower indifference, and, ultimately, higher loan delinquency and default rates. Additionally, operational complexities and inefficiencies result in higher administrative costs and hinder effective oversight.

Next Gen FSA Environment

Multiple websites, mobile applications, contact centers, and other customer interfaces will be combined into a simplified, consistent, and engaging experience, which will be enhanced by standardized training and tools across vendors and partners. With a focus on mobile engagement, Next Gen FSA will meet customers where they are, letting them connect with FSA on the device of their choice. Customers will access a modernized, online portal with personalized information that helps them quickly understand their options and make informed decisions throughout the financial aid life cycle, including borrowing and loan repayment. While Next Gen FSA will cut through the information clutter and provide robust self-service, it also will seamlessly connect customers with additional support when needed.

In addition to an improved customer experience, Next Gen FSA will completely modernize FSA's back-end systems and infrastructure. This transformation will pave the way for improved processing and customer management at lower costs. Vendor and partner performance standards and accountability measures will be built into Next Gen FSA to ensure customers receive world-class service while protecting taxpayer dollars. Next Gen FSA will integrate state-of-the-art cybersecurity protections across every aspect of the student aid experience. Enterprise-wide data analytics will drive improved customer service, particularly for at-risk students and borrowers, while also enhancing our oversight of participating postsecondary schools and supporting vendors.

Solicitation and Procurement Process

The Next Gen FSA implementation plan was based, in part, on extensive market research with more than 60 industry leaders. This research-based approach enabled FSA to identify best-in-industry standards and technical benchmarks that continue to inform the procurement process. On February 20, 2018, FSA initiated a multistage procurement process designed to identify the vendors most capable of supporting the implementation of Next Gen FSA; FSA intends to select a pool of vendors to deliver the Next Gen FSA environment. The Department anticipates awards will be made with the goal of new systems and processes coming online beginning in FY 2019. The current Title IV Additional Servicing (TIVAS) and Not-for-Profit (NFP) indefinite-

[1] This includes FFEL Lender held loans.

delivery, indefinite-quantity (IDIQ) contracts are set to expire in June and September 2019, respectively. Should FSA require continued servicing support beyond these dates, there are multiple options it can pursue. For example, one option would be to issue a new task order prior to the expiration of the underlying IDIQ contract to one or more of the current servicers. Another option would be to extend the underlying IDIQ contract up to 6 months in accordance with FAR 52.217-8, then issue new task orders. The appropriate contractual actions will be taken to ensure continued servicing capabilities until this portion of the Next Gen FSA vision is implemented.

CONTINUOUS IMPROVEMENT

Improving critical infrastructure, systems, and overall capacity, and ensuring sound strategic decision making regarding allocation of resources are essential to the Department's future progress and success. Implementing Technology Business Management Solutions and exploring the expanded use of Shared Services are two of the Department's key initiatives.

Technology Business Management Solutions (TBMS)

The purpose of the TBMS project is to provide an integrated solution that will support the Office of the Chief Information Officer (OCIO)'s role in implementing an Information Technology (IT) cost transparency capability. The TBMS project will also allow OCIO to communicate IT value with senior leadership, improve the efficiency and predictability of capital planning, and optimize IT costs. In the FY 2019 IT Budget-Capital Planning Guidance, the Office of Management and Budget requires agencies to begin reporting IT spending in alignment with the TBM Framework. The new requirements include using Cost Pools and IT Towers to classify IT spending. The project consists of two phases. The first phase will include OCIO's operating budget of approximately $120 million into the TBM Cost Transparency tool provided by the Department's TBM Vendor, Apptio. The second phase will incorporate the Department's entire IT budget of approximately $750 million, as well as the ability to use the Apptio Benchmarking, Business Insights, and Bill of IT modules. These modules will allow the Department to benchmark costs between the different program offices at ED, as well as between different federal agencies. The Business Insights and Bill of IT modules will offer additional details regarding total costs for IT projects at the Department as well as allow more analysis of our vendors and business practices when it comes to IT.

The objective is to implement an integrated solution that will allow OCIO to:

- Accurately account for and categorize IT spending in IT Cost Towers and Pools.
- Evaluate IT spending using a method that helps identify redundant IT assets (e.g. systems, applications, and licenses).
- Extract cost elements from disparate sources, analyze these elements, and report cost stressors and trends to stakeholders.
- Report IT spending in IT Towers and Cost Pools to OMB for capital planning. Prepare accurate pricing to client offices for the services provided.

Shared Services

The Department of Education uses shared services where feasible and practical, including payroll services with Department of the Interior and travel services with Carlson Wagonlit. The Department is exploring shared service and commercial off-the-shelf offerings to replace its G5, and its contracts and purchasing system (Comprizon). Additionally, the Department will explore migrating its financial management system to a shared service once the current upgrade from Oracle Enterprise Business Suite R11i to R12 is completed and stabilized. We will continue to explore other options to further leverage shared services for other mission support areas in the coming years.

FINANCIAL SECTION

ABOUT THE FINANCIAL SECTION

In FY 2018, the Department prepared its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is an important part of the Department's financial management goal of providing accurate and reliable information for decision making.

FINANCIAL STATEMENTS AND NOTES

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies

Note 2. Non-Entity Assets

Note 3. Fund Balance with Treasury

Note 4. Other Assets

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

Note 6. Liabilities Not Covered by Budgetary Resources

Note 7. Debt

Note 8. Subsidy Due to Treasury General Fund

Note 9. Other Liabilities

Note 10. Net Cost of Operations

Note 11. Statements of Budgetary Resources

Note 12. Reconciliation of Net Cost of Operations to Budget

Note 13. Commitments and Contingencies

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This section contains the Combining Statements of Budgetary Resources for the Years Ended September 30, 2018, and September 30, 2017.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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

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

REPORT OF THE INDEPENDENT AUDITORS

The results of the audit of the Department's financial statements for FY 2018 and FY 2017 to comply with the *Chief Financial Officers Act of 1990*, as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department's Office of Inspector General (OIG) contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of the Department as of September 30, 2018, and for the year then ended. OIG contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to audit the financial statements of the Department as of September 30, 2017, and for the year then ended.

United States Department of Education
Consolidated Balance Sheets
As of September 30, 2018 and September 30, 2017
(Dollars in Millions)

	FY 2018	FY 2017
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 114,605	$ 110,174
Other Intragovernmental Assets (Note 4)	151	65
Total Intragovernmental	114,756	110,239
Public:		
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	1,115,053	1,041,554
FFEL Program	92,947	102,410
Other Credit Programs for Higher Education	2,849	2,755
Other Assets (Note 4)	2,377	2,285
Total Public	1,213,226	1,149,004
Total Assets (Note 2)	**$ 1,327,982**	**$ 1,259,243**
LIABILITIES		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 1,150,610	$ 1,061,559
FFEL Program	107,261	116,290
Other Credit Programs for Higher Education	2,094	2,222
Subsidy Due to Treasury General Fund (Note 8)	7,536	7,013
Other Intragovernmental Liabilities (Note 9)	2,765	2,633
Total Intragovernmental	1,270,266	1,189,717
Public:		
Other Liabilities (Note 9)	8,910	12,366
Total Liabilities (Note 6)	**$ 1,279,176**	**$ 1,202,083**
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended Appropriations	$ 72,166	$ 62,399
Cumulative Results of Operations	(23,360)	(5,239)
Total Net Position	**$ 48,806**	**$ 57,160**
Total Liabilities and Net Position	**$ 1,327,982**	**$ 1,259,243**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Year Ended September 30, 2018
(Dollars in Millions)

		FY 2018
PROGRAM COSTS		
Improve Learning Outcomes for all P–12 Students		
Gross Costs	$	37,277
Earned Revenue		(82)
Net Program Costs	**$**	**37,195**
Expand Postsecondary Opportunities, Improve Outcomes to Foster Economic Opportunity, and Promote Productive Citizenry		
Direct Loan Program		
Gross Costs	$	37,965
Earned Revenue		(32,329)
Net Cost of Direct Loan Program	**$**	**5,636**
FFEL Program		
Gross Costs	$	4,599
Earned Revenue		(3,336)
Net Cost of FFEL Program	**$**	**1,263**
Other Credit Programs for Higher Education		
Gross Costs	$	298
Earned Revenue		(621)
Net Cost of Other Credit Programs for Higher Education	**$**	**(323)**
Non-Credit Programs		
Gross Costs	$	35,764
Earned Revenue		(10)
Net Cost for Non-Credit Programs	**$**	**35,754**
Net Program Costs	**$**	**42,330**
Total Gross Cost	**$**	**115,903**
Total Earned Revenue	**$**	**(36,378)**
Net Cost of Operations (Notes 10 & 12)	**$**	**79,525**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Year Ended September 30, 2017
(Dollars in Millions)

		FY 2017
PROGRAM COSTS		
Increase College Access, Quality, and Completion		
Gross Costs	$	78,289
Earned Revenue		(35,887)
Net Program Costs	$	42,402
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs		
Gross Costs	$	22,577
Earned Revenue		(10)
Net Program Costs	$	22,567
Ensure Effective Educational Opportunities for All Students		
Gross Costs	$	17,258
Earned Revenue		(11)
Net Program Costs	$	17,247
Enhance the Education System's Ability to Continuously Improve		
Gross Costs	$	2,122
Earned Revenue		(59)
Net Program Costs	$	2,063
Total Program Cost	**$**	**120,246**
Total Program Revenue	**$**	**(35,967)**
Net Cost of Operations (Notes 10 & 12)	**$**	**84,279**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2018 and September 30, 2017
(Dollars in Millions)

	FY 2018		FY 2017	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning Balances	**$ 62,399**	**$ (5,239)**	**$ 61,052**	**$ (28,215)**
Budgetary Financing Sources				
Appropriations Received	$ 100,743	$ -	$ 135,945	$ -
Appropriations Transferred In/Out	-	-	1	-
Other Adjustments (Rescissions, etc.)	(1,824)	-	(1,910)	-
Appropriations Used	(89,152)	89,152	(132,689)	132,689
Nonexchange Revenue	-	(3)	-	-
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others	-	39	-	27
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(27,784)	-	(25,461)
Total Financing Sources	**$ 9,767**	**$ 61,404**	**$ 1,347**	**$ 107,255**
NET COST OF OPERATIONS	**$ -**	**$ (79,525)**	**$ -**	**$ (84,279)**
NET CHANGE	**$ 9,767**	**$ (18,121)**	**$ 1,347**	**$ 22,976**
NET POSITION	**$ 72,166**	**$ (23,360)**	**$ 62,399**	**$ (5,239)**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2018 and September 30, 2017
(Dollars in Millions)

	FY 2018		FY 2017	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority (Net)	$ 13,286	$ 15,863	$ 16,717	$ 10,558
Appropriations (Discretionary and Mandatory)	99,341	-	134,388	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,897	-	166,601
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	451	61,666	1,096	69,169
Total Budgetary Resources	**$ 113,078**	**$ 245,426**	**$152,201**	**$ 246,328**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ 1,008	$ (7,350)	$ 4,325	$ (4,921)
STATUS OF BUDGETARY RESOURCES				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 95,228	$ 221,698	$139,923	$ 223,115
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	14,495	-	9,012	-
Unapportioned, Unexpired Accounts	2,174	23,728	2,100	23,213
Unexpired Unobligated Balance, End of Year	**$ 16,669**	**$ 23,728**	**$ 11,112**	**$ 23,213**
Expired Unobligated Balance, End of Year	1,181	-	1,166	-
Unobligated Balance, End of Year (Total)	**$ 17,850**	**$ 23,728**	**$ 12,278**	**$ 23,213**
Total Status of Budgetary Resources	**$ 113,078**	**$ 245,426**	**$152,201**	**$ 246,328**
OUTLAYS, NET				
Outlays, Net (Discretionary and Mandatory)	$ 91,080	$ 83,100	$131,274	$ 40,460
Distributed Offsetting Receipts (-) (Note 11)	(27,370)	-	(19,562)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 63,710**	**$ 83,100**	**$111,712**	**$ 40,460**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 1. Summary of Significant Accounting Policies

REPORTING ENTITY AND PROGRAMS

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

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

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

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

The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies that provide loan guarantees on loans made by private lenders to eligible students. The *Student Aid and Fiscal Responsibility Act* (SAFRA), which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), stated that no new FFEL loans would be made effective July 1, 2010. FFEL program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include interest in student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

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

Grant Programs. The Department has more than 100 grant programs. The three largest grant programs are Title I of the *Elementary and Secondary Education Act* (ESEA), Federal Pell Grant (Pell Grant), and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition, the Department offers other discretionary grants under a variety of authorizing legislation awarded using a competitive process, and formula grants using formulas determined by Congress with no application process. (See Note 10)

PROGRAM OFFICES

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

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

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

BASIS OF ACCOUNTING AND PRESENTATION

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

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

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

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

ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

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

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

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

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

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

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the Budget of the United States Government (President's Budget).
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Note 11)

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. The Department advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to the Department. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 7.8 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each lender. Interest accrues while a loan is in deferment or forbearance. Loans are cancelled if a person dies, meets disability requirements, or through the bankruptcy courts. Loans are also cancelled through the Public Service Loan Forgiveness (PSLF) Program, which forgives the remaining balance on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers the Pay As You Earn (PAYE) program. This student loan repayment program is designed to help borrowers who struggle to make their normal student loan payments. The plan allows payments to be limited to 10 percent of discretionary income if qualifications are met. Under the PAYE program, if all requirements are met, forgiveness of the remaining balance of a student loan is possible after 20 years of consistent payments.

BUDGETARY RESOURCES

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

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

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

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

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

Reauthorization of Legislation. Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue in accordance with congressional budgeting rules. (See Note 11)

ENTITY AND NON-ENTITY ASSETS

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

FUND BALANCE WITH TREASURY

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

ACCOUNTS RECEIVABLE

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

GUARANTY AGENCIES' FEDERAL FUNDS

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

The balance in the Federal Fund represents consolidated reserve balances of the 26 guaranty agencies based on the Guaranty Agency financial reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

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

CREDIT PROGRAM RECEIVABLES, NET AND LIABILITIES FOR LOAN GUARANTEES

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

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

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

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

PROPERTY AND EQUIPMENT, NET AND LEASES

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

The Department also leases information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Notes 4 and 13)

LIABILITIES

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred.

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

DEBT

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

SUBSIDY DUE TO TREASURY GENERAL FUND

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

ACCOUNTS PAYABLE

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. (See Note 9)

ACCRUED GRANT LIABILITY

Some grant recipients incur allowable expenditures as of the end of an accounting period but have not been reimbursed by the Department. The Department accrues a liability for these allowable expenditures. The amount is estimated using statistical sampling of unliquidated balances. (See Note 9)

PERSONNEL COMPENSATION AND OTHER EMPLOYEE BENEFITS

Annual, Sick, and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources. (See Notes 6 and 9)

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

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

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

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

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

NET COST OF OPERATIONS

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan*. The Department updated its *Strategic Plan* in FY 2018 resulting in realigning how the activities of its program offices crosswalk to the revised *Strategic Plan* goals and the programs presented on the Statement of Net Cost. The Department elected not to reclassify the FY 2017 Statement of Net Cost that was aligned with its previous 2014 – 2018 *Strategic Plan*.

Net cost consists of gross costs less earned revenue. Major components of the Department's net costs include credit program subsidy expense, credit program interest revenue and expense, and grant expenses. (See Note 10)

Credit Program Subsidy Expense. Subsidy expense is an estimate of the present value cost of providing loans, but excludes the administrative costs of issuing and servicing the loans. In order to estimate subsidy expense, the Department must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). The Department projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. The Department estimates subsidy expenses annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the estimated subsidy cost of outstanding direct loans (or direct loan obligations). (See Notes 5 and 10)

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

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

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

NET POSITION

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

ALLOCATION TRANSFERS

The Department is a party to allocation transfers as a receiving (child) entity with the Department of Health and Human Resources (HHS). Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to this allocation transfer (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity (HHS) from which the underlying legislative authority, appropriations and budget apportionments are derived.

TAXES

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

USE OF ESTIMATES

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

RECLASSIFICATIONS

The following reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources.

- The Combined Statements of Budgetary Resources were condensed to present budgetary resources, status of budgetary resources, and net outlays, while removing the presentation of the change in obligated balance to conform to FY 2018 changes in OMB Circular A-136.
- Note 6, Liabilities Not Covered by Budgetary Resources, was expanded to include the presentation of liabilities not requiring budgetary resources to conform to FY 2018 changes in OMB Circular A-136.

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Fund Balance with Treasury	$ 310	$ -	$ 260	$ -
Credit Program Receivables, Net	-	551	-	495
Other Assets				
Guaranty Agencies' Federal Funds	-	2,176	-	2,077
Accounts Receivable, Net	-	65	-	68
Total Non-Entity Assets	**310**	**2,792**	**260**	**2,640**
Entity Assets	114,446	1,210,434	109,979	1,146,364
Total Assets	**$ 114,756**	**$ 1,213,226**	**$ 110,239**	**$ 1,149,004**

The Department's FY 2018 assets are predominantly entity assets (99.4 percent), leaving a small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in deposit and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (77.9 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (19.7 percent), reported as credit program receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities. (See Note 9)

NOTE 3. Fund Balance with Treasury

(Dollars in Millions)

	2018	2017
Unobligated Balance		
Available	$ 14,495	$ 9,012
Unavailable	24,907	24,402
Obligated Balance, Not Disbursed	137,680	135,219
Authority Temporarily Precluded from Obligation	1	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	(62,752)	(58,701)
Other	274	241
Total Fund Balance with Treasury	**$ 114,605**	**$ 110,174**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance ($24,907 million) differs from unapportioned and expired amounts on the SBR ($27,083 million) due to the Guaranty Agencies' Federal Funds ($2,176 million).

NOTE 4. Other Assets

(Dollars in Millions)

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 2,176	$ -	$ 2,077
Accounts Receivable, Net	1	154	1	172
Advances	150	15	64	1
Property and Equipment, Net	-	29	-	33
Other	-	3	-	2
Total Other Assets	**$ 151**	**$ 2,377**	**$ 65**	**$ 2,285**

Included in the accounts receivable with the public are amounts owed as a result of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department of Education. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2018, related to criminal restitutions totaled $78.8 million and ($70.5) million, respectively.

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

Credit Program Receivables

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2018				
Direct Loan Program	$ 1,083,735	$ 71,981	$ (40,663)	$ 1,115,053
FFEL Program	95,083	21,116	(23,252)	92,947
Other Credit Programs for Higher Education	3,108	437	(696)	2,849
Total Credit Receivables	**$ 1,181,926**	**$ 93,534**	**$ (64,611)**	**$ 1,210,849**
2017				
Direct Loan Program	$ 998,825	$ 59,534	$ (16,805)	$ 1,041,554
FFEL Program	101,601	19,338	(18,529)	102,410
Other Credit Programs for Higher Education	3,157	409	(811)	2,755
Total Credit Receivables	**$ 1,103,583**	**$ 79,281**	**$ (36,145)**	**$ 1,146,719**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is additional analysis of the activity, costs and adjustments for each of the loan programs.

DIRECT LOAN PROGRAM.

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

Direct Loan program loan receivables include defaulted and nondefaulted loans owned by the Department. Of the $1,155.7 billion in gross loan receivables, as of September 30, 2018, $84.9 billion (7.3 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $70.7 billion (6.7 percent) as of September 30, 2017.

Direct Loan Program Reconciliation of Allowance for Subsidy
(Dollars in Millions)

	2018	2017
Beginning Balance, Allowance for Subsidy	**$ 16,805**	**$ (5,292)**
Activity		
Fee Collections	1,696	1,694
Loan Cancellations	(7,521)	(7,689)
Subsidy Allowance Amortization	25,918	23,276
Other	(604)	(513)
Total Activity	**19,489**	**16,768**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	1,614	(13,045)
Defaults, Net of Recoveries	1,106	(133)
Fees	(1,747)	(1,968)
Other	(4,103)	12,541
Total of the Above Subsidy Expense Components	**(3,130)**	**(2,605)**
Components of Loan Modifications		
Loan Modification Costs	144	-
Modification Adjustment Transfers Gain	(8)	-
Loan Modifications	**136**	-
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(4,573)	(5,765)
Technical and Default Re-estimates	11,936	13,699
Upward Subsidy Re-estimates	**7,363**	**7,934**
Ending Balance, Allowance for Subsidy	**$ 40,663**	**$ 16,805**

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

Due to the complexity of the Direct Loan program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts, such as growing efforts to increase borrower enrollment in income-driven repayment (IDR) plans, may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The increasing enrollment of borrowers in the IDR plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element that displays the interrelated risks facing the Direct Loan program.

Loan cancellations include write-offs of loans because the borrower died, became disabled, or declared bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated. Other components of subsidy transfers consist of contract collection costs, program review collections, fees, loan forgiveness under PAYE and other accruals.

Direct Loan Program Interest Expense and Revenues (See Note 10)
(Dollars in Millions)

	2018	2017
Interest Expense on Treasury Borrowing	$ 32,329	$ 31,286
Total Interest Expense	**$ 32,329**	**$ 31,286**
Interest Revenue from the Public	$ 54,157	$ 50,142
Interest Revenue on Uninvested Funds	3,890	4,258
Administrative Fees	200	162
Amortization of Subsidy	(25,918)	(23,276)
Total Revenues	**$ 32,329**	**$ 31,286**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2018	2017
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 1,614	$ (13,045)
Defaults, Net of Recoveries	1,106	(133)
Fees	(1,747)	(1,968)
Other	(4,103)	12,541
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**(3,130)**	**(2,605)**
Loan Modifications	136	-
Upward Subsidy Re-estimates	7,363	7,934
Direct Loan Subsidy Expense	**$ 4,369**	**$ 5,329**

FY 2018 Direct Loan Program Modifications. The Department recognized net loan modifications totaling $136 million in FY 2018. The FY 2018 modifications include the cost associated with the policy change related to forgiving accrued interest on borrower defense claims that have been denied and pending for more than one year. In addition, the *Consolidated Appropriations Act, 2018* provided limited, additional conditions under which a borrower may become eligible for PSLF if some or all of the payments were made under a nonqualifying repayment plan. Finally, an $8 million upward modification was recorded based on the *Bipartisan Budget Act of 2018* which gives the Department broad authority to forgive Direct Loans received by students who did not complete the period for which they enrolled as a result of hurricanes Maria and Irma that disrupted Puerto Rico and the U.S. Virgin Islands in 2017.

Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. Direct Loan program re-estimated subsidy cost was adjusted upward by $7.4 billion in FY 2018. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2017. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, volume, and enter repayment rates.

- **IDR Model Changes.** In 2018, the Department updated several assumptions within its IDR submodel and refined the logic for borrowers switching between IDR plans. These updates led to a net downward re-estimate of $4.1 billion.
- **Repayment Plan Selection.** The Department incorporated new repayment plan data that showed a continuing increase in IDR plan usage. The update also reflects changes in interpretation of repayment plan codes for Direct Loan consolidations. Much of the consolidation loan volume that was previously classified as standard (ten-year fixed) is now

classified as extended. Also, the Department changed the methodology for assigning and forecasting plans from an origination cohort basis to an enter repayment cohort basis. Lastly, the Department placed limits on forecasted growth of IDR participation to reflect an anticipated saturation point. The combined effect of these changes was a net upward re-estimate of $2.1 billion.

- **Default Rates.** The Department made updates to the default rate model in FY 2018, primarily reflecting updates in the data, which led to a net upward re-estimate of $14.8 billion.

With the increase in IDR participation, the Department also conducted sensitivities on incomes for students in IDR and PSLF plans. For example, a 5 percent upward increase in borrower incomes decreases costs by almost $1.3 billion for cohort 2017. A 5 percent increase in PSLF plan participation would increase costs by $0.4 billion for cohort 2017.

Direct Loan Subsidy Rates—Cohort 2018

	Interest Differential	Defaults	Fees	Other	Total
Stafford	-0.01%	1.84%	-1.07%	7.54%	8.30%
Unsubsidized Stafford	-19.55%	1.34%	-1.07%	9.56%	-9.72%
PLUS	-33.15%	0.89%	-4.26%	8.73%	-27.79%
Consolidation	3.96%	0.37%	0.00%	9.85%	14.18%
Weighted Average Total	**-11.95%**	**0.86%**	**-1.20%**	**8.92%**	**-3.37%**

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2018 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2020 President's Budget.

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

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

	2018	2017
Stafford	$ 20,343	$ 23,368
Unsubsidized Stafford	49,009	51,410
PLUS	23,117	18,695
Consolidation	41,625	48,999
Total Disbursements	**$ 134,094**	**$ 142,472**

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

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

Direct loan consolidations were $41.6 billion during FY 2018 and $49.0 billion during FY 2017. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated.

FEDERAL FAMILY EDUCATION LOAN PROGRAM.

As a result of the SAFRA Act, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2018 and 2017, total principal balances outstanding of guaranteed loans held by lenders were approximately $157 billion and $176 billion, respectively. As of September 30, 2018 and 2017, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $154 billion and $173 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2018				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,917	$ 5,836	$ (8,077)	$ 1,676
FFEL GSL Program (Post-1991)	33,849	7,802	(15,186)	26,465
Total Defaulted FFEL Guaranteed Loans	37,766	13,638	(23,263)	28,141
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	19,277	2,435	(21)	21,691
Loan Participation Purchase	36,475	4,713	458	41,646
ABCP Conduit	1,565	330	(426)	1,469
Total Acquired FFEL Loans	57,317	7,478	11	64,806
FFEL Program Loan Receivables	**$ 95,083**	**$ 21,116**	**$ (23,252)**	**$ 92,947**
2017				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,882	$ 5,659	$ (8,019)	$ 1,522
FFEL GSL Program (Post-1991)	34,395	7,216	(13,838)	27,773
Total Defaulted FFEL Guaranteed Loans	38,277	12,875	(21,857)	29,295
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	21,375	2,224	1,656	25,255
Loan Participation Purchase	40,288	3,947	2,072	46,307
ABCP Conduit	1,661	292	(400)	1,553
Total Acquired FFEL Loans	63,324	6,463	3,328	73,115
FFEL Program Loan Receivables	**$ 101,601**	**$ 19,338**	**$ (18,529)**	**$ 102,410**

FFEL Program Reconciliation of Liabilities for Loan Guarantees
(Dollars in Millions)

	2018	2017
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 3,636**	**$ 1,417**
Activity		
Interest Supplement Payments	(1,052)	(810)
Claim Payments	(5,716)	(5,819)
Fee Collections	1,550	1,633
Interest on Subsidy Amortization	(1,099)	(1,263)
Other	6,476	7,459
Total Activity	**159**	**1,200**
Upward/(Downward) Subsidy Re-estimates	(1,204)	1,019
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**2,591**	**3,636**
FFEL Liquidating Account Liability for Loan Guarantees	1	23
FFEL Liabilities for Loan Guarantees	**$ 2,592**	**$ 3,659**

Liabilities for Loan Guarantees is included as a component of other liabilities on the balance sheet (see Note 9).

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

Allowance for Subsidy Reconciliation for Acquired FFEL Loans
(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
2018				
Beginning Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**
Activity				
Subsidy Allowance Amortization	550	903	48	1,501
Loan Cancellations	(168)	(314)	(16)	(498)
Direct Asset Activities	(44)	(68)	(6)	(118)
Total Activity	**338**	**521**	**26**	**885**
Upward Subsidy Re-estimates	1,339	1,093	-	2,432
Ending Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
2017				
Beginning Balance, Allowance for Subsidy	**$ (2,922)**	**$ (4,347)**	**$ 374**	**$ (6,895)**
Activity				
Subsidy Allowance Amortization	635	1,219	53	1,907
Loan Cancellations	(203)	(390)	(19)	(612)
Direct Asset Activities	(45)	(67)	(8)	(120)
Total Activity	**387**	**762**	**26**	**1,175**
Upward Subsidy Re-estimates	879	1,513	-	2,392
Ending Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2018	2017
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	$ (1,204)	$ 1,019
Loan Purchase Commitment	1,339	879
Loan Participation Purchase	1,093	1,513
FFEL Program Subsidy Expense	**$ 1,228**	**$ 3,411**

FFEL subsidy cost was adjusted upward by $1.2 billion in FY 2018. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated prepayment rates.

OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

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

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2018				
Federal Perkins Loans	$ 474	$ 297	$ (220)	$ 551
TEACH Program Loans	746	91	(253)	584
HEAL Program Loans	397	32	(69)	360
Facilities Loan Programs	1,491	17	(154)	1,354
Total	**$ 3,108**	**$ 437**	**$ (696)**	**$ 2,849**
2017				
Federal Perkins Loans	$ 424	$ 268	$ (197)	$ 495
TEACH Program Loans	723	95	(225)	593
HEAL Program Loans	398	30	(74)	354
Facilities Loan Programs	1,612	16	(315)	1,313
Total	**$ 3,157**	**$ 409**	**$ (811)**	**$ 2,755**

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

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

TEACH Subsidy Rates—Cohort 2018

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	16.92%	0.25%	0.00%	5.89%	23.06%

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

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

The Department granted full forgiveness of $322 million in loans made to the four historically black colleges and universities that suffered damage after Hurricanes Katrina and Rita struck the Gulf Coast in 2005. Dillard University, Southern University at New Orleans, Tougaloo College, and Xavier University of Louisiana collectively borrowed more than $360 million through the HBCU Capital Financing Program in 2007. After struggling to repay the loans, the schools in 2013 received a five-year reprieve on payments that was set to expire in 2018. This additional disaster relief lifts a huge burden and enables the four HBCUs to continue their focus on serving their students and communities and provides one more step toward full recovery.

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.5 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and $230 million obligated to support near term lending as of September 30, 2018.

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

NOTE 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered by Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 37	$ -	$ 40
FECA Liabilities	3	15	3	14
Total Liabilities Not Covered by Budgetary Resources	**3**	**52**	**3**	**54**
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	2,037	-	1,784	-
Federal Perkins Loan Program	538	-	482	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	34	317	52	270
Total Liabilities Not Requiring Budgetary Resources	**2,609**	**317**	**2,318**	**270**
Total Liabilities Covered by Budgetary Resources	1,267,654	8,541	1,187,396	12,042
Total Liabilities	**$ 1,270,266**	**$ 8,910**	**$ 1,189,717**	**$ 12,366**

NOTE 7. Debt

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Ending Balance
2018				
Direct Loan Program	$ 1,061,559	$ 155,257	$ (66,206)	$ 1,150,610
FFEL Program	116,290	227	(9,256)	107,261
Other Credit Programs for Higher Education	2,222	336	(464)	2,094
Total	**$ 1,180,071**	**$ 155,820**	**$ (75,926)**	**$ 1,259,965**
2017				
Direct Loan Program	$ 994,285	$ 160,508	$ (93,234)	$ 1,061,559
FFEL Program	131,347	-	(15,057)	116,290
Other Credit Programs for Higher Education	2,191	255	(224)	2,222
Total	**$ 1,127,823**	**$ 160,763**	**$ (108,515)**	**$ 1,180,071**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2018, debt increased 6.8 percent from $1,180.1 billion in the prior year to $1,260.0 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 91.3 percent of the Department's debt, as of September 30, 2018, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

The Department also borrows from Treasury for activity in the other credit programs for higher education. During FY 2018, TEACH net borrowing of $15.3 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2018, debt in HBCU decreased by $97.6 million, or 6.2 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

NOTE 8. Subsidy Due to Treasury General Fund

(Dollars in Millions)

	2018	2017
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 2,484	$ 5,010
FFEL Program	3,015	219
Total Credit Program Downward Subsidy Re-estimates	**5,499**	**5,229**
Future Liquidating Account Collections		
FFEL Program	1,856	1,614
Other Credit Programs for Higher Education	181	170
Total Future Liquidating Account Collections	2,037	1,784
Total Subsidy Due to Treasury General Fund	**$ 7,536**	**$ 7,013**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ 1	$ 3,792	$ 1	$ 4,191
Accrued Grant Liability	-	1,914	-	3,959
Guaranty Agencies' Funds Due to Treasury	2,176	-	2,077	-
Loan Guarantee Liability	-	2,814	-	3,870
Federal Perkins Loan Program	538	-	482	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	34	317	52	270
Advances from Others and Deferred Credits	7	4	10	7
Accrued Unfunded Annual Leave	-	37	-	40
FECA Liabilities	3	15	3	14
Accrued Payroll and Benefits	-	16	-	15
Employer Contributions and Payroll Taxes	5	1	8	-
Custodial Liabilities	1	-	-	-
Total Other Liabilities	**$ 2,765**	**$ 8,910**	**$ 2,633**	**$ 12,366**

NOTE 10. Net Cost of Operations

As required by the *GPRA Modernization Act of 2010*, the the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan*s. The Department updated its *Strategic Plan* in FY 2018, resulting in realigning how the activities of its program offices crosswalk to the revised *Strategic Plan* goals and the programs presented on the Statement of Net Cost as shown in the chart below. Goals 3 and 4 in the revised *Strategic Plan* are considered crosscutting goals, and therefore costs and revenues associated with these activities are included in the net cost programs associated with goals 1 and 2.

The Department elected not to reclassify the FY 2017 Statement of Net Cost that was aligned with its previous 2014 – 2018 *Strategic Plan*, as shown below.

Program Offices	Strategic Goal	Net Cost Program
	FY 2018 NET COST STATEMENT PROGRAM ALIGNMENT WITH STRATEGIC PLAN 2018 – 2022	
OESE OSERS Other: OCTAE IES OELA OII OCR	**Goal 1:** Support state and local efforts to improve learning outcomes for all P–12 students in every community.	Improve learning outcomes for all P–12 students
FSA OSERS Other: OCTAE IES OPE OCR	**Goal 2**: Expand postsecondary education opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful, and productive citizenry.	Expand postsecondary opportunities, improve outcomes to foster economic opportunity, and promote productive citizenry
All Offices	**Goal 3:** Strengthen the quality, accessibility, and use of education data through better management, increased privacy protections, and transparency.	Crosscutting Goal
All Offices	**Goal 4:** Reform the effectiveness, efficiency, and accountability of the Department.	Crosscutting Goal
	FY 2017 NET COST STATEMENT PROGRAM ALIGNMENT WITH STRATEGIC PLAN 2014 – 2018	
FSA OPE OCTAE	**Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education.** Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.	Increase College Access, Quality, and Completion
OESE	**Goal 2: Elementary and Secondary Education.** Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.	Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs
OELA OCR OSERS	**Goal 4: Equity**. Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.	Ensure Effective Educational Opportunities for All Students
IES OII	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, evidence, transparency, innovation, and technology.	Enhance the Education System's Ability to Continuously Improve
All Other Offices	**Goal 6: U.S. Department of Education Capacity.** Improve the organizational capacities of the Department to implement this *Strategic Plan*.	Crosscutting Goal

Gross Costs and Earned Revenue by Program

(Dollars in Millions)

2018	FSA	OESE	OSERS	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS					
Gross Cost					
Grants	$ -	$ 20,856	$ 13,073	$ 2,526	$ 36,455
Other	-	58	1	763	822
Earned Revenue	-	-	-	(82)	(82)
Net Program Costs	**-**	**20,914**	**13,074**	**3,207**	**37,195**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	32,329	-	-	-	32,329
Subsidy Expense	4,369	-	-	-	4,369
Administrative Expenses	1,267	-	-	-	1,267
Earned Revenue					
Interest & Administrative Fees	(58,247)	-	-	-	(58,247)
Subsidy Amortization	25,918	-	-	-	25,918
Net Cost of Direct Loan Program	**5,636**	**-**	**-**	**-**	**5,636**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	4,233	-	-	-	4,233
Subsidy Expense	1,228	-	-	-	1,228
Subsidy Amortization (Guaranteed Loans)	(1,099)	-	-	-	(1,099)
Guaranty Agencies	96	-	-	-	96
Administrative Expenses	141	-	-	-	141
Earned Revenue					
Interest & Administrative Fees	(4,635)	-	-	-	(4,635)
Subsidy Amortization (Acquired FFEL Loans)	1,501	-	-	-	1,501
Guaranty Agencies	(202)	-	-	-	(202)
Net Cost of FFEL Program	**1,263**	**-**	**-**	**-**	**1,263**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	19	-	-	54	73
Subsidy Expense	56	-	-	168	224
Administrative Expenses	1	-	-	-	1
Earned Revenue					
Interest & Administrative Fees	(48)	-	-	(60)	(108)
Subsidy Amortization	29	-	-	6	35
Other	(540)	-	-	(8)	(548)
Net Cost of Other Credit Programs for Higher Education	**(483)**	**-**	**-**	**160**	**(323)**
Non-Credit Programs					
Gross Cost					
Grants	28,456	1	3,476	3,438	35,371
Other	136	-	2	255	393
Earned Revenue	-	-	-	(10)	(10)
Net Cost of Non-Credit Programs	**28,592**	**1**	**3,478**	**3,683**	**35,754**
Net Program Costs	**35,008**	**1**	**3,478**	**3,843**	**42,330**
Total Gross Costs	**71,232**	**20,915**	**16,552**	**7,204**	**115,903**
Total Earned Revenues	**(36,224)**	**-**	**-**	**(154)**	**(36,378)**
Net Cost of Operations	**$ 35,008**	**$ 20,915**	**$ 16,552**	**$ 7,050**	**$ 79,525**

Gross Costs and Earned Revenue by Program
(Dollars in Millions)

2017	FSA	OESE	OSERS	Other	Total
INCREASE COLLEGE ACCESS, QUALITY, AND COMPLETION					
Gross Cost					
Intragovernmental	$ 36,054	$ -	$ -	$ 65	$ 36,119
With the Public	37,717	-	-	4,453	42,170
Total Gross Program Costs	**73,771**	**-**	**-**	**4,518**	**78,289**
Earned Revenue					
Intragovernmental	(5,335)	-	-	(14)	(5,349)
With the Public	(30,490)	-	-	(48)	(30,538)
Total Program Earned Revenue	**(35,825)**	**-**	**-**	**(62)**	**(35,887)**
Net Program Costs	**37,946**	**-**	**-**	**4,456**	**42,402**
IMPROVE PREPARATION FOR COLLEGE AND CAREER FROM BIRTH THROUGH 12TH GRADE, ESPECIALLY FOR CHILDREN WITH HIGH NEEDS					
Gross Cost					
Intragovernmental	-	176	-	-	176
With the Public	-	22,400	-	1	22,401
Total Gross Program Costs	**-**	**22,576**	**-**	**1**	**22,577**
Earned Revenue					
With the Public	-	(10)	-	-	(10)
Total Program Earned Revenue	**-**	**(10)**	**-**	**-**	**(10)**
Net Program Costs	**-**	**22,566**	**-**	**1**	**22,567**
ENSURE EFFECTIVE EDUCATIONAL OPPORTUNITIES FOR ALL STUDENTS					
Gross Cost					
Intragovernmental	-	-	16	36	52
With the Public	-	-	16,370	836	17,206
Total Gross Program Costs	**-**	**-**	**16,386**	**872**	**17,258**
Earned Revenue					
With the Public	-	-	(10)	(1)	(11)
Total Program Earned Revenue	**-**	**-**	**(10)**	**(1)**	**(11)**
Net Program Costs	**-**	**-**	**16,376**	**871**	**17,247**
ENHANCE THE EDUCATION SYSTEM'S ABILITY TO CONTINUOUSLY IMPROVE					
Gross Cost					
Intragovernmental	-	-	-	85	85
With the Public	-	-	-	2,037	2,037
Total Gross Program Costs	**-**	**-**	**-**	**2,122**	**2,122**
Earned Revenue					
With the Public	-	-	-	(59)	(59)
Total Program Earned Revenue	**-**	**-**	**-**	**(59)**	**(59)**
Net Program Costs	**-**	**-**	**-**	**2,063**	**2,063**
Net Cost of Operations	**$ 37,946**	**$ 22,566**	**$ 16,376**	**$ 7,391**	**$ 84,279**

Credit Program Interest Expense and Revenues
(Dollars in Millions)

	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	With the Public		Intragovernmental	With the Public	With the Public	
2018							
Direct Loan Program	$ 32,329	$ -	$ 32,329	$ 3,890	$ 54,357	$ (25,918)	$ 32,329
FFEL Program	4,233	(1,099)	3,134	1,032	3,603	(1,501)	3,134
Other Credit Programs for Higher Education	73	-	73	23	85	(35)	73
Total	**$ 36,635**	**$ (1,099)**	**$ 35,536**	**$ 4,945**	**$ 58,045**	**$ (27,454)**	**$ 35,536**
2017							
Direct Loan Program	$ 31,286	$ -	$ 31,286	$ 4,258	$ 50,304	$ (23,276)	$ 31,286
FFEL Program	4,661	(1,263)	3,398	1,071	4,234	(1,907)	3,398
Other Credit Programs for Higher Education	69	-	69	20	81	(32)	69
Total	**$ 36,016**	**$ (1,263)**	**$ 34,753**	**$ 5,349**	**$ 54,619**	**$ (25,215)**	**$ 34,753**

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

Grant Expenses by Appropriation
(Dollars in Millions)

		2018
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS		
Education for the Disadvantaged	$	15,243
Special Education—Individuals With Disabilities Act (IDEA) Grants		13,073
School Improvement Programs		3,614
Impact Aid		1,466
Innovation and Improvement		1,201
English Language Acquisition		693
Career, Technical, and Adult Education		445
Institute of Educational Sciences		187
Other		533
Subtotal		36,455
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Student Financial Assistance		
Pell Grants		26,672
Federal Work-Study Program		1,015
Federal Supplemental Educational Opportunity Grants		769
Rehabilitation Services		3,130
Higher Education		2,027
Career, Technical, and Adult Education		1,135
Special Education—Individuals With Disabilities Act (IDEA) Grants		120
Institute of Educational Sciences		43
Other		460
Subtotal		35,371
Total Grant Costs	**$**	**71,826**

The Department has more than 100 grant programs (www.ed.gov/programs/inventory.html). Descriptions of the major grant programs are as follows:

Student Financial Assistance

- **Pell Grants**—provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on: the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell grants are the single largest source of grant aid for postsecondary education.

- **Federal Work-Study Program**—provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. This program is administered by the schools that participate in the Federal Work-Study program. Hourly earnings under this program must be at least the Federal minimum wage. Federal funding, in most cases, pays 75% of a student's hourly wage, with the remaining 25% paid by the employer.

- **Federal Supplemental Educational Opportunity Grants**—provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

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

Special Education—consists primarily of IDEA Grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers birth through age two and their families. Also provides discretionary grants to institutions of higher education and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training, and information centers.

School Improvement Programs—provides funds to state educational agencies to make competitive subgrants to local educational agencies that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources in order to substantially raise the achievement of students in their lowest-performing schools.

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

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

Career, Technical, and Adult Education—includes programs that are related to adult education and literacy, career and technical education, and community colleges.

Impact Aid—provides funds to local educational agencies to replace the lost local revenue that would otherwise be available to educate federal connected children. (The property on which the children live and their parents work is exempt from local property taxes, limiting a central source of revenue used by most communities to finance education.)

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

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

Institute of Educational Sciences—provides funding to: support research, development, and dissemination activities that provide parents, teachers, and schools with evidence-based information on effective educational practices; support statistical data collection activities conducted by the National Center for Education Statistics; support the ongoing National Assessment of Educational Progress and the National Assessment Governing Board; support research to build the evidence base on improving special education and early intervention services and outcomes for infants, toddlers, and children with disabilities; and support studies, evaluations, and assessments related to IDEA.

NOTE 11. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2018, budgetary resources were $358.5 billion and net agency outlays were $146.8 billion. As of September 30, 2017, budgetary resources were $398.5 billion and net agency outlays were $152.2 billion.

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

	2018	2017
DIRECT:		
Category A	$ 2,320	$ 2,186
Category B	314,446	360,781
Exempt from Apportionment	96	13
Total Direct Apportionment	316,862	362,980
REIMBURSABLE:		
Category A	4	3
Category B	60	55
New Obligations Incurred and Upward Adjustments	**$ 316,926**	**$ 363,038**

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

Unused Borrowing Authority
(Dollars in Millions)

	2018	2017
Beginning Balance, Unused Borrowing Authority	**$ 58,701**	**$ 60,991**
Current Year Borrowing Authority	167,897	166,601
Funds Drawn from Treasury	(155,820)	(160,763)
Borrowing Authority Withdrawn	(8,026)	(8,128)
Ending Balance, Unused Borrowing Authority	**$ 62,752**	**$ 58,701**

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

Undelivered Orders
(Dollars in Millions)

	2018	
	Intragovernmental	With the Public
Unpaid	$ 159	$ 132,716
Paid	238	120
Undelivered Orders	**$ 397**	**$ 132,836**

	2017
Budgetary	$ 52,390
Non-Budgetary	75,665
Undelivered Orders (Unpaid)	**$ 128,055**

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

FY 2018 changes in OMB Circular A-136 included new requirements to provide a breakout of both unpaid and paid undelivered orders between Federal and With the Public. These new requirements were not applied retroactively to the FY 2017 amounts above.

Distributed Offsetting Receipts
(Dollars in Millions)

	2018	2017
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 26,539	$ 18,849
FFEL Program	236	370
Facilities Loan Programs	9	55
HEAL Program	8	18
Total Negative Subsidies and Downward Re-estimates	26,792	19,292
Other	578	270
Distributed Offsetting Receipts	**$ 27,370**	**$ 19,562**

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

Reconciliation of SBR to *Budget of the United States Government*
(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statements of Budgetary Resources	**$ 398,529**	**$ 363,038**	**$ 19,562**	**$ 152,172**
Expired Funds	(5,102)	(3,935)	-	-
FFEL Guaranty Agency Amounts Included in the President's Budget	7,266	7,276	-	-
Distributed Offsetting Receipts	-	-	-	19,562
Other	(5)	(3)	9	(3)
Budget of the United States Government[1]	**$ 400,688**	**$ 366,376**	**$ 19,571**	**$ 171,731**

[1] Amounts obtained from the Appendix, *Budget of the United States Government, FY 2019.*

The FY 2020 *Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2018, has not been published as of the issue date of these financial statements. The FY 2020 President's Budget is scheduled for release in February 2019. The table above reconciles the FY 2017 SBR to the FY 2019 President's Budget (FY 2017 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from the Department's direct control, budgetary resources and obligations incurred are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

NOTE 12. Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2018	2017
RESOURCES USED TO FINANCE ACTIVITIES		
New Obligations Incurred and Upward Adjustments	$ 316,926	$ 363,038
Spending Authority from Offsetting Collections & Recoveries	(139,939)	(186,509)
Offsetting Receipts	(27,370)	(19,562)
Net Budgetary Resources Obligated	**149,617**	**156,967**
Imputed Financing From Costs Absorbed by Others	38	27
Other Financing Sources	(27,784)	(25,461)
Net Other Resources	**(27,746)**	**(25,434)**
Net Resources Used to Finance Activities	**121,871**	**131,533**
RESOURCES USED OR GENERATED FOR ITEMS NOT PART OF THE NET COST OF OPERATIONS		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	(4,941)	(3,777)
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(134)	(28,006)
Credit Program Collections	97,660	142,011
Acquisition of Fixed Assets	(1)	(10)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(170,208)	(171,770)
Resources from Non-Entity Activity	27,766	25,476
Net Resources That Do Not Finance the Net Cost of Operations	**(49,858)**	**(36,076)**
Net Resources Used to Finance the Net Cost of Operations	**72,013**	**95,457**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Change in Depreciation	5	1
Subsidy Amortization and Interest on the Liability for Loan Guarantees	26,353	23,953
Other	(5)	2
Total Components Not Requiring or Generating Resources	**26,353**	**23,956**
Increase in Annual Leave Liability	(3)	-
Accrued Re-estimates of Credit Subsidy Expense	17,954	134
Increase in Exchange Revenue Receivable from the Public	(36,792)	(35,155)
Accrued Interest with Treasury	-	1
Other (+/-)	-	(114)
Total Components Requiring or Generating Resources in Future Periods	**(18,841)**	**(35,134)**
Total Components That Will Not Require or Generate Resources in the Current Period	**7,512**	**(11,178)**
Net Cost of Operations	**$ 79,525**	**$ 84,279**

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

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

NOTE 13. Commitments and Contingencies

The Department discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, *Accounting for Liabilities of the Federal Government*. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments
(Dollars in Millions)

2018		2017	
FY	Amount	FY	Amount
2019	$ 73	2018	$ 73
2020	73	2019	77
2021	77	2020	79
2022	81	2021	81
2023	82	2022	85
After 2023	83	After 2022	86
Total	**$ 469**	**Total**	**$ 481**

The Department leases from the General Services Administration all or a portion of 17 privately owned and 12 publicly owned buildings in 20 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings.

GUARANTY AGENCIES

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in fiscal years 2018 or 2017 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan program provides financial assistance to eligible postsecondary school students. In FY 2018, the Department provided funding of 83.2 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 16.8 percent of program funding. For the latest academic year that ended June 30, 2018, approximately 356 thousand loans were made totaling $886.3 million at 1,272 institutions, making an average of $2,491 per loan. The Department's equity interest was approximately $6.3 billion as of June 30, 2018.

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

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015. However, the program was extended through September 30, 2017 by the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions that the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. As of September 30, 2017, the Department is no longer authorized to make new Perkins Loans.

LITIGATION AND OTHER CLAIMS

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

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2018. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2018, is not expected to have a material impact on these financial statements.

OTHER MATTERS

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

United States Department of Education Combining Statement of Budgetary Resources
For the Year Ended September 30, 2018
(Dollars in Millions)
(Unaudited)

	Federal Student Aid	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority (Net)	$ 12,015	$ 15,859
Appropriations (Discretionary and Mandatory)	48,627	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,543
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	393	61,439
Total Budgetary Resources	**$ 61,035**	**$ 244,841**
Memorandum (non-add) entries:		
Net adjustments to unobligated balance brought forward, Oct. 1	$ 901	$ (7,024)
STATUS OF BUDGETARY RESOURCES		
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$46,002	$221,384
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	12,290	-
Unapportioned, Unexpired Accounts	2,168	23,457
Unexpired Unobligated Balance, End of Year	**$ 14,458**	**$ 23,457**
Expired Unobligated Balance, End of Year	575	-
Unobligated Balance, End of Year (Total)	**$ 15,033**	**$ 23,457**
Total Status of Budgetary Resources	**$ 61,035**	**$ 244,841**
OUTLAYS, NET		
Outlays, Net (Discretionary and Mandatory)	45,918	83,059
Distributed Offsetting Receipts (-) (Note 11)	(27,321)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 18,597**	**$ 83,059**

Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 419	$ 306	$ 546	$ 4	$ 13,286	$ 15,863	$ 29,149
26,082	16,954	7,678	-	99,341	-	99,341
-	-	-	354	-	167,897	167,897
(7)	-	65	227	451	61,666	62,117
$ 26,494	**$ 17,260**	**$ 8,289**	**$ 585**	**$ 113,078**	**$ 245,426**	**$358,504**
$ 214	$ (5)	$ (102)	$ (326)	$ 1,008	$ (7,350)	$ (6,342)
$ 24,617	$ 16,959	$ 7,650	$ 314	$ 95,228	$ 221,698	$316,926
1,828	16	361	-	14,495	-	14,495
-	-	6	271	2,174	23,728	25,902
$ 1,828	**$ 16**	**$ 367**	**$ 271**	**$ 16,669**	**$ 23,728**	**$ 40,397**
49	285	272	-	1,181	-	1,181
$ 1,877	**$ 301**	**$ 639**	**$ 271**	**$ 17,850**	**$ 23,728**	**$ 41,578**
$ 26,494	**$ 17,260**	**$ 8,289**	**$ 585**	**$ 113,078**	**$ 245,426**	**$358,504**
21,536	16,318	7,308	41	91,080	83,100	174,180
-	-	(49)	-	(27,370)	-	(27,370)
$ 21,536	**$ 16,318**	**$ 7,259**	**$ 41**	**$ 63,710**	**$ 83,100**	**$146,810**

United States Department of Education Combining Statement of Budgetary Resources
For the Year Ended September 30, 2017
(Dollars in Millions)
(Unaudited)

	Federal Student Aid			
		Budgetary		Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority (Net)	$	14,064	$	10,389
Appropriations (Discretionary and Mandatory)		88,321		-
Borrowing Authority (Discretionary and Mandatory) (Note 11)		-		166,426
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		1,037		68,906
Total Budgetary Resources	**$**	**103,422**	**$**	**245,721**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$	3,680	$	(4,914)
STATUS OF BUDGETARY RESOURCES				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$	92,308	$	222,838
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts		8,595		-
Unapportioned, Unexpired Accounts		2,093		22,883
Unexpired Unobligated Balance, End of Year	**$**	**10,688**	**$**	**22,883**
Expired Unobligated Balance, End of Year		426		-
Unobligated Balance, End of Year (Total)	**$**	**11,114**	**$**	**22,883**
Total Status of Budgetary Resources	**$**	**103,422**	**$**	**245,721**
OUTLAYS, NET				
Outlays, Net (Discretionary and Mandatory)		84,986		40,490
Distributed Offsetting Receipts (-) (Note 11)		(19,438)		-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$**	**65,548**	**$**	**40,490**

Office of Elementary and Secondary Education	Office of Special Education and Rehabilitative Services	Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 1,312	$ 330	$ 1,011	$ 169	$ 16,717	$ 10,558	$ 27,275
22,197	16,582	7,288	-	134,388	-	134,388
-	-	-	175	-	166,601	166,601
-	-	59	263	1,096	69,169	70,265
$ 23,509	**$ 16,912**	**$ 8,358**	**$ 607**	**$ 152,201**	**$ 246,328**	**$398,529**
$ 399	$ 169	$ 77	$ (7)	$ 4,325	$ (4,921)	$ (596)
$ 23,304	$ 16,601	$ 7,710	$ 277	$ 139,923	$ 223,115	$363,038
144	2	271	-	9,012	-	9,012
-	-	7	330	2,100	23,213	25,313
$ 144	**$ 2**	**$ 278**	**$ 330**	**$ 11,112**	**$ 23,213**	**$ 34,325**
61	309	370	-	1,166	-	1,166
$ 205	**$ 311**	**$ 648**	**$ 330**	**$ 12,278**	**$ 23,213**	**$ 35,491**
$ 23,509	**$ 16,912**	**$ 8,358**	**$ 607**	**$ 152,201**	**$ 246,328**	**$398,529**
22,505	16,233	7,550	(30)	131,274	40,460	171,734
-	-	(124)	-	(19,562)	-	(19,562)
$ 22,505	**$ 16,233**	**$ 7,426**	**$ (30)**	**$ 111,712**	**$ 40,460**	**$152,172**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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

STEWARDSHIP EXPENSES

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

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

With its relatively small role in total education funding, the Department strives to create the greatest number of favorable program outcomes with a limited amount of taxpayer-provided resources. This is accomplished by targeting areas in which funds will go the furthest in doing the most good. Accordingly, federal funding is used to provide grant, loan, loan-forgiveness, work-study, and other assistance to more than 20 million postsecondary students. The majority of the Department's $298.6 billion in gross outlays during FY 2018 was attributable to Direct Loan disbursements administered by FSA. Grant-based activity under discretionary, formula, and need-based formats primarily accounted for the remainder of the outlays.

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

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

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

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

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

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

Further details on financial figures and program-level goals can be viewed in the Department's **2018 Budget Summary**.

INVESTMENT IN HUMAN CAPITAL

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

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of education. Direct loans, guaranteed loans, grants, and technical program assistance are administered and monitored by FSA and numerous other program-aimed components of the Department. The Institute of Education Sciences is the independent nonpartisan research arm of the Department that aims to present scientific evidence to ground education practice and policy while providing useful information to all stakeholders in the arena of American education. Further details of the major offices/programs applicable to this section are described below:

Federal Student Aid. Federal Student Aid is the part of the Department that administers need-based financial assistance programs for students pursuing postsecondary education and makes federal grants, direct loans, guaranteed loans, and work-study funding available to eligible undergraduate and graduate students.

Federal Student Aid's programs link 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.

Direct Loan Subsidy. 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.

Federal Family Education Loan (FFEL) Program Subsidy. The FFEL Loan program has originated no new loans since June 30, 2010; however, 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, Loan Purchase Commitment, and ABCP Conduit expenses.

Perkins Loans, Pell and Other Grants. Perkins Loan and Grant programs include the 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. The 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.

Office of Elementary and Secondary Education (OESE). OESE promotes academic excellence, enhances educational opportunities and equity for all of America's children and families, and improves quality of teaching and learning by providing leadership, technical assistance, and financial support.

Office of Special Education and Rehabilitative Services (OSERS). OSERS is committed to the broad values of Inclusion, Equity and Opportunity for infants, toddlers, children, youth, and adults with disabilities to actively participate in all aspects of life. OSERS promotes inclusion, ensures equity and creates opportunity as it strives to improve results and outcomes for children and adults with disabilities. By providing funding to programs that serve infants, toddlers, children, and adults with disabilities, OSERS works to ensure that these individuals are fully included in school, in employment, and in life. OSERS also provides funds to programs that offer information and technical assistance to parents of infants, toddlers and children with disabilities, as well as members of the learning community who serve these individuals.

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

PROGRAM OUTCOMES

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

One important method used in the area of analyzing student loan programs, borrower activity, and institution participation is the monitoring of default statistics. Each year, substantial stewardship expenses incurred

Table 2. Summary of Human Capital Expenses
(Dollars in Millions)

	2018	2017	2016	2015	2014
FEDERAL STUDENT AID EXPENSE					
Direct Loan Subsidy	$ 4,369	$ 5,329	$ 16,119	$ (892)	$ 8,126
Federal Family Education Loan Program Subsidy	1,228	3,411	10,234	(3,856)	(6,585)
Perkins Loans, Pell and Other Grants	28,512	28,770	30,671	31,400	33,098
Program Operational Costs	246	224	308	242	206
Subtotal	**34,355**	**37,734**	**57,332**	**26,894**	**34,845**
DEPARTMENTAL PROGRAMS					
Elementary and Secondary Education	20,625	22,420	22,155	22,146	22,832
Special Education and Rehabilitative Services	16,548	16,294	15,944	15,751	15,948
Other Departmental Programs	6,367	6,565	6,349	6,494	6,938
Program Operational Costs	459	419	625	511	667
Subtotal	**43,999**	**45,698**	**45,073**	**44,902**	**46,385**
Grand Total	**$ 78,354**	**$ 83,432**	**$ 102,405**	**$ 71,796**	**$ 81,230**

Figure 13. Federal Student Aid Investments in Human Capital, FY 2018

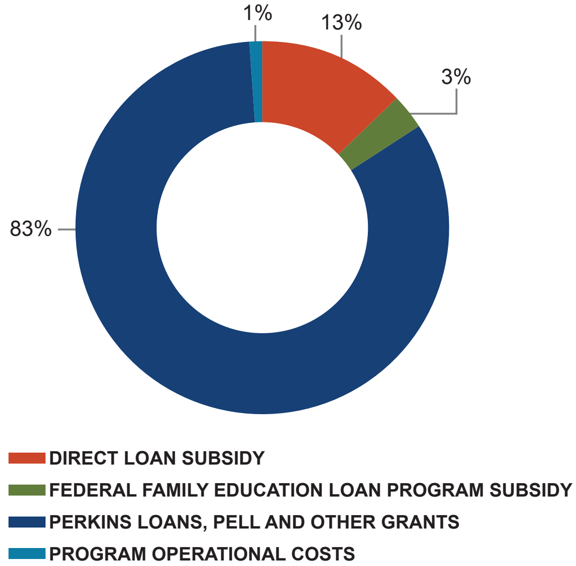
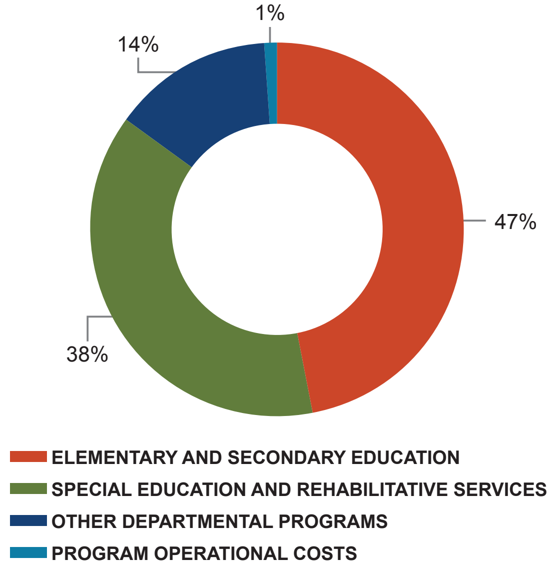


Figure 14. Departmental Program Investments in Human Capital, FY 2018



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

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

Default statistics for the FY 2015 cohort of borrowers entering repayment were released at the end of FY 2018. Of the 4.9 million borrowers entering repayment from October 1, 2014, to September 30, 2015, 532,000 defaulted on their loan before September 30, 2017. This borrower default rate of 10.8 percent across all institution types showed a decrease from the prior year rate of 11.5 percent for the 2014 cohort. It is important to note that this metric is unadjusted for loan program facets, such as consolidations and forbearance.

Trends in default rates, among other indicating metrics monitored at the Department, continue to support proof of favorable outcomes within programs at all levels.

REPORT OF THE INDEPENDENT AUDITORS

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 15, 2018

The Honorable Betsy DeVos
Secretary of Education
Washington, D.C. 20202

Dear Secretary DeVos:

The enclosed report presents the results of the audit of the U.S. Department of Education's (Department) financial statements for fiscal year 2018 to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm KPMG LLP to audit the financial statements of the Department as of September 30, 2018, 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

KPMG found:

- The fiscal year 2018 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One material weakness in internal control over financial reporting:
    - Controls over the Reliability of Information Used in the Modeling Activities Need Improvement;
- One significant deficiency in internal control over financial reporting:
    - Information Technology Controls Need Improvement; and
- One instance of reportable noncompliance with Federal law related to referring delinquent student loan debts to Treasury.

Page 2 – The Honorable Betsy DeVos

KPMG is responsible for the attached auditors' report dated November 15, 2018, and the conclusions expressed therein. We do not express opinions on FSA's financial statements or internal control over financial reporting, or conclusions on compliance and other matters.

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

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

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

Independent Auditors' Report

Inspector General
United States Department of Education

Secretary
United States Department of Education:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Education as of September 30, 2018, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Accompanying Prior Period Financial Statements

The accompanying consolidated financial statements of the Department as of September 30, 2017 and for the year then ended were audited by other auditors whose report thereon dated November 13, 2017 expressed an unmodified opinion on those financial statements before the reclassifications described in Note 1 to the consolidated financial statements. As described in Note 1, to conform to fiscal year 2018 financial reporting requirements contained in OMB Circular A-136, *Financial Reporting Requirements*, the Department made the following reclassifications to the fiscal year 2017 consolidated financial statements and notes:

- The Combined Statement of Budgetary Resources was condensed to present budgetary resources, status of budgetary resources, and net outlays, while removing the presentation of the change in obligated balance.
- Note 6, Liabilities Not Covered by Budgetary Resources, was expanded to include the presentation of liabilities not requiring budgetary resources.

As part of our audit of the 2018 consolidated financial statements, we also audited the reclassifications described in Note 1 that were applied to reclassify the 2017 consolidated financial statements. In our opinion, such reclassifications are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 consolidated financial statements of the Department other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the 2017 consolidated financial statements as a whole.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on pages i through iii, Message from the Secretary, information on pages 28 and 29, Other Information Section, and Appendices are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Department management did not report the material weakness, *Controls over the Reliability of Information Used in the Modeling Activities Need Improvement*, in its *Statement of Assurance*, included in the Management's Discussion and Analysis section of the accompanying *Agency Financial Report*.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and which is described in Exhibit C, *Requirement for Referring Delinquent Student Loan Debts to Treasury*.

KPMG

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

The Department's Responses to Findings

The Department's responses to the findings identified in our audit are described in Exhibit D. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 15, 2018

Exhibit A

Material Weakness

Controls over the Reliability of Information Used in the Modeling Activities Need Improvement

Under the *Federal Credit Reform Act of 1990* (FCRA), the Department of Education (the Department) is required to perform periodic interest rate and technical re-estimates of the subsidy costs of its direct loan and guaranty programs. These re-estimates are calculated using an internally-developed cash flow model performed by the Department's Cost Estimation and Analysis Division (CEAD). The cash flow model utilizes assumptions based on sourced data elements from the National Student Loan Data System (NSLDS) that are updated at different intervals by third parties (servicers, guaranty agencies, etc.) and certain assumptions provided by the Office of Management and Budget (OMB). These future cash flow outputs generated from the Department's Student Loan Model (SLM) are then input into OMB's Credit Subsidy Calculator (CSC), as required by U.S. generally accepted accounting principles to generate subsidy re-estimates.

Conditions:

Credit Reform Student Loan Model Documentation and Analysis

We noted that management's documentation detailing the models currently in use including methodologies and/or considerations used to calculate the assumptions could be improved. Such improvements could provide sufficient details to enable an independent reviewer to effectively assess the reasonableness of key decisions made regarding critical elements of the re-estimate computations and the potential impact on the financial statements. We also noted that management's analysis of the reestimate results identified material differences which are expected to reverse over time, however such analysis was not clearly documented to support management's consideration of the effect of such differences, if any, on the fair presentation of direct loans in accordance with accounting standards. We found the following areas where specific documentation could be improved:

- CEAD produces a model inventory which includes all model assumptions, however it does not specify which assumptions are key. The model inventory includes summarized information on inputs supporting the assumptions, however it does not identify the specific data elements related to each input;
- CEAD's sensitivity analysis should be expanded to include a documented evaluation of which assumptions are key to the estimation model; and
- CEAD's management review controls should be documented at a sufficient level of detail to demonstrate the level of precision used in management's analysis and the evaluation of estimation uncertainty on the fair presentation of the financial statements and related footnotes in accordance with accounting standards.

Controls over the Completeness and Accuracy of Data Elements used in the Student Loan Model

The assumptions used in SLM are developed by utilizing certain data elements of direct and guaranty loans extracted from the NSLDS such as loan identifier, loan type, origination date, net amount disbursed, and repayment plan type, among many others.

We noted that management's processes, procedures, and controls should be improved to provide sufficient detail over procedures and controls that specifically address the evaluation of the completeness and accuracy of data elements from NSLDS used to develop model assumptions.

NSLDS Oversight of Loan Guaranty Balances

Under the Federal Family Education Loan (FFEL) guaranty loan program, private lenders provide federally guaranteed student loans to parents and students. The FFEL program began in 1965 and ran until 2010. Student loan data from schools, guaranty agencies, the direct loan program, and other Department programs are stored in the NSLDS.

Financial institutions, servicers, and guaranty agencies have up to 90 days after year-end to report guaranteed loan data to NSLDS. Therefore, such information may not be updated until December 31 each year. To determine the balance of loan guarantees at the end of each fiscal year, the Department executes a query in NSLDS in October. The Department utilizes this information sourced from NSLDS to develop financial statement note disclosures related to the performing FFEL program guaranty loans, including the principal balance outstanding and maximum government exposure. In addition, the exposure information is used in the estimation methodology related to the liability for loan guarantees.

We noted that management did not design and implement effective controls to ensure that the NSLDS query extracts related to the total exposure amount for loan guarantees with private lenders were complete and accurate. For example, specific controls over the completeness and accuracy of these queries, including how timing differences are resolved, were not evidenced in management's internal control processes.

Cause/Effect:

The Department's documentation was not at a sufficient level of detail to enable an independent reviewer to properly assess the reasonableness of management's reestimate modeling practices to include processes; specific controls; information used; and key judgments determined by management as part of the reestimate methodologies utilized for financial reporting purposes. We noted that while there are controls related to the accounting and reporting of loan programs, such controls are not designed at a sufficient level of precision to demonstrate the assessment and evaluation of the completeness and accuracy of data used in the SLM assumptions and relevant financial statement disclosures.

The reestimate processes and controls at the Department form an integral part of the financial reporting process, which impact the most significant estimates and related balances in the financial statements and related footnotes. As a result, weaknesses in processes, procedures, and controls in the areas described above impact management's ability to prevent, detect, and correct errors in the re-estimate process, which could lead to a material misstatement of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the material weakness presented in this exhibit:

- *Green Book* (GAO-14-704G – Federal Internal Control Standards), Section OV3.05, Section OV4.08, Principle 10.03, Section 12.03, Section 13.04
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 17, 20, 23, 27, 38 and 40
- SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, Paragraphs 22 and 23

Recommendations:

1. With respect to the SLM documentation and analysis, we recommend that the Department management:

    a. Coordinate among the various groups at the FSA and CEAD to determine, each year, what key assumptions and data elements will be used in the Credit Reform re-estimate calculations. These determinations should be fully documented to enable a reviewer to understand and re-perform procedures, as needed.

2. With respect to model estimation uncertainty, we recommend that the Department and FSA management:

    a. Ensure that sufficient documentation is maintained evidencing management's analysis and consideration of the effects of model estimation uncertainty on the fair presentation of the financial statements and related note disclosure reestimates in accordance with accounting standards.

3. With respect to the completeness and accuracy of the data elements used in the SLM, we recommend that the Department management:

    a. Work with FSA to validate that appropriate data elements are extracted from NSLDS.

4. We recommend that the FSA management:

    a. Enhance existing documentation and controls to demonstrate the relationship between the key data elements used in the estimation model assumptions and the controls over student loan transactions at FSA.

5. With respect to the NSLDS oversight of loan guaranty balances, we recommend that the Department and FSA management:

    a. Develop, implement, and document controls to assess the reasonableness of the principal balance outstanding and maximum government exposure amounts presented in the financial statement footnotes and used in calculating the liability for loan guarantees.

    b. Enhance the query process documentation to demonstrate the completeness and accuracy of the NSLDS query for the performing FFEL loan principal balance outstanding and maximum government exposure.

    c. Develop, implement, and document a sensitivity analysis related to NSLDS queries of September 30 balances considering the potential timing differences in the data being used for financial reporting.

Exhibit B

Significant Deficiency

Information Technology Controls Need Improvement

Condition:

During fiscal year 2018, we noted information technology (IT) control deficiencies related to logical access in the Department's network and in one application system managed by the Department and access and change control in two application systems managed by the FSA, as follows:

- Weaknesses in the Department's IT controls related to the removal of separated users' access from the network and one of its applications;
- Weaknesses in FSA's IT controls related to the review and recertification of system access. Specifically, the access reviews did not cover all users for one of the FSA systems. Additionally, for two FSA systems, the access lists provided by the contractors to perform the periodic access reviews were not verified for completeness and accuracy; and
- Weaknesses in FSA's IT controls related to the segregation of duties. For example, in one FSA system, the developers retained greater than read-only access to the application in the production environment.

Additionally, we noted weaknesses related to program development, where evidence of data validation upon system migration to a new data center was not available.

Additionally, in FY 2017, the predecessor auditor reported a significant deficiency related to the Department and FSA internal control environments due to persistent unmitigated IT control deficiencies. During FY 2018, the Department and FSA management demonstrated progress addressing some of these long-standing deficiencies. However, management has not fully remediated prior year weaknesses related to logical access administration, user access removal, user access reviews, and recertification and system configuration management. Due to the nature of these control deficiencies, the Department and FSA management continue to implement corrective actions to remediate these control deficiencies. The continued existence of these deficiencies reduces managements' ability to effectively manage information system risks.

Cause/Effect:

These IT control deficiencies existed because (1) the Department and FSA did not consistently adhere to its documented agency-wide policies and procedures and NIST requirements consistently for systems hosted and managed by the Department and FSA or by service organizations; (2) certain Department and FSA policies and procedures did not require the documentation and maintenance of supporting control documentation and review of evidence; and (3) the Department and FSA did not fully implement their corrective actions to remediate prior-year conditions and associated causes. Furthermore, separated user access deficiencies resulted due to the lack of timely notification of user separations by internal departments.

Ineffective IT controls increases the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The Departmental Directive OM 3-104, *Clearance of Personnel for Separation or Transfer*
- National Institute of Standards and Technology Special Publication 800-53 Revision 4, dated April 2013, *AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, CM-3 Configuration Change Control*

- Federal Information Processing Standards 200, *Minimum Security Requirements for Federal Information and Information systems*
- The *Standards for Internal Control in the Federal Government,* issued by the Comptroller General of the United States, Principle No. 7, *Identify, Analyze, and Respond to Risks,* Principle No. 11, *Design Activities for the Information System,* and Principle No. 13, *Use Quality Information*
- Appendix III to OMB Circular No. A-130, Section 4, Specific Requirements, *I. Specific Safeguarding Measures to Reinforce the Protection of Federal Information and Information Systems*

Recommendations:

We recommend that the Department and FSA management:

1. Perform comprehensive user access reviews and re-certifications, and confirm the access lists received for review by designated management are complete and accurate prior to commencing the review.

2. Implement mechanisms and procedures to require timely notification of user separations and subsequent disabling of access.

3. Establish requirements for formal documentation of data validation following data migration for systems.

4. Prevent or limit developer access in the production environment to read-only.

Exhibit C

Compliance Matter

Requirement for Referring Delinquent Student Loan Debts to Treasury

In 2014, Federal Law (31 U.S. Code Section 3716(c) (6)) was amended (Public Law 113-101 (*DATA Act*) Section 5) to require agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset (i.e., collection through the reduction of future Federal payments). Due to the number of entities and systems involved in handling student loan debts and the decentralized nature of such processes, FSA is not yet capable of meeting this accelerated timeline. Accordingly, as of September 30, 2018, the Department and FSA are not in compliance with the requirement to refer student debt delinquent for 120 days to the Department of the Treasury.

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

Recommendation:

We recommend that the Department continue to execute the corrective actions as outlined in FSA's project plan to comply with the timing requirement for the referral of delinquent non-tax debts.

Management's Response **Exhibit D**

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

MEMORANDUM

NOV 14 2018

TO: Kathleen S. Tighe
Inspector General

FROM: Larry Kean
Director, Budget Service Delegated
the Duties of Chief Financial Officer

Jason Gray
Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT
Fiscal Year 2018 Financial Statements
U.S. Department of Education
ED-OIG/A17S0001

Please convey the Department's sincere thanks to everyone on your staff who worked diligently on this financial statement audit. The Department reviewed the draft Fiscal Year 2018 Financial Statement Audit Report. We concur and agree with the Independent Auditors' Report, including the Opinion on the Financial Statements, Report on Internal Control over Financial Reporting, and Report on Compliance and Other Matters.

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

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

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

550 12th St. S.W., WASHINGTON, DC 20202
www.ed.gov

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

OTHER INFORMATION

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ABOUT THE OTHER INFORMATION SECTION

The Other Information section includes:

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES

The OIG's Management and Performance Challenges Report provides a summary of what the OIG believes are the Department's biggest challenges for FY 2019. The OIG identified the following four challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, and (4) Data Quality and Reporting. The full report is available at the **OIG website**.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the agency or through the audit process. The Department reported no material weaknesses in FY 2018.

PAYMENT INTEGRITY

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

FRAUD REDUCTION REPORT

This section summarizes the Department's efforts to comply with the *Fraud Reduction and Data Analytics Act of 2015* (FRDAA) and details fraud reduction initiatives undertaken in FY 2018.

REDUCE THE FOOTPRINT

This section summarizes the Department's efforts to comply with Office of Management and Budget (OMB) Management Procedures Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the Reduce the Footprint policy implementing guidance. That guidance directs agencies to reduce the total square footage of their domestic office and warehouse inventory compared to an FY 2015 baseline.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

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

GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016

The GONE Act summarizes the Department's efforts to track the number and status of grant closeouts and extensions.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

October 26, 2018

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2019

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

Last year, we presented four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

The FY 2019 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring, and

(4) Data Quality and Reporting.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2019 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

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

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2019 EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Last year, we presented four management challenges:

(1) improper payments,

(2) information technology security,

(3) oversight and monitoring, and

(4) data quality and reporting.

Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2019 Management Challenges Report is available at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

MANAGEMENT CHALLENGE 1—IMPROPER PAYMENTS

Why This Is a Challenge

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

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and needs to intensify its efforts to successfully prevent and identify improper payments. In May 2018, we issued an audit report on the Department's compliance with improper payment requirements for FY 2017. We found that the Department did not comply with the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) because it did not meet its reduction target for the Pell program. The Department reported a FY 2017 improper payment rate of 8.21 percent for the Pell program, which exceeded its reduction target of 7.85 percent. We found that the Department met the FY 2017 reduction target for the Direct Loan program. We reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. We also found that the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments.

This was the Department's second consecutive year of not meeting its reduction target for the Pell program. Under IPERA and OMB guidance, if an agency is not in compliance with IPERA for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine whether additional funding would help the agency come into compliance. In addition, OMB may require agencies that are not compliant with IPERA (for one, two, or three years in a row) to complete additional requirements beyond the measures listed in the guidance. For example, if a program is not compliant with IPERA, OMB may determine that the agency must reevaluate or reprioritize its corrective actions, intensify and expand existing corrective action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed.

Overall, our semiannual reports to Congress from April 1, 2015, through March 31, 2018, included more than $715 million in questioned or unsupported costs from audit reports, which may be determined to be improper payments, and more than $45 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

The Department stated that it is committed to maintaining the integrity of payments to ensure that the billions entrusted to it reach intended recipients in the right amount and for the right purpose. The Department stated that it sustains payment integrity by establishing policies, business processes, and controls over key payment activities, to include those pertaining to payment data quality, cash management, banking information, and financial reports. Payment integrity includes robust controls designed to prevent, detect, and recover improper payments. The Department added that in designing such controls, it strives to strike the right balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome. The Department noted that it must rely in part on controls established by the recipients of Federal funds, including State, local, and private organizations that further distribute those funds on behalf of the Department. The Department stated that because these third-party controls are outside of the Department's operational authority, they present a higher risk than the payments made directly by the Department, as evidenced by the OIG work and the Department's root cause analyses.

The Department stated that its current nonstatistical estimation methodology for improper payments in student aid programs limits the ability to establish accurate out-year reduction targets. The Department noted that it coordinated with OMB and other stakeholders in 2018 to develop a statistically valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. The Department believed that this new methodology will improve the accuracy of the estimates and the Department's ability to meet reduction targets.

In addition, the Department stated that it is pursuing legislation that would authorize the Internal Revenue Service to disclose tax return information directly to the Department for the purpose of administering programs authorized by Title IV of the *Higher Education Act of 1965*, through which the Department awarded more than $120 billion in FY 2017. The Department expects the exemption would allow for significant simplification of and improvement to the administration of Title IV programs, including reduction in improper payments.

The Department stated that it is also developing an updated portfolio of risks through its Enterprise Risk Management program that is intended to help ensure that the risk of improper payments across the Department is managed strategically. The Department further stated that it is working to integrate its Enterprise Risk Management framework with its internal control program to help prevent and detect improper payments. The Department's internal control framework over payment integrity includes over 500 controls designed to help prevent, detect, and recover improper payments. These controls are included in the universe of internal controls the Department tests annually to assess their design and operating effectiveness. When the Department detects control deficiencies, it identifies the root causes, develops corrective action plans, and tracks the completion of the corrective action through resolution.

What Needs to Be Done

The Department needs to continue to take action to improve its payment integrity. The Department should continue its work to develop a methodology to accurately estimate improper payments, identify root causes, meet reduction targets, develop corrective action plans, and complete these plans to ensure programs comply with IPERA. The Department should also review and improve its business processes and controls over key payment activities to explore additional opportunities for preventing improper payments.

The Department needs to develop and implement processes to more effectively and efficiently monitor institutions participating in the student financial assistance programs, State education agencies, and local educational agencies to ensure they properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.

MANAGEMENT CHALLENGE 2— INFORMATION TECHNOLOGY SECURITY

Why This Is a Challenge

Department systems contain or protect an enormous amount of sensitive information, such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

The OIG's work related to information technology continues to identify control weaknesses and ineffective security management programs that the Department needs to address to adequately protect its systems and data. For example, our most recent report on the Department's compliance with the *Federal Information Security Modernization Act of 2014* (FISMA) noted that the Department and Federal Student Aid (FSA) made progress in strengthening their information security programs; however, we found weaknesses in the Department's and FSA's information systems and those systems continued to be vulnerable to security threats.

As guided by the maturity model used in the FY 2017 Inspector General FISMA Metrics, we found that the Department and FSA were not effective in all five security functions—Identify, Protect, Detect, Respond, and Recover. We also identified findings in all seven metric domains: (1) Risk Management, (2) Configuration Management, (3) Identity and Access Management, (4) Security Training, (5) Information Security Continuous Monitoring, (6) Incident Response, and (7) Contingency Planning. We made recommendations to assist the Department and FSA with increasing the effectiveness of their information security program so that they fully comply with all applicable requirements.

Progress in Meeting the Challenge

The Department stated that it has made significant progress managing risk associated with information technology security. In particular, the Department noted that it has focused on addressing information technology control issues that were identified in prior-year OIG FISMA audits. The Department stated that it has continued to implement a comprehensive set of solutions that strengthen the overall cybersecurity of its networks, systems, and data.

The Department stated that it had taken actions to improve cybersecurity across the five security functions. Examples of actions identified by the Department within each area include the following.

- **Identify.** The Department stated that it implemented the use of a risk scorecard as a risk management tool and established a quantitative methodology for identifying, analyzing, and managing system-level cybersecurity risks. The Department stated that the risk scorecards are used to perform regular framework-based risk assessments to identify security gaps and opportunities to enhance the Department's cybersecurity capabilities and better protect its network assets and data.
- **Protect.** The Department stated that it had provided three cybersecurity training courses and had also executed six simulated phishing exercises in FY 2018. The Department believed that these exercises strengthened its ability to reduce risks to systems and information through modified user behavior and improved resilience to spear phishing, malware, and drive-by attacks.
- **Detect.** The Department stated that it completed acquisitions that included a database scanning tool and a Security Information Event Management solution. The Department also stated that it adjusted the network access control solution to further limit opportunities for potential malicious activity to occur and continued its work with the Department of Homeland Security to implement Continuous Diagnostics and Mitigation tools within its primary network infrastructure.
- **Respond.** The Department stated that it had increased forensics and vulnerability management capabilities and had reduced the turnaround time for security analysis through the acquisition and implementation of additional tools and hardware. The Department stated that multiple improvements in security reporting were also implemented to provide a quick view of activity statuses and security posture, including an improved Chief Information Officer weekly report.
- **Recover.** The Department stated that it implemented a new enterprise cybersecurity offering to system stakeholders that focused on testing system contingency plans and the incident response processes.

What Needs to Be Done

The Department reported significant progress towards addressing longstanding information technology security weaknesses. However, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management, identity and access management, and information security continuous monitoring.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes. To that end, the Department needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

MANAGEMENT CHALLENGE 3—OVERSIGHT AND MONITORING

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

OVERSIGHT AND MONITORING—STUDENT FINANCIAL ASSISTANCE PROGRAM PARTICIPANTS

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the student financial assistance programs under Title IV of the *Higher Education Act of 1965*, as amended, to ensure that the programs are not subject to fraud, waste, and abuse.

In FY 2019, FSA expects to provide $129.5 billion in new Federal student aid grants and loans (excluding Direct Consolidation Loans) to almost 11.4 million postsecondary students and their families.

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

Our audits and work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of student financial assistance program participants.

Progress in Meeting the Challenge

The Department stated that it has implemented robust oversight and monitoring processes for schools, lenders, servicers, guaranty agencies, and accrediting agencies. The Department further stated that FSA's process for oversight and monitoring includes performing program reviews, reviewing and resolving annual compliance audits and financial statements submitted by program participants to ensure that these participants are administratively capable and financially responsible, and conducting certification activities to ensure that program participants continue to be eligible to participate in the student aid programs.

The Department stated that the Next Generation Federal Student Aid transformation will bring significant improvements to FSA's capabilities to monitor the performance of servicing and collections vendors in addition to monitoring servicing and collections performance generally. As part of this initiative, FSA will implement a business intelligence platform designed to capture and report on performance metrics, which will include vendor contract performance metrics and data.

What Needs to Be Done

While the Department stated that it has implemented robust oversight and monitoring processes, our audits and investigations involving student financial assistance programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to further improve its processes. The Department should enhance its oversight of student financial assistance programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

Overall, the Department needs to ensure that its efforts to better coordinate oversight result in effective processes to monitor student financial assistance program participants and reduce risk. It should work to ensure that its program review and compliance audit processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers.

Our audits and investigations of student financial assistance program participants and audits of the Department's related oversight and monitoring processes will continue to assess a wide variety of effectiveness and compliance elements. This area remains a management challenge given our continued findings in this area.

OVERSIGHT AND MONITORING—GRANTEES

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve more than 18,300 public school districts and 55 million students attending more than 98,000 public schools and 34,000 private schools. Key programs administered by the Department include the Title I program, which under the Department's FY 2019 budget appropriation would deliver more than $15.8 billion for local programs that provide extra academic support to help nearly 25 million students in high-poverty schools meet challenging State academic standards. Another key program is the *Individuals with Disabilities Education Act*, Part B Grants to States, which would provide more than $12.3 billion to help States and school districts meet the special educational needs of 6.9 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency and State educational agency control issues, fraud relating to education programs, fraud perpetrated by State and local education agency and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department stated that is it working to maximize the value of grant funding by applying a risk-based, data-driven framework that balances compliance requirements with demonstrating successful results for the American taxpayer. The Department noted that there is significant inherent risk that State educational agencies, local educational agencies, and grant recipients may not always comply with financial or programmatic requirements, thereby negatively impacting program outcomes. The Department stated that it continues to take a number of actions to manage this risk and support State and local efforts, as well as postsecondary agencies and institutions, to improve outcomes. The Department's new *Strategic Plan* includes key objectives and strategies focused on providing greater support to grantees through a number of ways, including flexibility, technical assistance, partnership, and dissemination of evidence.

The Department also stated that it continues to develop improved strategies to oversee and monitor grant recipients. According to the Department, one of these strategies is increasing the expertise of program staff to provide effective monitoring and oversight. The Department stated that its Risk Management Service developed and offered multiple courses covering basic to advanced strategies and resources to monitor formula and discretionary grantees. The Department has also focused on improving its technical support processes.

The Department reported accomplishments in grantee oversight and monitoring across multiple offices. As examples, the Department reported the following.

- The Office of State Support implemented a performance review system designed to provide effective performance management and support to State educational agencies in administering and leveraging grant programs that include Title I, Part A; Title II, Part A; and Title III.

- The Office of Elementary and Secondary Education increased the number of engagements in its fiscal monitoring pilot, which is in its second year, and successfully increased focus on improving grantee financial management.
- The Office of Special Education and Rehabilitative Services and the Office of Elementary and Secondary Education collaboratively planned and hosted two major public events to provide States with technical assistance on assessment topics and implementing the *Every Student Succeeds Act*.
- Multiple offices also routinely collaborate in monitoring activities, focusing on areas such as assessments, accountability, and data reporting.

What Needs to Be Done

The Department continued to report progress in enhancing its grantee oversight processes, citing numerous actions it had taken to address risks and improve outcomes across multiple program offices. The Department should periodically assess the results of these efforts, identify the most promising approaches, and determine whether these best practices can be effectively applied in other program offices.

The Department should also continue its efforts to offer common training, encourage effective collaboration and communication across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs. Given the flexibilities offered by the *Every Student Succeeds Act*, the Department needs to ensure that its monitoring approaches support State and local efforts while providing effective oversight of financial stewardship and ensuring progress towards positive program outcomes.

Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight.

The Department's oversight and monitoring of grantees remains a management challenge given our continued findings in this area.

MANAGEMENT CHALLENGE 4—DATA QUALITY AND REPORTING

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department relies on program data to evaluate program performance and inform management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department and at State and local educational agencies. This included weaknesses in controls over the accuracy and reliability of program performance and graduation rate information provided to the Department.

Progress in Meeting the Challenge

The Department acknowledged that there is significant inherent risk associated with the quality of data reported to the Department by grant recipients. However, the Department reported that it is committed to a number of actions to strengthen the quality, accessibility, and use of education data. The Department believes that its efforts to strengthen its data life cycle management, governance, and quality framework will help ensure that data the Department uses for decision-making are accurate and reliable.

The Department stated that it developed a tool to track data quality concerns and State responses to data-related questions that contributed to the School Year 2015–16 Assessment, Adjusted Cohort Graduation Rate, and Consolidated State Performance Report data quality follow-up efforts. The Department tracks data quality findings through multiple review cycles with input from States and data stewards. The Department further reported that the Office of Elementary and Secondary Education implemented a process to track Consolidated State Performance Report data quality follow-up and streamlined the process to load Consolidated State Performance Report data quality findings into a main repository.

The Department reported that it continues to work in other areas to improve the data management and verification process and better mitigate the risk that the Department might unknowingly accept or use inaccurate data. Notably, the Department plans to leverage single audits to help assess grant recipient data quality. The Department is working with OMB on language for the compliance supplement that would add focus to the review of grant recipients' internal controls that support the quality of performance data submitted to the Department. The Department believed that this would better ensure that data reported by States are accurate and reliable.

What Needs to Be Done

The Department's efforts to improve the overall quality of data that it collects and reports remain important to its program management and reporting. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge. Our recent audits continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's effort to promote common strong practices across its program offices is an important step to improving data quality. In addition, efforts to strengthen data certification statements and to perform outreach to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should follow through on its plans to leverage single audits to help assess grant recipient data quality.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditors' report can be found beginning on page 76 and the Department's management assurances on page 16.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified
Restatement: No

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

SUMMARY OF MANAGEMENT ASSURANCES

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

Statement of Assurance: Unmodified

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

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

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unmodified

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

Conformance with Financial Management System Requirements—FMFIA 4

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

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

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

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

PAYMENT INTEGRITY

I. PAYMENT REPORTING

Office of Management and Budget (OMB) Memorandum M-18-20 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.

The Department places a high value on maintaining the integrity of all types of payments made to ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. The Department ensures payment integrity by establishing effective policies, business processes, systems, and controls over key payment activities, including those pertaining to: payment data quality, cash management, banking information, third-party oversight, assessments of audit reports, and financial reporting. The number and dollar value of improper payments are key indicators of payment integrity. Accordingly, the Department maintains a robust internal control framework that includes over 500 controls designed to help prevent, detect, and recover improper payments. In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. Because these "third-party" controls are outside of the Department's operational control, they present a higher risk to the Department, as evidenced by the work of the Department's Office of Inspector General (OIG) and our root cause analysis. When control deficiencies are detected, either within the Department or at external entities, the Department seeks to identify their root causes, develop corrective action plans, and track corrective actions through to completion.

Readers can obtain more detailed information on improper payments at **https://paymentaccuracy.gov**.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2018, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. The Department continues to place additional emphasis to ensure payment integrity and minimize improper payments in these two important programs as required by OMB guidance. Please refer to the **Internal Controls** Section of this agency financial report (AFR) for more information. Details on improper payment estimates and root causes for both programs are included within the Improper Payment Estimates, **Payment Reporting Root Cause Categories**, and Improper Payment Corrective Actions sub-sections that follow and in **Section VII**.

PELL GRANT

The Pell Grant program, authorized under Title IV of the *Higher Education Act of 1965* (HEA), provides need based grants to low-income undergraduate and certain post baccalaureate students to promote access to postsecondary education.

DIRECT LOAN

The Direct Loan program, added to HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents.

IMPROPER PAYMENT ESTIMATES

The Department used a nonstatistical sampling and estimation methodology to estimate the improper payment rate for the Pell Grant and Direct Loan programs in FY 2018. Please refer to Section VII, Sampling and Estimation Methodology, for additional details about the methodology and its statistical limitations.

The Department's nonstatistical methodology was revised in FY 2017 to address volatility issues, as described further below in Section VII, Sampling and Estimation Methodology, but imprecision and volatility in the improper payments estimates continue that limit the ability to establish accurate out-year reduction targets. Accordingly, reduction targets were set to the current year improper payment percentages. The Department is implementing a statistically valid methodology in FY 2019 to improve the accuracy of the improper payment estimates.

Readers can obtain more detailed information on improper payments and all of the information reported in the past AFR at **https://paymentaccuracy.gov**.

Figure 15. FY 2018 Pell Grant Estimates

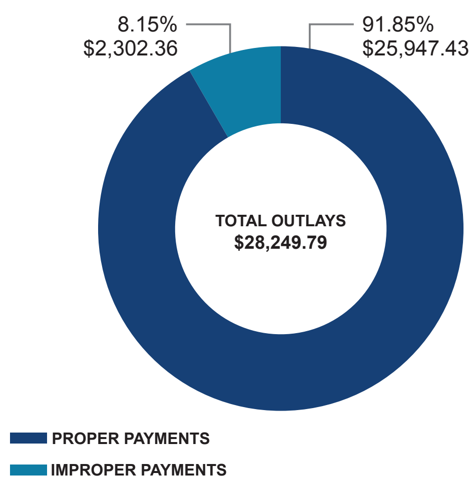
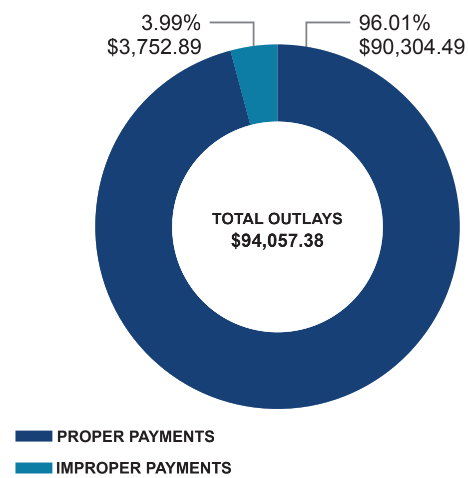


Figure 16. FY 2018 Direct Loan Estimates



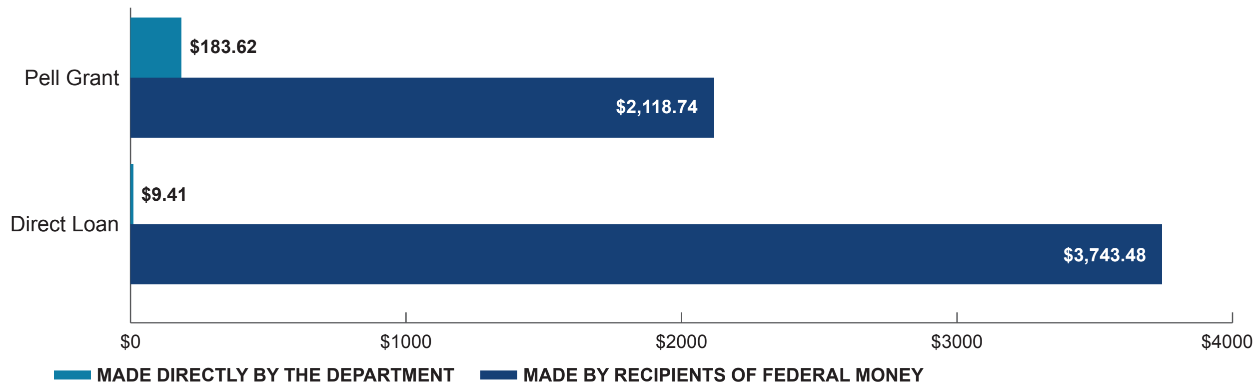
The source of the FY 2018 Pell Grant and Direct Loan outlay amounts is Federal Student Aid (FSA)'s Financial Management System (FMS).

Table 3. FY 2018 Improper Payments for Risk-Susceptible Programs

Program	Overpayments (Dollars in Millions)	Overpayments (%)	Underpayments (Dollars in Millions)	Underpayments (%)
Pell Grants	$ 2,223.52	96.58%	$ 78.84	3.42%
Direct Loans	$ 3,537.97	94.27%	$ 214.92	5.73%
Total	**$ 5,761.49**	**95.15%**	**$ 293.76**	**4.85%**

Figure 17, FY 2018 Source of Improper Payments, summarizes the estimated amount of improper payments made directly by the Department and the amount of improper payments made by recipients of federal money in FY 2018 for the Pell Grant and Direct Loan programs. Improper payments attributed to the Department include, for Pell, estimates of misreported income for students not selected for verification and who did not use the Internal Revenue Service (IRS) Data Retrieval Tool (DRT) and, for Direct Loan, Consolidation and Refund improper payments related to the Department's loan servicing operations. Improper payments attributed to recipients of federal money include improper disbursements of Title IV funds by schools.

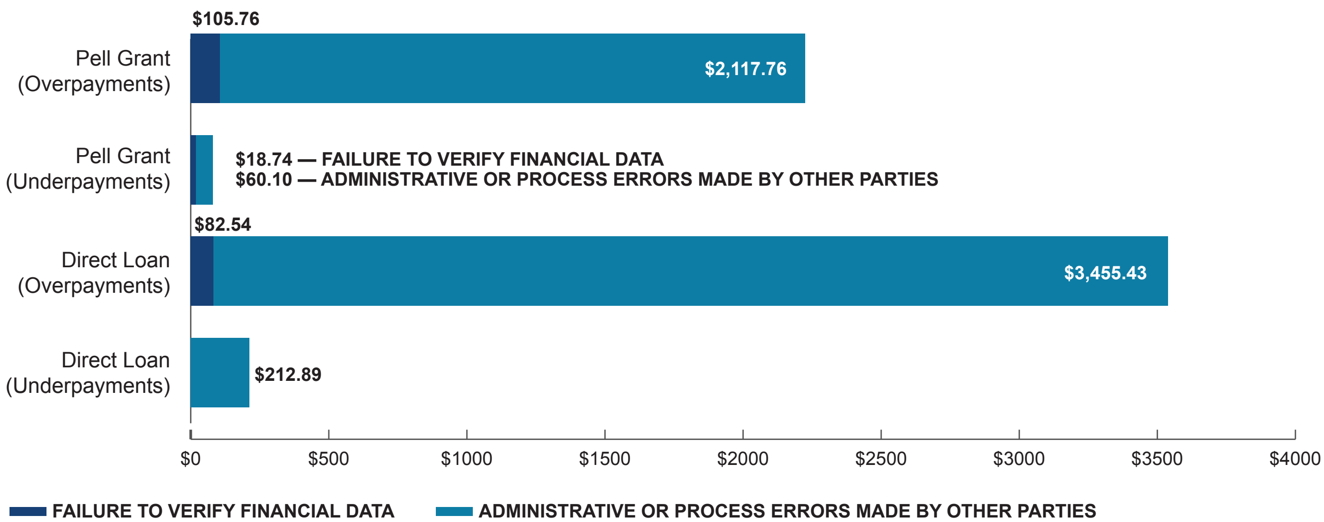
Figure 17. FY 2018 Source of Improper Payments
(Dollars in Millions)



PAYMENT REPORTING ROOT CAUSE CATEGORIES

Our analysis indicated that the underlying root causes of improper payments for the Pell Grant and Direct Loan programs in FY 2018 were "Failure to Verify—Financial Data" and "Administrative or Process Errors Made by—Other Party." The root causes were identified through improper payment fieldwork and categorized using categories of error as defined in the June 2018 update to OMB Circular A-123, Appendix C (OMB Memorandum M-18-20). Specific root causes associated with the "Failure to Verify—Financial Data" category include, but are not limited to, ineligibility for a Pell Grant or Direct Loan and incorrect self-reporting of an applicant's information that leads to incorrect awards based on Expected Family Contribution. Specific root causes associated with the "Administrative or Process Errors Made by—Other Party" category include, but are not limited to, incorrect processing of student data by institutions during normal operations; student account data changes not applied or processed correctly; satisfactory academic progress not achieved; incorrectly calculated return records by institutions returning Title IV student aid funds; and processing errors at the servicer level.

Figure 18. FY 2018 Root Causes of Improper Payments
(Dollars in Millions)



IMPROPER PAYMENT CORRECTIVE ACTIONS

This section presents the corrective actions for the Pell Grant and Direct Loan programs.

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. These oversight functions include FSA's Enforcement Unit and Program Compliance, among others. FSA's Enforcement Unit is focused on identifying, investigating and adjudicating statutory and regulatory violations of the federal student aid programs and on resolving borrower defense claims. The Unit plays a central role in coordinating efforts to prevent third-party companies associated with student aid programs from harming students, parents and borrowers. Program Compliance likewise plays a central role in monitoring and oversight of the institutions (i.e., schools, guaranty agencies, lenders, and servicers) participating in the Department's FSA programs. The office establishes and maintains systems and procedures to support the eligibility, certification, and oversight of program participants. Program Compliance annually conducts approximately 100–300 Program Reviews of the approximately 6,000 eligible schools to assess institutions' compliance with Title IV regulations. Program Compliance evaluates a school's compliance with federal requirements, assesses liabilities for errors in performance, and identifies actions the school must take to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for noncompliance.

The corrective actions listed below are specific to the root causes of improper payments identified from FY 2018 improper payment fieldwork.

Table 4. Corrective Actions—Root Cause Category

IPIA ERROR CAUSE	ROOT CAUSE CATEGORY	CORRECTIVE ACTIONS[1]	COMPLETION TIMELINE
Failure to Verify Financial Data (Identified from Program Reviews)	Incorrect awards based on Expected Family Contribution (EFC)	EFC is a number that determines students' eligibility for federal student aid. The EFC formulas use the financial information students provide on their Free Application for Federal Student Aid (FAFSA) to calculate the EFC. Financial aid administrators (FAAs) subtract the EFC from students' cost of attendance (COA) to determine their need for federal student financial assistance offered by the Department. On August 20, 2018, FSA published the 2019–2020 EFC Formula Guide. The Guide includes EFC worksheets and tables for the 2019–2020 processing cycle, which can help calculate an estimated EFC for students. The Guide provides information about the EFC formula worksheets, and direction about when to use the respective worksheets. FSA will publish the 2020–2021 Guide with updates to address any changes to the formulas and to clarify existing guidance. In FY 2018, the FSA Training Conference for Financial Aid Professionals was held from November 28 to December 1, 2017. The FSA Training Conference is a series of training and technical assistance programs provided by the Department for financial aid professionals charged with administering the Title IV student financial assistance programs on their campuses. In FY 2018, FSA addressed topics related to incorrect awards based on EFC. Over 2,000 unique schools registered for the FY 2018 conference. All 50 states were represented as well as the U.S. territories. More than 160 Foreign School officials attended from countries all over the world. Also, 26 percent of attendees were first-time attendees. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide guidance about preventing incorrect awards based on EFC. FSA annually publishes the FSA Handbook. This publication is intended to provide guidance to college financial aid administrators and counselors about the administration of Title IV aid. The 2018–2019 Handbook includes a volume about Student Eligibility, including eligibility for program funds based on EFC. The Handbook provides examples and guidance about using EFC to determine and calculate eligibility. FSA will publish an updated volume for 2019–2020, including content which addresses incorrect awards based on EFC. FSA has also designed, in collaboration with financial aid professionals, the FSA Assessments to help schools with compliance and improvement activities. The Assessments contain links to applicable laws and regulations related to administering Title IV funds. The Assessments address topics related to incorrect awards based on EFC, such as student eligibility and financial need and packaging. FSA updated the Assessments in the spring of 2018. In FY 2019, FSA will again update the FSA Assessments to help address incorrect awards based on EFC. FSA also offers a variety of free training, including Fundamentals of Federal Student Aid Administration training workshops, required when schools apply for initial participation in the Federal Student Aid programs and for a variety of other reasons. These workshops are also open to anyone who wishes to attend. In FY 2019, FSA will hold 4.5 day in-person training workshops at the Department's 11 regional training facilities. FSA also offers FSA Coach, online self-paced training on the concepts, processes and systems to properly administer Federal Student Aid programs, along with a suite of other e-training available via **https://fsatraining.info/**. Training is focused on specific topics of interest such as those related to correctly awarding funds based on EFC. In FY 2018, FSA published updated training content. In FY 2019, FSA will continue to update training content to help financial aid professionals with the mastery of the knowledge and skills needed to correctly award based on EFC. The Department maintains a blog to provide insights on the activities of schools, programs, grantees, and other education stakeholders to promote continuing discussion of educational innovation and reform. For example, on September 28, 2018, the Department published an article about how to fill out the FAFSA form when there is more than one child in college, which may impact EFC. The Department will continue to update the blog to address topics such as incorrect awards based on EFC.	In FY 2019, FSA will publish an updated EFC Formula Guide for award year 2020–2021. FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses incorrect awards based on EFC. In FY 2019, FSA will update the FSA Assessments to help address incorrect awards based on EFC. In FY 2019, FSA will publish updated free training content. In FY 2019, the Department will maintain its blog, publishing additional articles which address topics such as incorrect awards based on EFC.

Failure to Verify Financial Data (Identified from Program Reviews)	Verification deficiencies	Verification is the process where schools, in partnership with FSA, confirm the accuracy of select data reported by students on their FAFSA. FSA's Central Processing System selects which applications are to be verified. Schools also have the authority to verify additional students. Students selected for verification are placed in one of several verification tracking groups to determine which FAFSA information must be verified. Items verified include Adjusted Gross Income (AGI), taxes paid, and other tax data. Income verification helps detect and prevent misreported income. In FY 2018, FSA completed an analysis of the verification data to inform the upcoming award year cycle before launch (to allow for system changes) using the most recently available data at that time. In FY 2019, FSA will continue to refine the verification selection process. As with prior years' verification selection, data-based statistical analysis will continue to be used by the Department to select for verification of the 2019–2020 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts. In FY 2018, FSA published an updated listing of FAFSA information schools and applicants may be required to verify for the 2019–2020 award year. This notice was published in the Federal Register on March 28, 2018. In FY 2019, FSA will continue to enhance verification procedures, requiring selected schools to verify specific information reported on the FAFSA by student aid applicants. FSA will publish an updated notice in the Federal Register announcing the FAFSA information schools and financial aid applicants may be required to verify, as well as the acceptable documentation for verifying FAFSA information. From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. FSA addressed topics related to verification, including a session on professional judgement and verification, and a session on institutional resolution of conflicting information between the 2017–2018 and 2018–2019 FAFSAs. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance to help prevent verification deficiencies. FSA annually publishes the FSA Handbook. This publication is intended for college financial aid administrators and counselors. In FY 2018, FSA published a 2018–2019 Verification Guide as part of the 2018–2019 FSA Handbook. The Guide was updated as of December 2017. The updates for 2018–2019 include updates to address changing requirements, and clarify existing requirements. For FY 2019, FSA will publish an updated Verification Guide to address any new requirements and to provide additional clarification about existing requirements. FSA also publishes questions and answers about verification on its website. Questions and answers were updated in FY 2018 to help clarify verification requirements. FSA will continue to update the frequently asked questions and answers, if updates are identified. FSA designed, in collaboration with financial aid professionals, a Verification Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Verification Assessment, updated in May 2018, contains a consolidated set of links to applicable laws and regulations to assist schools with understanding the verification requirements, and guidance and examples of verification issues, such as conflicting information. FSA also offers free verification related training via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to properly perform verification.	In FY 2019, FSA will complete an analysis of the verification data to inform the upcoming award year cycle approximately nine months before launch (to allow for system changes) using the most recently available data at that time. In FY 2019, FSA will publish an updated listing of FAFSA information schools and applicants may be required to verify for the 2019–2020 award year. FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 Verification Guide, including updated content that addresses verification deficiencies. In FY 2019, FSA will publish updates to questions and answers about verification requirements to its website, if identified. In FY 2019, FSA will update the Verification Assessment to help address verification deficiencies. In FY 2019, FSA will publish updated free training content related to verification.

Failure to Verify Financial Data (Identified from Program Reviews)	Verification deficiencies	FSA continues to utilize and promote the IRS DRT, which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online FAFSA. The IRS DRT remains the fastest, most accurate way to input tax return information into the FAFSA form. To increase IRS DRT usage, and thereby reduce improper payments associated with misreported income, FSA has taken action to vigorously increase access to and promote the tool. For the 2018–2019 application cycle, FSA expanded the population available to use the tool to include amended tax returns. Additionally, the data transferred from the IRS was masked to improve the privacy of applicant and parent tax information. As part of the ongoing effort to expand usage of the IRS DRT by applicants and parents, FSA publishes information about the benefits and use of the IRS DRT, including on its blog, and sends electronic announcements via Information for Financial Aid Professionals (IFAP) urging institutions to promote the use of the IRS DRT. FSA actively monitors the impact of its promotion of the IRS DRT. For example, FSA reports IRS DRT usage figures, disaggregated by dependency status and tax filing status on a quarterly basis. The impact of efforts to promote use of the IRS DRT is also assessed through reporting of IRS DRT usage via **paymentaccuracy.gov**. FSA also conducts an annual FAFSA/IRS Data Statistical Study (Study). This Study includes an analysis of Pell applicants based on IRS DRT usage. Additionally, FSA monitors anecdotal reports from schools and IRS DRT users via annual surveys, usability studies, and the FSA Feedback System, among other mechanisms. The Department is also coordinating with the Treasury Department and OMB to pursue legislation that would provide an exemption to the IRS Tax Code Section 6103 that would further streamline FSA's ability to receive and verify applicants' and borrowers' income data. The Department expects this to have a meaningful impact on improper payments, reduce burden on applicants and schools, and reduce burden on borrowers, helping them avoid delinquency and default.	Given the importance of IRS DRT usage in preventing misreported income, IRS DRT usage is reported on **paymentaccuracy.gov** for the Pell Grant and Direct Loan programs. The usage results will be posted by the end of November, 2018. Exemption to the IRS Tax Code Section 6103 is pending legislative changes.
Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrect processing of funds during normal operations	Incorrect processing of funds during normal operations include failure to properly pay credit balances, ineligible use of Title IV funds, incorrect disbursement periods, inaccurate application of credit balance to charges for program overages, incorrect calculation of lifetime eligibility used (LEU) and Direct Loan annual loan limits, and incorrect calculation of COA. From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included several sessions related to processing of funds during normal operations. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance related to process of funds during normal operations. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes volumes about Calculating Awards & Packaging, and Processing Aid and Managing FSA Funds. These volumes provide examples and guidance about processing of funds during normal operations. FSA will publish updated volumes for 2019–2020. FSA designed, in collaboration with financial aid professionals, a Fiscal Management and Student Eligibility Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Fiscal Management Assessment and Student Eligibility Assessment, updated in February 2018 and June 2018, respectively, contain a consolidated set of links to applicable laws and regulations related to processing of funds during normal operations, and related guidance, worksheets, and checklists to help schools comply with these requirements. FSA also offers free training related to processing of funds during normal operations via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to process funds during normal operations.	FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses processing of funds during normal operations. In FY 2019, FSA will update the Fiscal Management and Student Eligibility Assessments. In FY 2019, FSA will publish updated free training content related to processing of funds during normal operations.

Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrect processing of student data during normal operations	Incorrect processing of student data during normal operations includes inaccurate or inadequate tracking of clock hours, credit hours, and other documentation of attendance. From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included several related sessions: Administering Adds, Drops, and Withdrawals; Basics of Determining Academic Calendars (Standard, NonStandard, and NonTerm); and Administering Title IV Aid for Transfer Students. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance about processing of student data during normal operations. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes a Student Eligibility volume, updated in May 2018, which includes a section devoted to enrollment status. This volume provides examples and guidance about processing of student data during normal operations. FSA will publish an updated volume for 2019–2020. FSA designed, in collaboration with financial aid professionals, a Fiscal Management and Student Eligibility Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Fiscal Management Assessment and Student Eligibility Assessment, updated in February 2018 and June 2018, respectively, contain links to applicable laws and regulations about disbursing funds to regular students enrolled in eligible programs and enrollment record retention. The Assessments also include related guidance, worksheets, and checklists to help schools comply with these requirements. FSA also offers free training related to processing of student data during normal operations via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to process student data during normal operations.	FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses processing of student data during normal operations. In FY 2019, FSA will update the Fiscal Management and Student Eligibility Assessments. In FY 2019, FSA will publish updated free training content related to processing of funds during normal operations.

Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrect awards based on eligibility	Schools that disburse Title IV funds must demonstrate that they are eligible to participate in these programs before they can be certified for participation and must maintain eligibility. Further, student and parent borrowers must satisfy eligibility requirements for the Title IV funds. From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included several sessions related to student and institutional eligibility: Student Eligibility Requirements; Maintaining Your Institutional Eligibility; and Pell LEU & Subsidized Usage Limit Applies (SULA) Adjustments for Transfer Students Coming from Closed Schools. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance about confirming student and institutional eligibility. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes volumes for Student Eligibility and School Eligibility and Operations. These volumes provide examples and guidance about student and school eligibility. FSA will publish updated volume for 2019–2020. FSA designed, in collaboration with financial aid professionals, Student Eligibility and Institutional Eligibility Assessments, part of the FSA Assessments that help schools with compliance and improvement activities. The Student Eligibility Assessment and Institutional Eligibility Assessment, both updated in June 2018, contain a consolidated set of links to applicable laws and regulations related to eligibility, and corresponding guidance, worksheets, and checklists. FSA also offers free training related to maintaining and confirming student and institutional eligibility via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to award funds to eligible students attending eligible programs and institutions.	FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including the Student Eligibility and School Eligibility and Operations volumes. In FY 2019, FSA will update the Student Eligibility and Institutional Eligibility Assessments. In FY 2019, FSA will publish updated free training content related to awarding funds to eligible students attending eligible programs and institutions.
Administrative or Process Errors by Other Party (Identified from Program Reviews)	Satisfactory Academic Progress (SAP) deficiencies	According to federal regulations, all schools participating in Title IV programs must establish SAP standards. SAP is a student-eligibility requirement and schools are responsible for making sure that students who are not making SAP do not receive student financial aid funds. From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included sessions related to SAP. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated SAP guidance. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes a Student Eligibility volume, updated in May 2018, which includes a section devoted to SAP. This volume provides examples and guidance about SAP-related issues. FSA will publish an updated volume for 2019–2020. FSA designed, in collaboration with financial aid professionals, a Satisfactory Academic Progress Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Satisfactory Academic Progress Assessment, updated in February 2018, contains a consolidated set of links to applicable SAP laws and regulations, and related guidance and worksheets. FSA also offers free training related to SAP via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to monitor SAP.	FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated SAP-related guidance. In FY 2019, FSA will update the Satisfactory Academic Progress Assessment. In FY 2019, FSA will publish updated free training content related to SAP via FSA Coach.

Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrectly calculated return records	When a recipient of Title IV funds ceases to be enrolled prior to the end of a payment period or period of enrollment, schools are required to determine the earned and unearned Title IV aid a student has as of the date the student ceased attendance based on the amount of time the student spent in attendance or, in the case of a clock-hour program, was scheduled to be in attendance. From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included sessions devoted to incorrectly calculated return records: Return to Title IV Funds (R2T4): Basic Principles; R2T4 Funds: Advanced Concepts; R2T4 and Credit-Hour Programs; and SAP and Return to Title IV Funds (R2T4) Funds. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance for correctly calculating return records. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes a volume dedicated to Withdrawals and the Return of Title IV Funds. This volume provides examples and guidance about the actions a school is required to take when a student withdraws. FSA will publish an updated volume for 2019–2020. FSA designed, in collaboration with financial aid professionals, a Return of Title IV Funds Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Return of Title IV Funds Assessment, updated in May 2018, contains a consolidated set of links to applicable laws and regulations for the treatment of Title IV funds when a student withdraws, and related guidance, worksheets, and checklists to help schools comply with these requirements. FSA also offers free training related to correctly calculating return records via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to correctly calculate return records.	FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018. In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses withdrawals and the return of Title IV funds. In FY 2019, FSA will update the Return of Title IV Funds Assessment. In FY 2019, FSA will publish updated free training content related to return of Title IV funds via FSA Coach.
Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)	Incorrect processing of Loan Verification Certificate (LVC)	In FY 2018, of the 120 Direct Loan Consolidation payments sampled, 16 improper payments were identified due to incorrect processing of LVCs, a reduction from 17 in the prior year. These improper payments represent 0.01% of the Direct Loan improper payment estimate. FSA will initiate an assessment of the feasibility and effectiveness of the servicers implementing additional levels of quality assurance over processing of LVCs.	FSA will meet with the Title IV Additonal Servicers (TIVAS) in FY 2019. In FY 2019, FSA will initiate an assessment of the feasibility and effectiveness of servicers implementing additional levels of quality assurance over processing of LVCs.
Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)	Documentation provided by servicer Not applicable; no Direct Loan Consolidation improper payments were identified in FY 2018 due to insufficient documentation.	In FY 2018, FSA shared with the TIVAS a Direct Loan Consolidation improper payment fieldwork checklist. This checklist provides the TIVAS guidance on the documentation that should be maintained to demonstrate that FFEL to Direct Loan Consolidations were made to eligible borrowers, for eligible purposes, and for the correct amount. In FY 2018, FSA also sent a communication to the TIVAS reiterating the need to maintain sufficient documentation to support FFEL to Direct Loan Consolidations were made properly. In FY 2018, of the 120 Direct Loan Consolidation payments sampled, no improper payments were identified due to lack of sufficient supporting documentation, a reduction from two in the prior year. No additional corrective actions are identified for FY 2019 as no Direct Loan Consolidation improper payments due to insufficient documentation were identified in FY 2018.	In FY 2019, FSA will provide the Direct Loan Consolidation improper payment fieldwork checklist regarding documentation that must be maintained by the TIVAS.

Administrative or Process Errors by Other Party (Identified from Direct Loan Refunds)	Not applicable; no Direct Loan Refund improper payments were identified in FY 2018.	In FY 2018, FSA shared with the TIVAS a Direct Loan Refund improper payment fieldwork checklist. This checklist provides the TIVAS guidance on the documentation that should be maintained to demonstrate that refunds were made to eligible lenders and borrowers, for eligible purposes, and for the correct amount. In FY 2017 and FY 2018, no improper payments were identified from review of a sample of Direct Loan Refund payments. The Direct Loan Refund improper payment fieldwork checklist supported the collection of documentation from the servicers evidencing that all sampled Direct Loan Refunds were proper. No additional corrective actions are identified for FY 2019 as no Direct Loan Refund improper payments were identified in FY 2018.	In FY 2019, FSA will provide the Direct Loan Refund improper payment fieldwork checklist regarding documentation that must be maintained by the TIVAS.

[1] FSA does not attempt to quantify the reduction of the improper payment estimates in terms of percentage or amount due to these corrective actions. The quantification of results is not feasible due to the use of a nonstatistical alternative estimation methodology.

II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

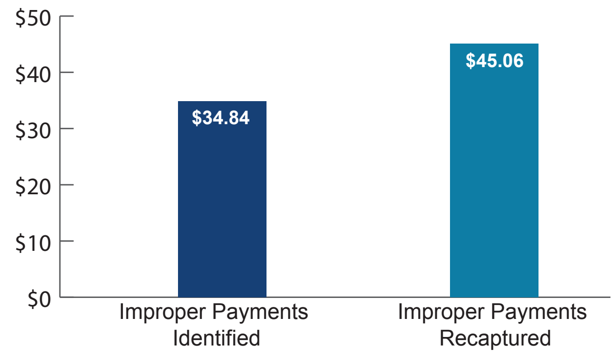
Agencies are required to conduct recovery audits for contract payments and programs that expend $1 million or more annually if conducting such audits would be cost effective. The Department determined that payment recapture audits would not be cost effective for any of its loan and grant programs or for contracts. A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

The Department identifies and recovers improper payments through sources other than payment recapture audits. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in compliance audits, OIG audits, and Department-conducted program reviews. The Department also analyzes the return of grant funds from recipients to determine if they are due to improper payments. When an improper payment is detected and deemed collectable, the Department establishes an account receivable and pursues collections. Recoveries are also made through grant program, payroll, and other offsets. Recipients of Department funds can appeal management's decisions regarding funds to be returned to the Department or they may go bankrupt before the Department can collect, thereby delaying or decreasing the amounts the Department is able to collect. Additionally, the Department has wide discretion to make a determination to not collect improper payments from grantees in cases where it determines that pursuing collections would cause more harm to the federal interest. For these and other reasons, not all identified improper payments will ultimately be collected and collections will not necessarily be made in the same year as when the improper payments were identified.

In FY 2018, the Department identified $34.84 million in improper payments and recovered $45.06 million in improper payments (or 129 percent[1]), as depicted in the graph below. For detailed information on identified and recovered improper payments, readers can visit **https://paymentaccuracy.gov**. The Department continues to work to improve its methods to identify, collect, and report on improper payment collections.

[1] Improper payments identified and recaptured in FY 2018 include payments that were made prior to FY 2018, which leads to a percentage greater than 100 percent.

Figure 19. Improper Payments Identified and Recaptured in FY 2018
(Dollars in Millions)



III. AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY (DNP) INITIATIVE

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center Portal as required by the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), as amended by the *Bipartisan Budget Act of 2013* and the *Federal Improper Payments Coordination Act of 2015* (FIPCA). During FY 2018, 1,382,275 payments, totaling $161.3 billion, were reviewed for possible improper payments through the DNP Portal screening, which includes the Death Master File and the System for Award Management File. The Department continues to validate that potential improper payments identified through this screening process were properly adjudicated and reported to Treasury timely.

IV. BARRIERS

The Department must rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational authority. In designing controls, the Department strives to strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that the controls are not too costly and burdensome to fund recipients. Additionally, there are limitations to the availability of data necessary to verify FAFSA® information without increasing the burden on schools and students. For example, the Internal Revenue Code does not currently permit a database match with the IRS. Such a match would eliminate the need to rely on tax transcripts submitted by the applicant (and the applicant's parent, if the applicant is a dependent) to verify income data in cases where the IRS DRT is not used to transfer tax information directly into the FAFSA® form.

A detailed discussion of program-specific barriers can be found in the **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

V. ACCOUNTABILITY

The Department offices, managers, and staff are held accountable for promoting payment integrity by being held accountable for maintaining effective controls in their day-to-day jobs and key management officials have specific expectations related to payment integrity included in their annual performance plans. Additionally, Accountable Officials are identified for the Department and FSA.

VI. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

Audit Follow-up

The Department gathers and manages thousands of audits of grantees related to our loan and grant programs. Audit records are managed, maintained, and analyzed in the Department's automated audit tracking systems. Audits are a key source of identifying risks and in identifying potential improper payments made by outside entities. The Department has demonstrated tremendous success in working with grant recipients to resolve audit findings timely. The Department is continuously looking for options to gain further insight from audit reports and is partnering with OMB and others to do so.

VII. SAMPLING AND ESTIMATION METHODOLOGY

For FY 2018 AFR reporting, the Department obtained approval from OMB to use a nonstatistical estimation methodology, formerly referred to as an alternative methodology, for estimating improper payments for the Pell Grant and Direct Loan programs. The methodology is a nonstatistical estimation methodology as it has statistical limitations, including reliance on nonrandom sampling and limited sample size. The methodology leverages data collected through FSA Program Reviews, which include procedures such as determining whether schools properly performed verification of students' self-reported income, identifying conflicting applicant data, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. The Department determined that it would be too costly and inefficient, and potentially increase the burden on schools and students to an unacceptable level, to increase the reviews that make up its nonstatistical methodology to a level that would meet the precision rate prescribed by OMB. The Department is implementing a statistically valid methodology in FY 2019.

On June 29, 2018, the Department submitted to OMB for approval updates to the nonstatistical sampling plan and estimation methodology. These updates to the methodology incorporate self-identified enhancements. OMB approved the Department's updates to the nonstatistical sampling plan and estimation methodology on August 15, 2018. The methodology is described in detail on the Department's **improper payments website**.

The Department recognizes that its nonstatistical estimation methodology can lead to volatile improper payment estimates. This is largely due to fewer program reviews conducted at lower-risk schools even though the lower-risk schools often account for a much larger portion of the dollars disbursed and likely have lower rates of improper payment. As a result, the potential exists for student-level improper payment fieldwork results of a single observation (such as a single student or school) at lower-risk schools to significantly influence the improper payment estimates, resulting in volatility of the model.

Risk Assessments

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program and activity that is not reporting an improper payments estimate. In FY 2018, the Department did not conduct any risk assessments, as all programs and activities were previously assessed for risk in either FY 2017 or FY 2016.

ADDITIONAL COMMENTS

Enhancing Payment Integrity

In support of the Department's payment integrity initiative, the Department continues to develop the Continuous Controls Monitoring System (CCMS), which detects anomalies in grants payment data. Case management files for the anomalies are established within the application for follow-up investigation by the Department's grants program offices to validate improper payments and determine root causes. Additionally, the Data Integrity and Financial Controls Group within the Office of the Chief Financial Officer continues working with other internal control teams within the Department to implement recommendations from its Payment Integrity Workgroup (PIWG), whose objective was to address identified gaps and strengthen the internal control process. Both efforts reflect the Department's recognition of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer.

Risk Management

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

In FY 2018, the Department's discretionary grant awards were assessed for risk prior to award in the areas of: financial stability; adequacy of management systems to meet applicable standards; performance history; and compliance with applicable laws and regulations, including those related to Suspension and Debarment. This work successfully demonstrated the Department's early compliance with 2 C.F.R. Section 205, *Federal Awarding Agency Review of Risk Posed by Applicants*.

FRAUD REDUCTION REPORT

The Department continues to participate actively with OMB and other agencies in the government-wide workgroup that is collaborating on an implementation plan for the *Fraud Reduction and Data Analytics Act (FRDAA) of 2015*. The Department will continue to work with OMB to implement the FRDAA.

The Department recognizes the challenges that often surround fraud risk management and is taking action to address each challenge. These challenges include limited resources to conduct fraud risk management activities and difficulties in definitively separating fraud from other negative outcomes.

The Department is exploring ways to refine or enhance its business processes to be in a better position to define, deter, detect, and take action on fraud. For Title IV programs, Federal Student Aid (FSA) has established a Fraud Risk Group (FRG) within its Enterprise Risk Management Office to build capacity and expertise for and to dedicate resources to fraud risk identification and mitigation. In 2018, responsibility for receiving, processing, and taking action on fraud referrals from the Department's Office of the Inspector General (OIG) was transferred from the Finance Office to FRG.

FRG launched a new initiative to implement workflow and case management capabilities to perform analysis of all OIG fraud referrals within the existing Customer Engagement Management Systems (CEMS) infrastructure. This will enable more comprehensive analysis across all OIG fraud referrals and provide better tracking of referrals and possible recoveries of resultant improper payments. This common and interactive case processing tool will also reduce fraud review/case processing time and provide analytics to allow better fraud detection and prevention. FSA is also exploring ways to leverage data analytics better to detect and combat fraud in operations. Additionally, the Department has catalogued internal controls related to fraud prevention and detection, to include 45 detective and 103 preventive controls related to its grant programs and administrative payments.

To combat improper use of federal funding under the *Every Student Succeeds Act,* the Department requires that each recipient and sub-recipient publically display the contact information of the Department's OIG hotline to facilitate the reporting of suspected improper use of ESSA funding and that each recipient and sub-recipient provides assurance of truthfulness and accuracy of the information they provide in applications and in response to monitoring and compliance reviews.

REDUCE THE FOOTPRINT

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

THE DEPARTMENT CHALLENGES ARE:

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

THE DEPARTMENT STRATEGY IS TO:

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

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

Table 5. Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2018	Change (FY 2015 Baseline—FY 2018)
Square Footage	1,548,425	1,382,553	(165,872)

[2] The only building change for FY17 and FY18 was the OIG satellite office in Puerto Rico. In August, 2017, it was relocated from Plaza Scotia Bank Building to Degetau FB & Ruiz-Nazario Courthouse. Therefore, the total usable of 1,382,553 applies for both FY17 and FY18.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

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

Location for Penalty Update Details:

https://www.federalregister.gov/documents/2018/01/16/2018-00614/adjustment-of-civil-monetary-penalties-for-inflation

Table 6.

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	20-Apr-17	15-Jan-18	$37,601
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	20-Apr-17	15-Jan-18	$31,320
Violation of Title IV of the HEA	20 USC 1082(g)	20-Apr-17	15-Jan-18	$55,907
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	20-Apr-17	15-Jan-18	$55,907
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	20-Apr-17	15-Jan-18	$1,650
Improper lobbying for government grants and contracts	31 USC 1352(c)(1)	20-Apr-17	15-Jan-18	$19,639 to $196,387
False claims and statements	31 USC 3802(a)(1)	20-Apr-17	15-Jan-18	$11,181

THE GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016

The goal of the *Grants Oversight and New Efficiency (GONE) Act of 2016* (Pub. L. No. 114-117) is to close out grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances and whose period of performance has exceeded two years.

Starting with an October 3, 2016, baseline of 8,948 grants and cooperative agreements totaling approximately $2 billion in various statuses of the closeout process, the Department succeeded in closing out 100 percent of the required grants and cooperative agreements during FY 2018, as reflected below.

The Department continues to use the GONE Act's methodology and is integrating a financial monitoring curriculum into the Department's grants training, updating our grants management system and updating the policy Handbooks for discretionary and formula grants.

Table 7.

Category	2–3 Years	>3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	-	-	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	-	-	-
Total Amount of Undisbursed Balances	-	-	-

Source: G5, grants management system linked to the Department's general ledger system.

APPENDICES

APPENDIX A: SELECTED DEPARTMENT WEB LINKS AND EDUCATION RESOURCES

COLLEGE COMPLETION TOOLKIT

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

COLLEGE COST LISTS

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

COLLEGE NAVIGATOR

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

COLLEGE PREPARATION CHECKLIST

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

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

https://studentaid.ed.gov/sa/prepare-for-college/checklists

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

COLLEGE SCORECARDS

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

CONDITION OF EDUCATION AND DIGEST OF EDUCATION STATISTICS

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

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

FINANCIAL AID SHOPPING SHEET

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

GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

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

GRANTS INFORMATION AND RESOURCES

In addition to student loans and grants, the Department offers other discretionary grants. These are awarded using a competitive process, and formula grants use formulas determined by Congress with no application process. This site lists Department discretionary grant competitions previously announced, as well as those planned for later announcement, for new awards organized according to the Department's principal program offices. **http://www2.ed.gov/fund/grant/find/edlite-forecast.html**

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

NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS

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

OFFICE OF INSPECTOR GENERAL (OIG)

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

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

ONE-STOP SHOPPING FOR STUDENT LOANS

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

PERFORMANCE DATA

ED*Facts* is a Department initiative to put performance data at the center of policy, management, and budget decisions for all K–12 educational programs. ED*Facts* centralizes performance data supplied by K–12 state educational agencies with other data assets, such as financial grant information, within the Department to enable better analysis and use in policy development, planning, and management. **http://www.ed.gov/about/inits/ed/edfacts/index.html**

PRACTICE GUIDES FOR EDUCATORS

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

EDUCATION RESOURCES INFORMATION CENTER

The Department offers ERIC—the world's largest free, digital library of education research. It is composed of 1.7 million bibliographic records and 400,000 full-text materials indexed from 1966 to the present. Each ERIC bibliographic record contains an abstract of a journal article or grey literature document (for example, a technical report or conference paper), along with such indexed information as author, title, and publication date. **https://eric.ed.gov**

REGIONAL EDUCATIONAL LABORATORY (REL) PROGRAM

The Department administers the REL program to support the use of research and evidence to help states and school districts improve their education programs and, ultimately, student performance. To do this, each regional REL contractor works with teachers, administrators, and policymakers to identify "high-leverage" problems of practice and build the research capacity of local stakeholders. Each REL develops partnerships with state- and local-level education agencies to gather and analyze data, conduct evaluations, and provide technical assistance that address these "high-leverage" problems. **https://ies.ed.gov/ncee/edlabs/**

PROGRAM INVENTORY

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

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

PROJECTIONS OF EDUCATION STATISTICS TO 2026

For the 50 states and the District of Columbia, the tables, figures, and text in this report contain data on projections of public elementary and secondary enrollment and public high school graduates to the year 2026. The report includes a methodology section that describes the models and assumptions used to develop national and state-level projections. **https://nces.ed.gov/pubs2018/2018019.pdf**

RESOURCES FOR ADULT AND CAREER AND TECHNICAL EDUCATION

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

To support the *Workforce Innovation and Opportunity Act* (WIOA), the Department offers professional development resources through the Literacy Information and Communication System (LINCS). This initiative seeks to expand evidence-based practice in the field of adult education and literacy. LINCS serves as Office of Career, Technical, and Adult Education's (OCTAE) primary outreach and dissemination mechanism to adult educators and provides high-quality, on-demand educational opportunities to practitioners of adult education. LINCS is comprised of: the LINCS Resource Collection, which provides online access to high-quality, evidence-based materials and instructional resources; the LINCS Community, a virtual professional learning space where adult educators can engage in discussions focused on critical topics to the field of adult education; a Learning Portal that offers anytime, anywhere professional development courses; a Professional Development Center that provides technical assistance to states in meeting the state leadership requirements set forth in WIOA; and the Learner Center, which provides access to federally developed or federally reviewed resources to assist adult learners in reaching their learning goals. Through these efforts, LINCS demonstrates OCTAE's commitment to delivering high-quality, on-demand educational opportunities to practitioners of adult education and literacy, so those practitioners can help adult learners successfully transition to postsecondary education and 21st century jobs. **http://lincs.ed.gov/**

APPENDIX B: GLOSSARY OF ACRONYMS AND ABBREVIATIONS

ABCP	Asset-Backed Commercial Paper
AFR	*Agency Financial Report*
AGI	Adjusted Gross Income
APG	Agency Priority Goals
APR	*Annual Performance Report*
AR	Abandon rate
ASA	Average speed to answer
CAM	Contracts and Acquisition Management
CAT	Core Assessment Team
CCMS	Continuous Controls Monitoring System
CEMS	Customer Engagement Management Systems
COA	Cost of attendance
CPSS	Contracts and Purchasing Support System
CSF	Cyber Security Framework
CSIP	Cybersecurity Strategy and Implementation Plan
CSP	Charter School Program
CSRS	Civil Service Retirement System
DATA	*Digital Accountability and Transparency Act of 2014*
DCIA	*Debt Collection Improvement Act of 1996*
DNP	Do Not Pay
DOL	U.S. Department of Labor
DRT	Data Retrieval Tool
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDCAPS	Education Central Automated Processing System
EFC	Expected Family Contribution
ERICA	Education Resources Information Center
ERM	Enterprise Risk Management
ESEA	*Elementary and Secondary Education Act*
ESSA	*Every Student Succeeds Act*
FAFSA®	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FAQ	Frequently Asked Questions
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*
FERS	Federal Employees Retirement System
FFA	Financial Aid Administrator
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FIO	Financial Improvement Operations
FIPCA	*Federal Improper Payments Coordination Act of 2015*
FISMA	*Federal Information Security Modernization Act of 2014*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FMO	Financial Management Operations
FMSS	Financial Management Support System
FPRD	Final Program Review Determination

FSA	Federal Student Aid
FY	Fiscal Year
FRDAA	*Fraud Reduction and Data Analytics Act of 2015*
FRG	Fraud Risk Group
G5	Grants Management System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GLBA	*Gramm-Leach-Bliley Act*
GONE	*Grants Oversight and New Efficiency Act of 2016*
GPRA	*Government Performance and Results Act of 1993*
GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities
HCERA	*Health Care and Education Reconciliation Act of 2010*
HCM	Heightened cash monitoring
HEA	*Higher Education Act of 1965*
HEAL	Health Education Assistance Loans
HHS	U.S. Department of Health and Human Services
IDEA	*Individuals with Disabilities Education Act*
IDIQ	Indefinite-Delivery, Indefinite-Quantity
IDR	Income-Driven Repayment
IES	Institute of Education Sciences
IFAP	Information for Financial Aid Professionals
IHE	Institutions of Higher Education
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IPIA	*Improper Payments Information Act of 2002*
IRS	Internal Revenue Service
IRS DRT	IRS Data Retrieval Tool
ISCM	Information Security Continuous Monitoring
IT	Information Technology
LEA	Local Educational Agency
LEU	Lifetime Eligibility Used
LINCS	Literacy Information and Communication System
LVC	Loan Verification Certificate
NLSCD	National Longitudinal School Choice Database
Next Gen FSA	Next Generation Financial Services Environment
NFP	Nor-for-Profit
NCES	National Center for Education Statistics
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSERS	Office of Special Education and Rehabilitative Services

P–12 Prekindergarten through 12th grade

PAYE Pay as You Earn

Pell Program Pell Grant Program

PEPS Postsecondary Education Participants System

PIV Personal Identity Verification

PIWG Payment Integrity Workgroup

PSLF Public Service Loan Forgiveness

PTAC Privacy Technical Assistance Center

REACH Research on Education Access and Choice

REL Regional Education Laboratory

SAFRA *Student Aid and Fiscal Responsibility Act (SAFRA Act)*

SAP Satisfactory Academic Progress

SAT Senior Assessment Team

SBR Statement of Budgetary Resources

SEA State Educational Agency

STEM Science, technology, engineering and mathematics

SULA Subsidized Usage Limit Applies

TBMS Technology Business Management Solutions

TEACH Teacher Education Assistance for College and Higher Education Grant

TIVAS Title IV Additional Servicers

TPD Total and permanent disability

Treasury U.S. Department of Treasury

WIOA *Workforce Innovation and Opportunity Act*

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

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

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

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