MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

About the Management's Discussion and Analysis

The U.S. Department of Education (Department) continued to enhance the content quality, report layout, and public accessibility of the fiscal year (FY) 2022 *Agency Financial Report* (AFR) by refining graphics and providing more useful, balanced, and easily understood information about the Broad-Based Debt Relief, COVID-19 funding relief bills and the Department's loan programs, including additional cost and risk information. The Department also chose relevant web content to provide users with more 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 continue to improve the quality and usefulness of information provided in the AFR, the Department encourages the 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 summary of the Department's performance goals and results for FY 2022. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2022 will be provided in the Department's *FY 2022 Annual Performance Report and FY 2024 Annual Performance Plan* to be released online at the same time as the President's *FY 2024 Budget of the United States Government* (President's Budget) in February 2023. For more information, prior year performance reports can be found on the Department's website. The Department also urges readers to seek programmatic data as it is reported in the Congressional Budget Justification, as well as on the web pages of individual programs. Any questions or comments about the Department's performance reporting should be emailed to **PIO@ed.gov**. For more details on performance, please refer to the Department's budget and performance web page at **www.Performance.gov**.

FINANCIAL HIGHLIGHTS

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 provides a high-level perspective of the detailed information contained in the financial statements and related notes and provides an analysis of key financial statement changes.

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.

FORWARD-LOOKING INFORMATION

The Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on Direct Loans, Next Generation Federal Student Aid (Next Gen FSA), Leveraging Data as a Strategic Asset, and the new G6 modernization.

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 an education, colleges and universities, state educational agencies, and school districts by engaging in four major categories of activities:

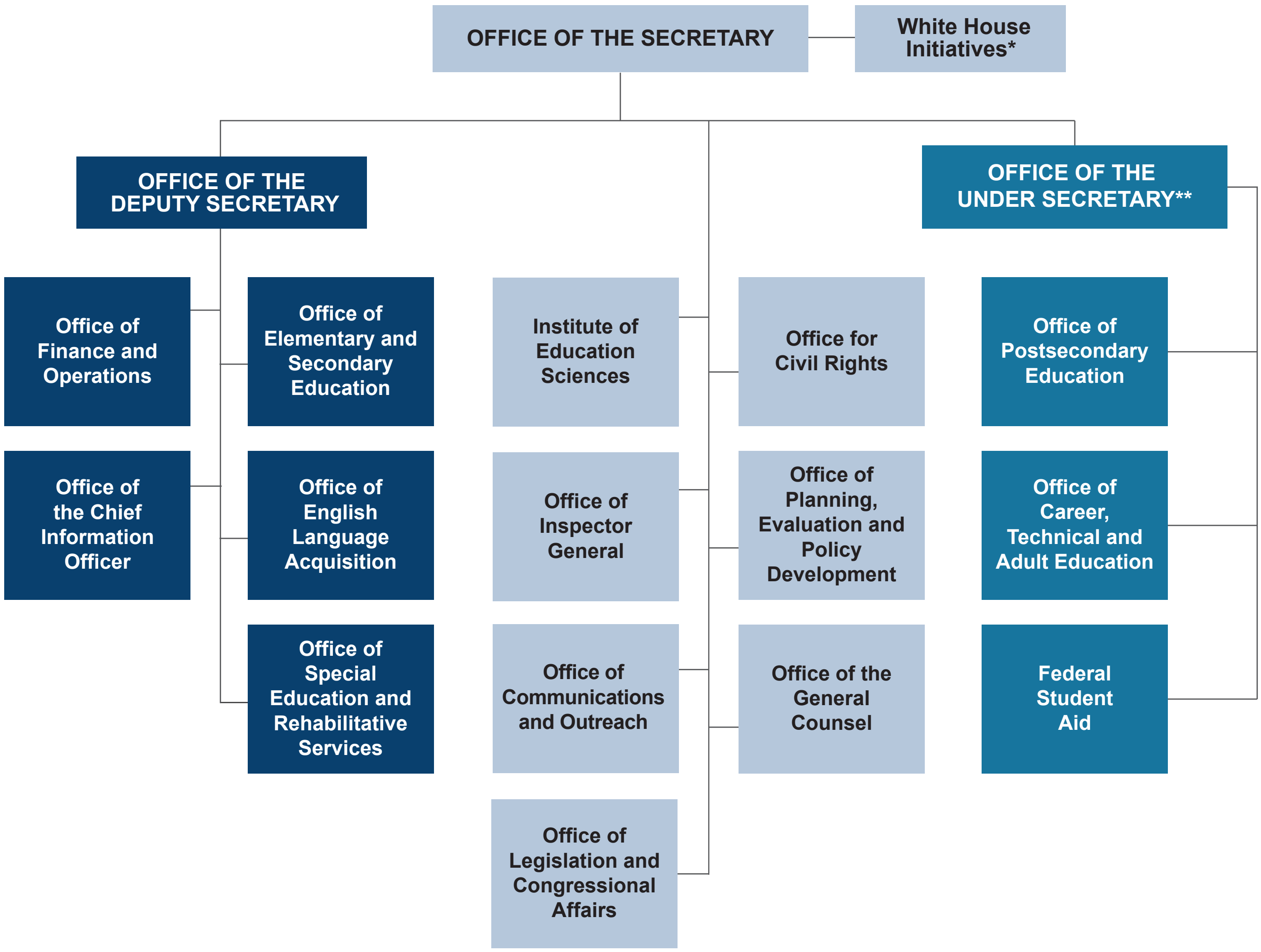
- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds.
- Supporting data collection and research on America's schools.
- Identifying major issues in education and focusing national attention on them.
- 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 laws. The Department manages and spends 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.

The Department in Fiscal Year 2022

This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2022 coordinating structure of the Department is available.



Note: The colors on this chart are for aesthetics only.

* The White House Initiatives are Center for Faith and Opportunity Initiatives; White House Initiative on American Indian and Alaska Native Education; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Hispanics; and White House Initiative on Educational Excellence for African Americans.

** The Office of the Under Secretary is responsible for the administration of the White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity through Historically Black Colleges and Universities.

The Department's Approach to Performance

PERFORMANCE MANAGEMENT FRAMEWORK

In accordance with the *GPRA Modernization Act of 2010*,[1] the Department's framework for performance management begins with the *Strategic Plan*, which serves as the foundation for establishing and implementing priorities, highlighting performance goals and objectives, and developing performance indicators to gauge progress and outcomes. Progress toward the Department's strategic goals and its two-year Agency Priority Goals (APGs) are measured using data-driven review and analysis. Additional information on performance management is available in the *Annual Performance Plans and Annual Performance Reports*.[2]

The *FY 2022–26 Strategic Plan* is comprised of five Strategic Goals and three FY 2022 and FY 2023 APGs. The *Strategic Plan* aims to address administration priorities, such as recovering from the coronavirus disease 2019 (COVID-19) pandemic; ensuring high-quality, equitable secondary and postsecondary education; and providing diverse learning environments for all students, especially those who have been underserved. Each supporting strategic objective has corresponding performance indicators to assess the Department's progress on achieving the Strategic Goals and objectives. For additional information about Performance Management at the Department, visit **ED Strategic Plans and Annual Reports** or email **PIO@ed.gov**.

1 GPRA Modernization Act of 2010 amends the Government Performance and Results Act of 1993 (GPRA).

2 The FY 2022 Statement of Net Cost and related notes align with the FY 2022–26 Strategic Plan.

FY 2022–26 Strategic Goals and Strategic Objectives

Strategic Goal 1: Promote equity in student access to educational resources, opportunities, and inclusive environments.	
Strategic Objective 1.1	Prioritize the equitable and adequate distribution of resources to communities of concentrated poverty, in an effort to provide underserved students with high-quality educational opportunities.
Strategic Objective 1.2	Ensure all students have access to well-rounded, rigorous, engaging, and diverse learning opportunities and environments to support their success in school.
Strategic Objective 1.3	Support states, school districts, and institutions of higher education to promote and protect students' nondiscriminatory and equal access to education, as provided by Federal civil rights laws.
Strategic Objective 1.4	Promote greater access and supports for youth and adults to engage in learning, succeed in postsecondary education, and increase their employability in high-demand occupations.

Strategic Goal 1 focuses on outcomes related to improving and promoting educational equities for all students through adequate resources, opportunities, and supports. In FY 2022, $46.2 billion was appropriated to the Department in support of Strategic Goal 1.

Multiple reports, such as those from the **National Assessment of Educational Progress** and the **Program for International Student Assessment**, suggest that inequalities in resources, policies, programs, services, and practices serve as barriers to access to equal educational opportunities for underserved students that need to be redressed. In support of Strategic Goal 1, the Department provided accessible digital instructional materials to blind, visually impaired, and print-disabled students, supporting 499,260 accessible digital instructional material downloads. Additionally in FY 2022, the Department issued guidance on the rights of public-school students with disabilities, including behavioral disabilities, at the elementary and secondary education level, to nondiscrimination on the basis of disability, under Section 504 of the *Rehabilitation Act of 1973*, in the context of discipline.

In FY 2022, the Department also released for public comment proposed changes to its regulations implementing Title IX of the Education Amendments of 1972 that would advance Title IX's goal of ensuring that no person experiences sex discrimination, sex-based harassment, or sexual violence in education and help elementary and secondary schools implement this vital legislation.

The devastating and adverse impacts of the COVID-19 pandemic exacerbated previously documented gaps in educational opportunity. *The American Rescue Plan Act of 2021* (ARP) provides states and districts with critical resources to address these challenges. The $122 billion American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) Fund provides state educational agencies and local educational agencies (LEAs) flexible resources that can support hiring, preparing, and retaining high-quality teachers and school personnel to address teacher shortages and build a stronger pipeline for the future; promote learning acceleration, for example, through summer learning and enrichment and high-quality tutoring; and improve indoor air quality through upgrades to heating, ventilation, and air conditioning systems.

The ARP also requires that LEAs use 20 percent of their ARP ESSER allocation to address the academic impact of lost instructional time through the implementation of evidence-based interventions and that interventions respond to students' social, emotional, and mental health and academic needs and address the disproportionate impact of COVID-19 on students. In FY 2022, the Department continued monitoring work around the COVID-19 pandemic relief funds. Systems were implemented to ensure the Department was providing the required oversight and the technical systems to support states in addition to timely responses to guidance requests. The ARP further facilitates Strategic Goal 1 by providing much needed relief to help districts and schools recover and increase capacity to improve student outcomes and address historical inequities.

Strategic Goal 2: Support a diverse and talented educator workforce and professional growth to strengthen student learning.	
Strategic Objective 2.1	Strengthen and diversify the educator pipeline and workforce.
Strategic Objective 2.2	Identify and promote evidence-based practices or strategies that support diverse districts (including rural districts) with high rates of poverty in recruiting, selecting, preparing, and retaining well-qualified (including in-field fully certified) and effective teachers, principals, paraprofessionals, and specialized instructional support personnel.
Strategic Objective 2.3	Support the professional growth, retention, and advancement of talented, experienced educators and other school personnel and their capacity to meet the social, emotional, mental health, and academic needs of underserved students.

Strategic Goal 2 focuses on outcomes related to supporting and increasing diversity and talent in the educator workforce and professional growth. Teachers are essential to the learning and development of the students they serve. However, the educator workforce faces several challenges that limit students' educational opportunities and place at risk the success of students, particularly those who have been underserved by education systems. In FY 2022, $16.3 billion was appropriated to the Department in support of Strategic Goal 2.

It is essential to attract, prepare, support, develop, and retain a diverse, well-qualified, experienced, and effective pool of educators by ensuring candidates have access to high-quality comprehensive preparation programs, and that steps are taken to support and retain qualified, experienced, and effective educators. In FY 2022, the Department aligned 18 grant competitions focusing more than $414 million in federal funding toward projects that are designed to advance diversity in the educator workforce and professional development.

The Department is committed to and focused on making substantial progress in decreasing teacher shortages nationwide that have increased in the wake of the COVID-19 pandemic. Therefore, the Department encourages the use of ARP ESSER funds to prepare and retain a diverse educator workforce. In FY 2022, the Department continued to provide several resources to state educational agencies and local educational agencies that focused on the use of American Rescue Plan (ARP) funds and provided concrete examples of how states, districts, and schools are using federal COVID-19 dollars to strengthen the teacher pipeline, get more educators in the classroom, and accelerate student recovery. Districts and higher education institutions are partnering to create and expand residency programs, offer paraprofessional internships, and get college graduates credentialed and in the classroom more quickly. These partnerships provide students across the country more classroom time working with qualified educators and addressing the academic impact of COVID-19.

Strategic Goal 3: Meet students' social, emotional, and academic needs.	
Strategic Objective 3.1	Support the development and implementation of multitiered systems of supports to increase students' engagement; social, emotional, and mental health; well-being; and academic success.
Strategic Objective 3.2	Foster supportive, inclusive, and identity-safe learning environments and ensure the individual needs of underserved students are met through appropriately designed instruction, evidence-based practices, and related supports and services.
Strategic Objective 3.3	Strengthen learning environments, support professional development, and improve educator credentialing for emergent bilingual students and multilingual learners.

Strategic Goal 3 focuses on meeting students' social, emotional, and academic needs. Learning and development across a student's life span are influenced by several interrelated factors, including the individual's social, emotional, academic, and career development. In FY 2022, $20.1 billion was appropriated to the Department in support of Strategic Goal 3.

Research has shown that a safe, healthy, and equitable school climate that addresses students' social and emotional development is associated with higher student attendance and engagement, improved student connectedness, and better social and emotional health. The Title IV, Part A Centers provide state educational agencies (SEAs) with dedicated support for implementing the Title IV, Part A (Title IV-A) Student Support and Academic Enrichment (SSAE) program.

In support of Strategic Goal 3, the Office of Special Education and Rehabilitative Services issued Individuals with Disabilities Education Act discipline guidance that included a Dear Colleague Letter, a question and answer document, and a companion technical assistance document that provides examples of proven practices to address inequities and disparities in the use of discipline, including exclusionary discipline practices. The Department supports the education community in creating and maintaining healthy school environments that can contribute to lifelong benefits.

Strategic Goal 4: Increase postsecondary value by focusing on equity-conscious strategies to address access to high-quality institutions, affordability, completion, post-enrollment success, and support for inclusive institutions.	
Strategic Objective 4.1	Support educational institutions and state systems in efforts to raise academic quality and college completion for all students, especially for underserved students, such as first-generation students, students from low-income backgrounds, students of color, and students with disabilities.
Strategic Objective 4.2	Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.
Strategic Objective 4.3	Increase equitable access to secondary and postsecondary programs that have clear on-ramps to both high-quality jobs and additional high-quality postsecondary educational opportunities.
Strategic Objective 4.4	Improve the alignment across secondary, postsecondary, and career and technical education programs, including through transparent and effective transition processes, inclusive pathways, and clear credentialing requirements.

Strategic Goal 4 focuses on increasing the value of postsecondary education by addressing access, affordability, and degree and credential completion. The goal puts a particular emphasis on supporting educational institutions and state systems in their efforts to improve academic outcomes for all students and especially underserved student populations (i.e. first-generation, low-income background, students of color, and students with disabilities). In FY 2022, $91.9 billion was appropriated to support Goal 4.

In support of Goal 4, the Department announced the availability of $5 million in funds to support a new College Completion Fund for Postsecondary Student Success. The funding will support grants to Historically Black Colleges and Universities, Tribal Colleges and Universities, and Minority-Serving Institutions such as Hispanic-Serving Institutions—many of which are community colleges—to invest in data-driven and evidence-based reforms that encourage postsecondary retention, transfer, and completion.

Strategic Goal 5: Enhance the Department's internal capacity to optimize the delivery of its mission.	
Strategic Objective 5.1	Manage information technology as a strategic resource and driver to promote the advancement of the missions executed by the Department's 21st-century workforce.
Strategic Objective 5.2	Strengthen agency-wide data governance and build capacity to improve data access, data management, and enterprise data analytics in support of agency goals.
Strategic Objective 5.3	Recruit, retain, and develop the workforce needed to meet the Department's mission now and into the future.
Strategic Objective 5.4	Deliver mission outcomes and value for taxpayers through efficient acquisition management and proactive industry partnerships while promoting small businesses.

Strategic Goal 5 is focused on continuously improving agency operations as the Department manages, engages, and empowers the workforce; purchases products and services; enhances and secures information technology resources; and leverages data to support evidence-based decision-making. In FY 2022, $59 million was appropriated to support Goal 5.

In FY 2022, the Department was recognized for its leading-edge work in data governance and in the effective execution of the agency's Data Maturity Assessment by the Partnership for Public Service. The Department was also recognized as a pioneer by **the Data Foundation** for its progress in the advancement of data literacy and data skill development across the agency. The Department has shared its effective practices in this space with numerous federal agencies including the Department of State, Office of National Defense Intelligence, and the Department of Health and Human Services. The Department also chairs a federal working group building a Federal Data Skills Catalog.

The Department took immediate action in FY 2022 regarding the Office of Management and Budget Memo M-22-09 *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles* by onboarding a GS-15 zero-trust architecture program manager and releasing a Department Strategy and project schedule for full implementation by the end of FY 2024.

Strategic Goal 5 prioritizes reducing potential procurement barriers and increasing procurement opportunities for small, underserved, and disadvantaged businesses. In support of Goal 5, 15.43% of contracts have been awarded to small business, which exceeds the goal of 14%. The Department also received an A on the FY 2021 Small Business Scorecard.

THE DEPARTMENT'S AGENCY PRIORITY GOALS

The Department has identified three Agency Priority Goals (APGs) for FY 2022 and FY 2023 which seek to address the impact of the COVID-19 pandemic, effectively manage federal student loans, and reduce disparities in attainment of high-quality degrees and credentials.

APG 1	**Address the impact of the COVID-19 pandemic on students, educators, and faculty.** The Department will be a leader and partner in addressing the impact of the COVID-19 pandemic in educational areas. By September 30, 2023, the Department will respond to the impact of the COVID-19 pandemic and the need to continuously provide for high-quality educational environments and capabilities by supporting state educational agencies, local educational agencies, and institutions of higher education to: • Continue to support schools in maintaining safe, fully in-person instructions for students. • Utilize COVID-19 relief funds on appropriate, effective, and evidence-based activities to reengage students, address lost instructional time, and improve educational opportunities by offering 300+ Department-led technical assistance engagements.
Related Strategic Objectives	**Strategic Objective 1.1:** Prioritize the equitable and adequate distribution of resources to communities of concentrated poverty in an effort to provide underserved students with high-quality educational opportunities. **Strategic Objective 1.2:** Ensure all students have access to well-rounded, rigorous, engaging, and diverse learning opportunities and environments to support their success in school. **Strategic Objective 3.1:** Support the development and implementation of multitiered systems of supports to increase students' engagement; social, emotional, and mental health; well-being; and academic success. **Strategic Objective 3.2:** Foster supportive, inclusive, and identity-safe learning environments and ensure the individual needs of underserved students are met through appropriately designed instruction, evidence-based practices, and related supports and services.
APG 2	**Effectively manage federal student loans.** The Department will provide effective customer service for borrowers to simplify the student loan repayment process. By September 30, 2023, Federal Student Aid will improve loan servicer quality and accuracy to levels at or above 95 percent, as defined in student loan servicer agreements.
Related Strategic Objective	**Strategic Objective 4.2:** Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.
APG 3	**Reduce disparities in attainment of high-quality degrees and credentials.** The Department will support institutions and states to assist low-income students and students of color to enroll in and complete high-quality postsecondary education programs, including at community colleges and through career and technical training. By September 30, 2023, the Department will increase the number and diversity of higher education grant applicants from community colleges, Historically Black Colleges and Universities, Tribally Controlled Colleges or Universities, Minority-Serving Institutions, and public four-year colleges by 5 percent to support and assist low-income students and students of color in attaining improved educational outcomes.
Related Strategic Objective	**Strategic Objective 4.1:** Support educational institutions and state systems in efforts to raise academic quality and college completion for all students, especially for underserved students, such as first-generation students, students from low-income backgrounds, students of color, and students with disabilities. **Strategic Objective 4.2:** Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.

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 Office of Management and Budget (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). This year, the Department received a disclaimer of opinion on its FY 2022 financial statements. The financial statements and notes for FY 2022 are on pages 52–99, and the Independent Auditors' Report begins on page 104.

The financial statements are prepared to report the financial position and results of operations of the reporting entity, consistent with 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

Table 1. Key Financial Statement Changes
(Dollars in Billions)

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2022	FY 2021	Amount	Percentage	Amount	Percentage
Balance Sheets						
Fund Balance with Treasury	$ 317.0	$ 351.9	$ (34.9)	-9.9%	$ (80.7)	-22.9%
Loan Receivables, Net - Direct Loan Program	816.5	1,104.9	(288.4)	-26.1%	(409.2)	-37.0%
Loan Receivables, Net - Federal Family Education Loan (FFEL) Program	39.8	58.2	(18.4)	-31.6%	(23.0)	-39.5%
Cash and Other Monetary Assets	0.7	1.9	(1.2)	-63.2%	-	0.0%
Debt Associated with Loans - Direct Loan Program	837.4	1,142.2	(304.8)	-26.7%	(437.4)	-38.3%
Debt Associated with Loans - FFEL Program	67.0	78.3	(11.3)	-14.4%	(26.1)	-33.3%
Subsidy Due to Treasury	27.0	1.5	25.5	1,700.0%	-	0.0%
Guaranty Agency Funds Due to Treasury	0.7	1.9	(1.2)	-63.2%	-	0.0%
Loan Guarantee Liabilities	10.7	7.5	3.2	42.7%	-	0.0%
Accrued Grant Liabilities	5.1	7.6	(2.5)	-32.9%	(1.5)	-19.7%
Statements of Net Cost						
Total Program Gross Costs	628.6	279.7	348.9	124.7%	431.8	123.8%
Total Program Earned Revenue	(65.2)	(40.0)	(25.2)	63.0%	(27.3)	108.3%
Statements of Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority (Net)	65.3	41.4	23.9	57.7%	17.9	43.2%
Appropriations (Discretionary and Mandatory)	597.2	476.8	120.4	25.3%	154.9	32.5%
New Obligations and Upward Adjustments (Total)	813.7	627.5	186.2	29.7%	190.8	30.4%
Unobligated Balance, End of Year (Total)	88.3	62.1	26.2	42.2%	(17.9)	-28.8%
Outlays, Net	668.5	267.1	401.4	150.3%	437.9	163.9%
Distributed Offsetting Receipts	(29.1)	(6.6)	(22.5)	340.9%	-	0.0%

budgetary resources are prepared from the same books and records. The financial statements should be read with the understanding that they are for a component of the U.S. government.

FINANCIAL STATEMENT IMPACTS OF DEBT RELIEF ACTIONS

During FY 2022, the Department announced significant actions to provide relief to federal student loan borrowers, including extensions to the student loan repayment pause, and several additional debt relief actions. Debt relief actions that occurred or were announced during FY 2022 include:

- Providing one-time broad-based student loan debt relief of up to $20,000 in debt cancellation for Pell Grant recipients with loans held by the Department and up to $10,000 in debt cancellation to non-Pell Grant recipients. Applications for this debt relief launched on October 17, 2022.
- Revamping the Public Service Loan Forgiveness (PSLF) program, including temporary changes that allow student borrowers to get credit for past periods of repayment on loans that would not otherwise qualify for PSLF, including payments made on loans from FFEL Program, Perkins Loan Program, and other federal student loans. Additionally, the temporary changes allow past periods of repayment to count for certain types of deferment or forbearance periods, or if the borrowers were not on a qualified repayment plan. The changes also eliminate barriers for military service members to receive PSLF. The temporary changes expired on October 31, 2022.
- Approving borrower defense and closed school discharges for borrowers whose institutions took advantage of them, including borrowers who attended Corinthian Colleges Inc., the ITT Technical Institute, Marinello Schools of Beauty, Westwood College, DeVry University, Minnesota School of Business and/or Globe University.
- Providing relief for borrowers who have a total and permanent disability.

Although forgiveness of loan principal and interest associated with some of these actions will not occur until future fiscal years, these actions have already resulted in significant increases in cancellations of loan principal and interest for loans held by the Department.

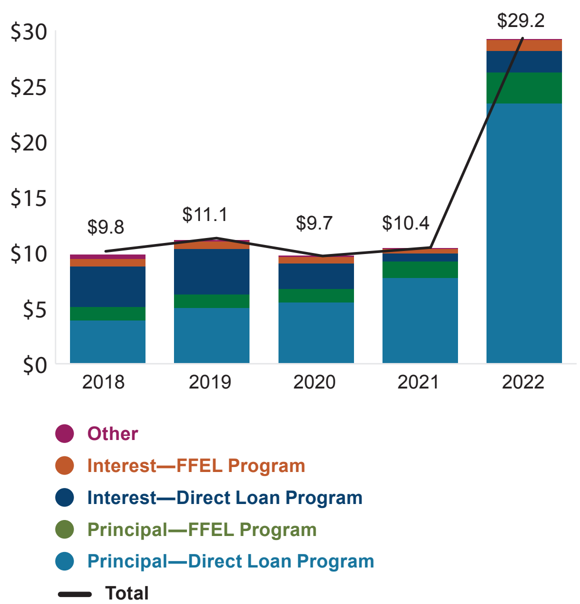
The broad-based debt relief announced on August 24, 2022, is expected to impact up to **43 million borrowers**. Nearly 8 million borrowers may be eligible to receive one-time broad-based debt relief automatically because relevant income data is already available to the Department. If all borrowers claim relief they are entitled to, this action will provide relief to up to 43 million borrowers.

In addition, because of the other debt relief actions taken by the Department:

- **1.1 million borrowers** have already received discharges related to borrower defense or school closures.
- More than **1 million borrowers** have already received additional credit toward forgiveness through the temporary changes to the PSLF program.
- More than **425,000 borrowers** received loan relief due to a total and permanent disability.

As shown in Figure 1, cancellations of loan principal and interest increased 181% during FY 2022, primarily for the Direct Loan Program. A large portion of cancellations of loan principal and interest during FY 2022 were associated with the PSLF program and discharges for total and permanent disability, as they made up 46.7% and 40.8% of total cancellations, respectively. Other notable types of cancellation activity include borrower defense discharges, cancellations of loan principal and interest for loans in default status, and discharges due to death of the borrower.

Figure 1. Loan Cancellations
(Dollars in Billions)



FY 2022 Loan Cancellations
(Dollars in Millions)

	FY 2022					
	Direct Loan Program		FFEL Program			
Loan Cancellation Type	Principal	Interest	Principal	Interest	Other	Total
Discharges for closed schools	$ 443	$ 56	$ 36	$ 7	$ 0	$ 542
Discharges due to death of the borrower	766	60	34	6	0	866
Discharges for total and permanent disability	7,537	1,129	2,363	877	2	11,908
Public service loan forgiveness	13,036	594	0	0	0	13,630
Borrower defense discharges	877	0	146	3	0	1,026
Cancellation of loans in default status	447	72	172	134	6	831
Other	310	(25)	9	(2)	69	361
Total Loan Cancellations	**$ 23,416**	**$ 1,886**	**$ 2,760**	**$ 1,025**	**$ 77**	**$ 29,164**

FINANCIAL STATEMENT IMPACTS OF COVID-19 ACTIVITIES

Many of the significant changes to the Department's financial statements resulted from the impacts due to coronavirus disease 2019 (COVID-19) activities. Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021, including the following that provided a total of $282.5 billion of direct appropriation funding for educational purposes:

- *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) $31.0 billion
- *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* (CRRSAA) $82.0 billion
- *American Rescue Plan Act of 2021* (ARP) $169.5 billion

These appropriations funded a variety of programs administered primarily through grant programs. The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund which included (1) the Elementary and Secondary School Emergency Relief Fund, (2) the Higher Education Emergency Relief Fund, (3) the Governor's Emergency Education Relief Fund, and (4) funds for outlying areas.

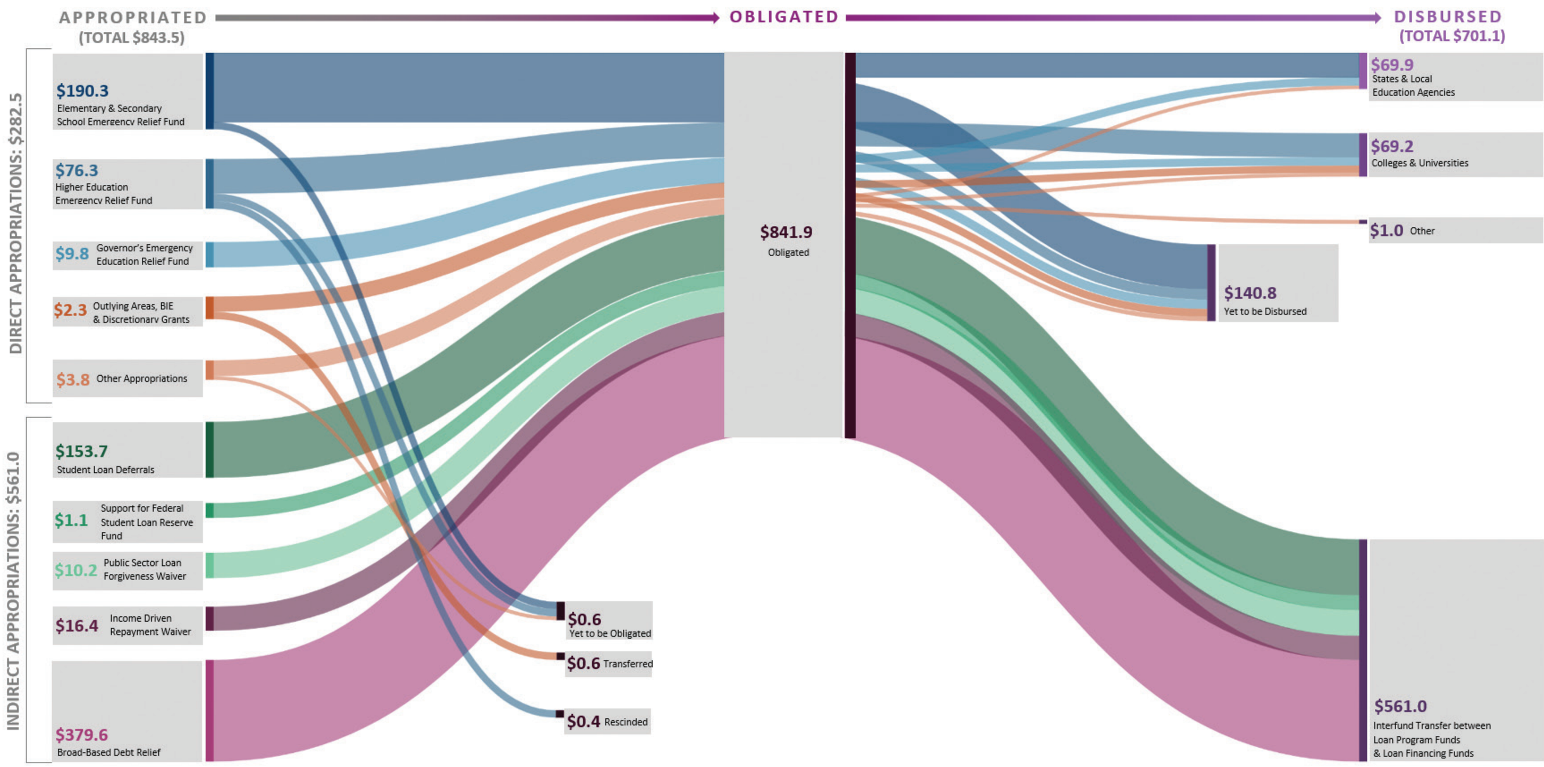
The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers by:

- Providing broad-based debt relief to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at the highest risk of delinquencies or default once payments resume. Applications for this debt relief launched on October 17, 2022.
- Temporarily suspending nearly all federal student loan payments, interest free.
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals. This reimbursement covers the share of what a guaranty agency might have reasonably collected during the pandemic, but for the suspension.
- Making temporary changes to the PSLF program through a Limited PSLF Waiver to allow student borrowers to get credit for payments made while working for a qualifying employer, regardless of loan type or repayment plan.
- Addressing issues with income-driven repayment (IDR) payment counting by allowing any borrower who made IDR-qualifying payments to count toward IDR, regardless of repayment plan.

Funding for each of these actions was provided through indefinite appropriations. Cost impacts of the COVID-19 loan modifications were recorded as loan modifications and are a component of subsidy expense, which reduced the overall loan receivable balances for the student loan programs. Detailed explanations of the COVID-19 Direct Loan Program loan modifications are provided in the Analysis of Direct Loan Program Subsidy Expense section beginning on page 21 and in Note 5 of the financial statements beginning on page 66.

The direct and indirect funding stemming from the combined COVID-19 relief legislation and administrative actions is summarized in Figure 2. Obligated and unobligated COVID-19 funds remaining to be disbursed as of September 30, 2022, totaled $142.1 billion. Most of the undisbursed funds are for the Elementary and Secondary School Emergency Relief (ESSER) Fund. While states may have made subawards for all of their ESSER funding, subawardees may still be in the process of completing their obligations and requesting reimbursement from the states who will then in turn drawdown the remaining undisbursed funds.

Figure 2. COVID-19 Funding Flow
(Dollars in Billions)



Elementary and Secondary School Emergency Relief (ESSER) Fund—Funds provided for state educational agencies (SEAs) and local educational agencies (LEAs) to support continued learning for K-12 students whose educations have been disrupted by COVID-19, and grants for the specific needs of homeless children and youth to address the challenges of COVID-19.

Higher Education Emergency Relief Fund (HEERF) — Funds provided for institutions of higher education (IHEs) to address needs directly related to COVID-19, including transitioning courses to distance education and granting aid to students for educational costs such as food, housing, course materials, health care, and child care.

Governor's Emergency Education Relief (GEER) Fund—Grants provided to state governors to ensure education continues for students of all ages impacted by the COVID-19 national emergency.

Outlying Areas, Bureau of Indian Education (BIE), and Discretionary Grants—Funds provided for outlying areas and discretionary grants to states with the highest COVID-19 burdens.

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 $1,176.7 billion as of September 30, 2022. As shown in Figure 3, most assets relate to loans receivables, $858.6 billion, which comprised 73.0 percent of all assets. Direct loans comprise the largest share of these receivables. Analysis of the net change in Direct Loan Program receivable balances begins on page 16. All other assets totaled $318.1 billion, most of which was Fund Balance with Treasury, $317.0 billion, which decreased by $34.9 billion during FY 2022, largely due to a decrease in undisbursed COVID-19 funds as of September 30, 2022.

The Department's liabilities totaled $954.9 billion as of September 30, 2022. As shown in Figure 4, most of the Department's liabilities are also associated with loan programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with the Direct Loan Program totaled $837.4 billion as of September 30, 2022. Analysis of debt associated with the Direct Loan Program begins on page 18.

Figure 3. Assets by Type

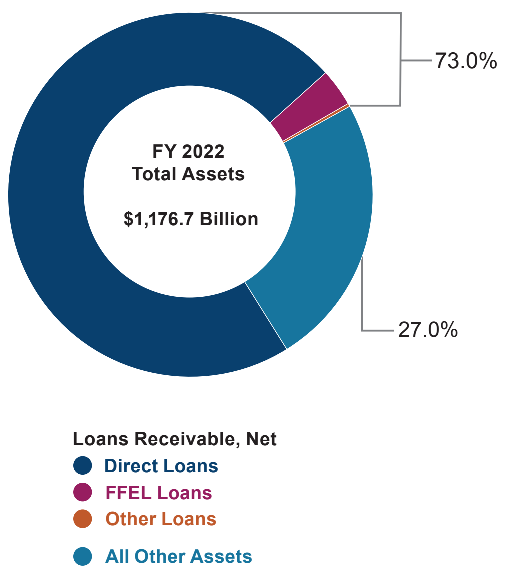
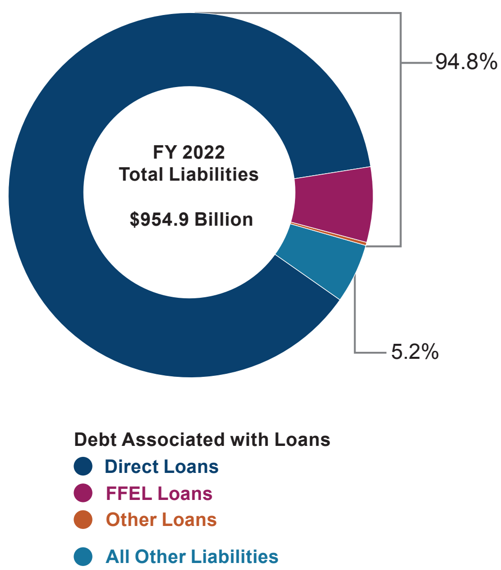


Figure 4. Liabilities by Type



ANALYSIS OF DIRECT LOAN PROGRAM RECEIVABLES, NET

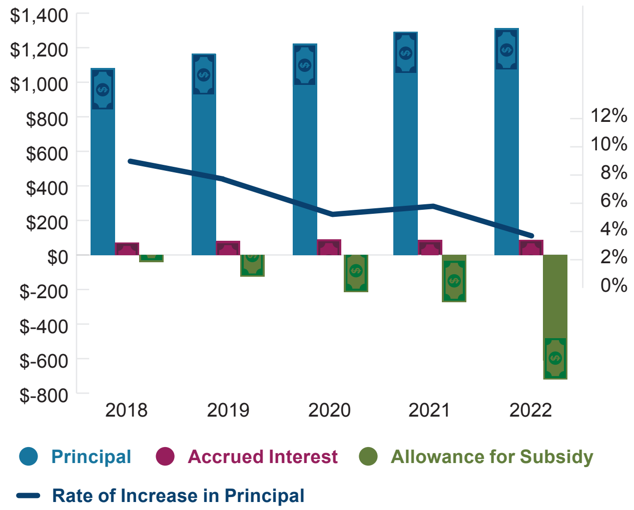
Figure 5 shows the changes in the Direct Loan Program receivable components over the past five years. The principal amount has continued to grow as the Direct Loan Program has originated all new federal loans since July 2010, when originations of new FFEL loans ended. Prior to COVID-19, the rate of increase in principal slowed as enrollment stagnated and sometimes declined. Also, accrued interest amounts had been increasing as more Direct Loans were moving into active repayment statuses, and the rate of enrollment in income-driven repayment plans that allow for payments to be lower than interest accrual had increased.

The rate of increase in principal has slowed in recent years as the Direct Loan program has disbursed fewer than $95 billion in new loans each year since FY 2016 as a result of stagnant, and in some cases declining, enrollment. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers have many options to stretch out their repayment terms and reduce their monthly payments. The student loan repayment deferrals implemented in response to COVID-19 caused the rate of increase in principal to be lower in FYs 2020, 2021, and 2022 compared to previous years.

In accordance with the *Federal Credit Reform Act of 1990*, the Department's financial statements report the value of direct loans (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.

A negative allowance for subsidy balance means that the present value of funds expected to be recovered is less than the principal outstanding. The increase in the negative allowance from FY 2018 through FY 2022 is due primarily to higher subsidy costs, the main causes being high participation in IDR plans and the COVID-19 deferrals of student loan repayments. In addition to these factors, the increase in the negative allowance for subsidy during FY 2022 was also due to higher subsidy costs due to broad-based debt relief (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 21).

Figure 5. Components of Direct Loan Receivables, Net
(Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2018	2019	2020	2021	2022
Principal	**$1,083.7**	**$1,164.9**	**$1,224.8**	**$1,292.2**	**$1,341.8**
Rate of Increase in Principal	8.5%	7.5%	5.1%	5.5%	3.8%
Accrued Interest	$ 72.0	$ 83.3	$ 92.1	$ 86.5	$ 86.7
Allowance for Subsidy	$ (40.7)	$ (124.4)	$ (216.4)	$ (273.9)	$ (611.9)
Total No. of Direct Loan Borrowers (in Millions)	**34.2**	**35.1**	**35.9**	**37.0**	**37.1**

Table 2. Payment Status of Direct Loan Principal and Interest Balance
(Dollars in Billions)

Loan Status	Fiscal Year 2018	2019	2020**	2021**	2022**
Total No. of Direct Loan Recipients (in Millions)	34.2	35.1	35.9	37.0	37.1
Total Dollar Amount of Direct Loans Outstanding	**$1,155.70**	**$1,248.10**	**$1,316.90**	**$1,378.70**	**$1,428.50**
Current Repayment[1]	$ 531.20	$ 594.70	$ 14.20	$ 16.20	$ 11.80
% Current Repayment	46.0%	47.6%	1.1%	1.2%	0.8%
In School, Grace Period, and Education Deferments	$ 295.50	$ 294.80	$ 282.80	$ 271.90	$ 259.50
% In School, Grace Period, and Education Deferments	25.6%	23.6%	21.5%	19.7%	18.2%
Forbearance and Noneducation Deferments	$ 121.50	$ 133.20	$ 887.50	$ 967.80	$1,039.70
% Forbearance and Noneducation Deferments	10.5%	10.7%	67.4%	70.2%	72.8%
Delinquent (Past Due 31–360 Days)	$ 92.50	$ 90.80	$ 0.50	$ 0.00	$ 0.00
% Delinquent (Past Due 31–360 Days)	8.0%	7.3%	0.0%	0.0%	0.0%
Default/ Bankruptcy/ Other*	$ 115.00	$ 134.60	$ 131.90	$ 122.80	$ 117.50
% Default/ Bankruptcy/ Other*	10.0%	10.8%	10.0%	8.9%	8.2%

[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.

*Adjusted to eliminate differences between NSLDS and FSA Total Reported DL Portfolio (principal and interest)

**Student loan payment pause in effect from March 2020

Table 2 shows the payment status of the direct loan principal and interest balances outstanding over the past five 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 IDR plans. Loans in the Delinquent category are past due anywhere from 31 to 360 days. Default/Bankruptcy/Other includes loans that are more than 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 balances reported for Current Repayment and Delinquent in FY 2020, FY 2021, and FY 2022 are significantly lower than other years, primarily due to the COVID-19 student loan repayment deferrals that placed loans in forbearance and subsequently cured delinquencies. As a result of the COVID-19 student loan repayment deferrals, the delinquent balances are now zero.

While the COVID-19 student loan repayment deferrals suspended payments for federally owned student loans, some borrowers elected to continue to make student loan payments. In addition to improving borrowers' overall financial health, factors that may have influenced borrowers to continue making payments on their student loans during forbearance include the following:

- Borrower flexibility to make payments or suspend payments as their financial circumstances permitted without notification to the loan servicer.
- Potential earlier loan payoff.
- Lower total cost of a loan over time to the borrower due to the zero percent interest rate. (Before the pause, an average of two-thirds of each dollar paid went to principal. During the pause, this quickly increased to above 90 percent, and now an average of 95 percent of each dollar goes toward principal).
- Potentially improving the borrower's credit rating by reducing the student debt balance. The relative strength of FSA borrower payment activity has been driven, in part, by efforts of borrowers to improve their credit stance to purchase homes during the period of forbearance. During the pandemic, the U.S. Department of Housing and Urban Development and Federal Housing Authority implemented nontemporary policy changes to improve the underwriting stance of federal student loan borrowers.
- Potentially improved overall borrower financial health and reduced financial stress by reducing student debt.

ANALYSIS OF DEBT ASSOCIATED WITH LOANS, DIRECT LOAN PROGRAM

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.

The Department's total debt associated with the Direct Loan Program was $837.4 billion as of September 30, 2022, which was a $304.8 billion decrease from FY 2021. Total debt decreased largely because the Department received subsidy appropriations for loan modifications during FY 2022 and used these resources to repay debt to Treasury.

Figure 6 shows the Direct Loan Program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan Program financing process is displayed with related trend data as Figure 7 on page 19 of this report.

Figure 6. Components of Direct Loan Receivables, Net
(Dollars in Billions)

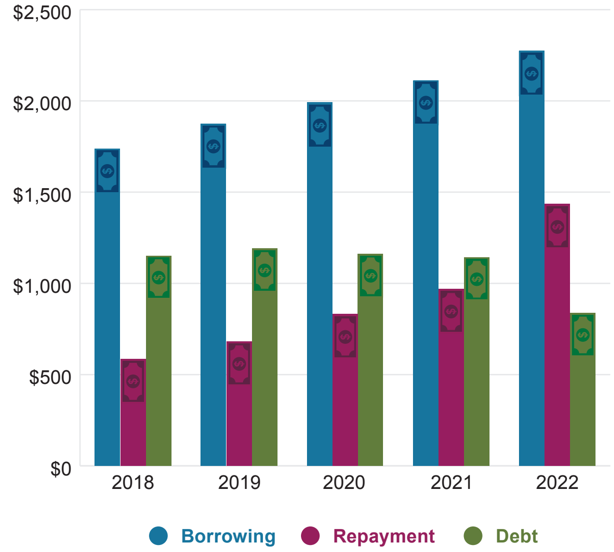
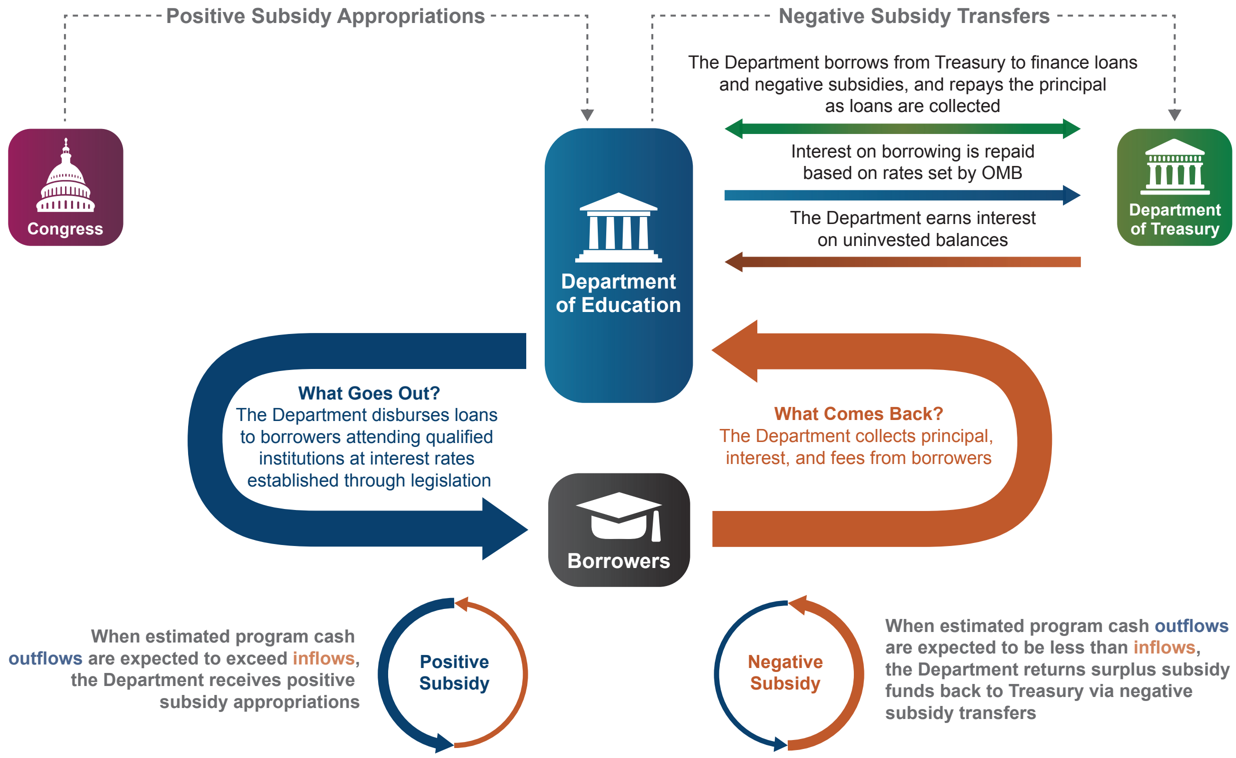


Figure 7. William D. Ford Federal Direct Loan Program: ***Following the Funding***



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	**2018**	**2019**	**2020**	**2021**	**2022**
Net Borrowing	**$ 89.1**	**$ 41.5**	**$ (32.0)**	**$ (17.9)**	**$ (304.8)**
Borrowing from Treasury	155.3	137.6	116.9	120.0	162.8
Debt Repayments to Treasury	(66.2)	(96.1)	(148.9)	(137.9)	(467.6)
Interest Expense to Treasury	(32.3)	(33.8)	(34.7)	(33.0)	(30.6)
Interest Earned from Treasury	3.9	4.1	4.8	4.2	7.6
Cumulative Taxpayer Cost / (Savings)	40.7	124.4	216.4	273.9	611.9
Current Subsidy Expense / (Revenue)	4.4	61.5	100.9	93.9	385.4

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	**2018**	**2019**	**2020****	**2021****	**2022****
Loan Disbursements	**$ 134.1**	**$ 130.7**	**$ 117.4**	**$ 104.8**	**$ 120.4**
Stafford Subsidized	20.3	20.0	19.1	18.3	15.7
Stafford Unsubsidized	49.0	48.1	46.1	44.1	45.5
Parent Loan for Undergraduate Students (PLUS)	23.1	22.7	21.7	20.8	22.2
Consolidation[1]	41.6	39.8	30.4	21.5	36.9
Loan Collections[2]	**84.9**	**91.3**	**69.9**	**37.2**	**45.5**
Principal	63.5	67.0	55.3	33.3	41.3
Interest	19.5	22.4	12.9	2.3	2.6
Fees	1.9	1.9	1.7	1.6	1.6

* Numbers may not add due to rounding.

** Student loan payment pause in effect from March 2020 through December 2022.

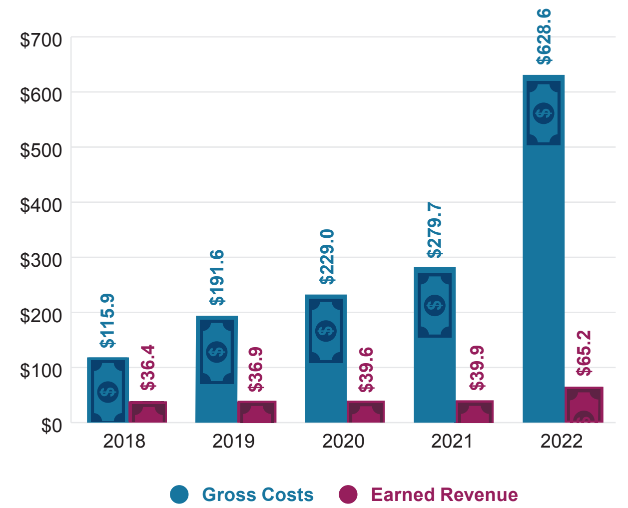
[1] Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

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

STATEMENTS OF NET COST

The consolidated statements of net cost report the Department's components of the net cost of operations for a given 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 8 shows the Department's gross costs and earned revenue over the past five years. As shown in Table 1 and discussed in more detail below, significant changes in the Department's net costs for FY 2022 were primarily due to loan modifications and reestimates (subsidy expense) and grant expenses related to COVID-19 activities.

Figure 8. Gross Costs & Earned Revenue
(Dollars in Billions)

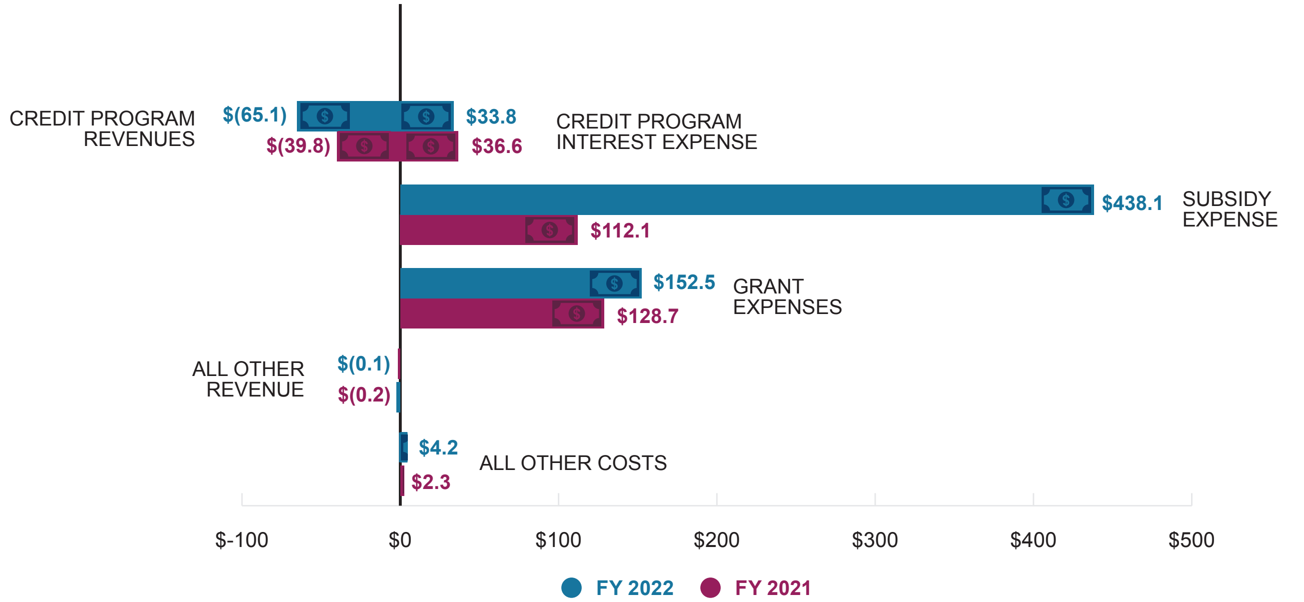


GROSS COSTS AND EARNED REVENUE BY TYPE

As shown in Figure 9, 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).
- Grant expenses. (See Figure 11)

Figure 9. Primary Components of Gross Costs and Earned Revenue
(Dollars in Billions)



ANALYSIS OF DIRECT LOAN PROGRAM SUBSIDY EXPENSE

The Department's gross costs can fluctuate significantly each year as a result of changes in estimated subsidy expenses—primarily subsidy expenses for direct loans. The primary components of subsidy expenses include year-end subsidy re-estimates and loan modifications.

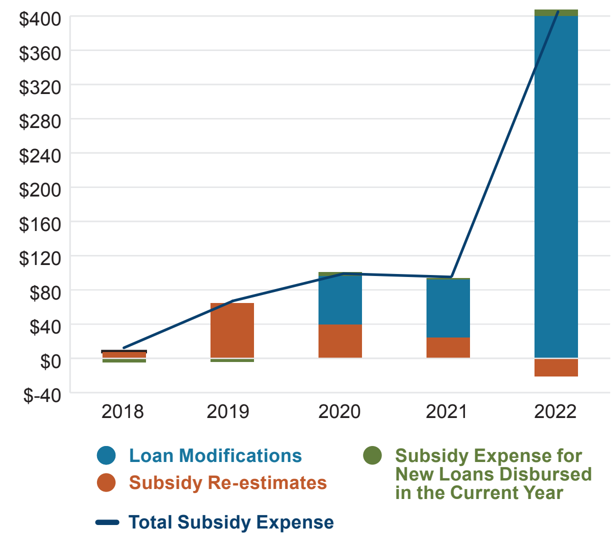
Subsidy expenses are estimates of the present value cost of providing direct loans but exclude the administrative costs of issuing and servicing the loans. The Department estimates subsidy expenses using a set of econometric and financial models as well as cash flow models.

The Department estimates subsidy expenses annually for new loans disbursed in the current year and updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates). The Department also updates subsidy expenses due to changes to terms of existing loans (subsidy modifications). Figure 10 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 individual components and overall subsidy expense are positive or negative.

The Direct Loan Program subsidy expense for new loans disbursed in the current year was negative from FY 2018 through FY 2019 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. Subsidy expense for new loans disbursed since FY 2020 has been positive due to rising enrollment in IDR plans and a reduction in projected future income of borrowers in IDR plans, both of which contribute to a higher expected cost to the government for issuing student loans by reducing the amount that many borrowers will repay over the life of their loans and/or creating a student loan forgiveness benefit for amounts remaining after 20 or 25 years, particularly common among high-debt borrowers.

The Department updates its subsidy cost estimates each year for outstanding loans disbursed in prior years using a process referred to as a subsidy re-estimate. The total of Direct Loan subsidy re-estimates during FY 2022 was a net $21.9 billion downward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Figure 10.

Figure 10. Direct Loan Program Subsidy
(Dollars in Billions)



	2018	2019	2020	2021	2022
Subsidy Expense for New Loans Disbursed in the Current Year	$ (3.1)	$ (3.0)	$ 5.1	$ 1.6	$ 7.3
Subsidy Re-estimates	7.4	64.5	56.1	24.0	(21.9)
Loan Modifications	0.1	-	39.7	68.3	400.0
Total Subsidy Expense	**$ 4.4**	**$ 61.5**	**$100.9**	**$ 93.9**	**$385.4**

Subsidy Re-estimate Components	2022	2021
Income-Driven Repayment (IDR) Model Changes	$ (24.0)	$ 22.4
Prior Year's Cohort Assumption Changes	7.7	15.5
Interest on the Re-Estimate	(0.4)	5.0
Default	3.0	(6.4)
Repayment Plan Selection	(3.0)	0.7
Discount Rates	(16.6)	(11.5)
Non-IDR Discharges	2.9	3.2
Deferment And Forbearance	2.6	(4.8)
Collections	(1.7)	1.5
Interactive Effects	7.4	(1.6)
Other Assumptions	0.2	-
Total Direct Loan Program Subsidy Re-estimates	**$ (21.9)**	**$ 24.0**

	Modification Costs	
Loan Modification Components	**2022**	**2021**
Student Loan Repayment Deferrals	$ 48.6	$ 49.5
Broad-Based Debt Relief	337.3	-
Shift to Business Process Operations	(9.1)	-
PSLF Waiver	9.1	-
IDR Waiver	14.1	-
Total and Permanent Disability	-	18.7
Faith-Based Final Rule	-	0.1
Total Direct Loan Program Loan Modifications	**$ 400.0**	**$ 68.3**

The Department also updates previous cost estimates based on any new legislation or other government actions that change the terms of existing loans and alter the estimated subsidy cost. This process is referred to as a modification. During FY 2022, the Department recorded a total of $400.0 billion in net upward modifications. The table below Figure 10 also identifies the components of modifications that were recorded during FY 2022. More detail about these modifications and components of re-estimated subsidy cost can be found in the notes to the financial statements beginning on page 56.

The FY 2022 year-end subsidy re-estimates also resulted in a $25.5 billion increase in the Subsidy Due to Treasury shown in Table 1 on page 10 of this report. This represents the amount of accrued downward re-estimates of subsidy expense that will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. More detail on Subsidy Due to Treasury can be found in the notes to the financial statements beginning on page 56.

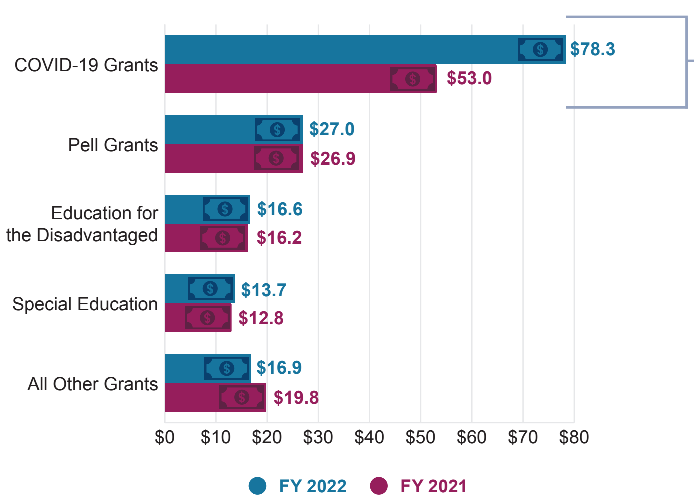
GRANT EXPENSES

As shown in Figure 11, overall grant expenses changed primarily because of COVID-19 grants. More detail concerning COVID-19 grants can be found in Note 11 of the financial statements beginning on page 87. In addition to COVID-19 funded grants, the Department has more than 100 other grant and loan programs. The three largest of these grant program areas 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 grants that provide financial assistance through SEAs to LEAs 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. The program 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 in correctional facilities.
- **Special Education**—Primarily consists of *Individuals with Disabilities Education Act* 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 2 and their families. Also provides discretionary grants to IHEs and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent training, and information centers.

In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, with approximately 90 percent of nonstudent aid funds awarded by formula and 10 percent through competitive processes.

Figure 11. Grant Expenses by Program Areas
(Dollars in Billions)



COVID-19 Grant Expenses
(Dollars in Millions)

COVID-19 Grants	FY 2022	FY 2021
Education Stabilization Fund:		
Elementary and Secondary School Emergency Relief Fund	$ 48,502	$ 20,036
Higher Education Emergency Relief Fund	25,976	31,407
Governor's Emergency Education Relief Fund	2,654	1,341
Outlying Areas & Discretionary Grants	312	130
Total Education Stabilization Fund	**77,444**	**52,914**
Other COVID-19 Grants	865	66
Total COVID-19 Grants	**$ 78,309**	**$ 52,980**

STATEMENTS OF CHANGES IN NET POSITION

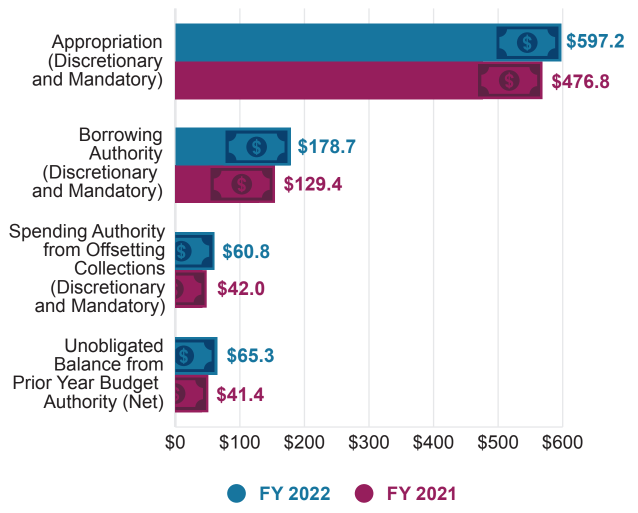
The consolidated statements of changes in net position report the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position is the residual difference between assets and liabilities and consists of unexpended 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.

Figure 12 shows the components of the Department's budgetary resources, which totaled $902.0 billion for FY 2022, increasing from $689.6 billion, or 30.8 percent, from the prior year. This increase was primarily due to a net increase in appropriations received totaling $120.4 billion, of which $154.9 billion was for an increase in direct and indirect appropriations for COVID-19 activity.

Figure 12. Components of Budgetary Resources
(Dollars in Billions)



Other significant changes to the Department's combined statements of budgetary resources include the following:

- Unobligated Balances from Prior Year Budget Authority (Net) increased by $23.9 billion, or 57.7 percent. Of this increase, $17.9 billion was due to COVID-19 funded balances.
- New Obligations and Upward Adjustments (Total) decreased by $186.2 billion, or 29.7 percent, due primarily to a decrease of $190.8 billion for grant obligations funded by the COVID-19 appropriations and loan modifications for COVID-19 student loan deferrals, broad-based debt relief, and IDR and PSLF Waivers.
- Unobligated Balance, End of Year increased $26.2 billion, or 42.2 percent. This increase was largely due to a $42.5 billion increase in unapportioned balances for the credit program accounts, net of a $17.9 billion decrease due to COVID-19-funded balances.

The combined statements of budgetary resources also present the Department's summary disbursement and collection amounts shown in Table 3.

Outlays, Net is comprised of gross outlays and offsetting collections in the Department's budgetary funds. Outlays, net increased $401.4 billion (150.3 percent) due primarily to an increase of $368.3 billion in credit programs outlays. Total credit program outlays during FY 2022, $510.0 billion, included $461.1 billion associated with upward loan modifications.

Distributed Offsetting Receipts primarily 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 modifications, and negative subsidies. The $22.5 billion net increase in FY 2022 versus FY 2021 was attributed to the Direct Loan Program.

Disbursements, Net is comprised of gross outlays and offsetting collections in the Department's credit program nonbudgetary financing funds. Of the $342.4 billion net decrease in FY 2022 versus FY 2021, $321.3 billion was attributed to the Direct Loan Program.

Table 3. Outlays, Distributed Offsetting Receipts, and Disbursements, Net
(Dollars in Billions)

	FY 2022	FY 2021
Outlays, Net		
Credit Programs	$510.0	$141.7
Grants	155.3	122.4
Contractual Services	2.5	2.3
Personnel Compensation and Benefits	0.7	0.7
Total Outlays, Net	**$668.5**	**$267.1**
Distributed Offsetting Receipts		
Negative Subsidies and Downward Re-estimates Of Subsidies	(28.2)	(5.6)
Repayment of Perkins Loans and Capital Contributions	(0.7)	(0.9)
Other	(0.2)	(0.1)
Total Distributed Offsetting Receipts	**$(29.1)**	**$(6.6)**
Disbursements, Net		
Direct Loan Program		
Gross Disbursements	$177.6	$143.8
Offsetting Collections	(526.6)	(171.5)
Total Direct Loan Program Disbursements, Net	(349.0)	(27.7)
FFEL Program		
Gross Disbursements	10.3	8.3
Offsetting Collections	(43.6)	(19.2)
Total FFEL Program Disbursements, Net	(33.3)	(10.9)
Other Loan Programs		
Gross Disbursements	0.5	0.7
Offsetting Collections	(0.5)	(2.0)
Total Other Loan Program Disbursements, Net	-	(1.3)
Total Disbursements, Net	**$(382.3)**	**$(39.9)**

Analysis of Systems, Controls, and Legal Compliance

MANAGEMENT ASSURANCES

The Secretary of the Department of Education's Fiscal Year 2022 Statement of Assurance provided below is the final report produced by the Department's annual assurance process.

STATEMENT OF ASSURANCE
FISCAL YEAR 2022
January 23, 2023

The Department of Education's (the Department's) management is responsible for managing risks and maintaining effective internal control to meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

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 assessed risk and 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. Management evaluated the Department's financial management systems for substantial compliance with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over reporting with consideration of its Data Quality Plan (DQP) in accordance with Appendix A of OMB Circular A-123.

The Department's management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. The Department conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2022.

Miguel A. Cardona, Ed.D.

INTRODUCTION

Strong risk management practices and internal control help the Department 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 (ERM) 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 and mission-support operations. This is achieved through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. Furthermore, the guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal control:

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

This section describes the Department's internal control framework, and explains assurances provided by the Department's leadership.

Enterprise Risk Management Framework

The Department's Enterprise Risk Management (ERM) program supports agency-wide efforts to maximize the Department's value to students and taxpayers through achievement of strategic goals and objectives. The Department's ERM program strategically focuses on the complete spectrum of the organization's significant risks and the combined impact of those risks as an interrelated portfolio rather than simply addressing risks within silos. This coordinated approach leverages data and analytical solutions to identify, measure, and assess challenges related to mission delivery and resource management. Through ERM, the Department has established a systematic and deliberate view of risk into key management practices, ultimately yielding more effective performance and operational outcomes.

The Division of Enterprise Data Analytics and Risk Management (EDARM), within the Office of Finance and Operations (OFO), leads the agency's overall ERM strategy and formally aligns ERM and internal controls processes. EDARM leverages partnerships with agency leaders (e.g., the Senior Management Council, the Senior Executive Cadre, political leadership) to identify, measure, and assess challenges related to mission delivery, policy development, and operations to develop coordinated, actionable response plans.

EDARM collaborated with every Principal Office Component (POC) to identify and evaluate risk priority within each POC and at the Department wide level. The FY 2022 Department of Education ERM profile was published with the aggregated result and analysis from the annual assessment process. This profile highlights the top 11 risks for the Department around the following 5 main functional processes:

- *Financial Management:* Student Loan Cost Estimation, Budget Formulation.
- *Human Capital Management:* Recruitment & Hiring, Workforce & Succession Planning, Employee Training & Development.
- *Information Technology Management:* IT Process Governance, Cybersecurity, and Infrastructure.
- *Data Management:* Data Quality.
- *Oversight and Compliance:* Grants and Contracts Management.

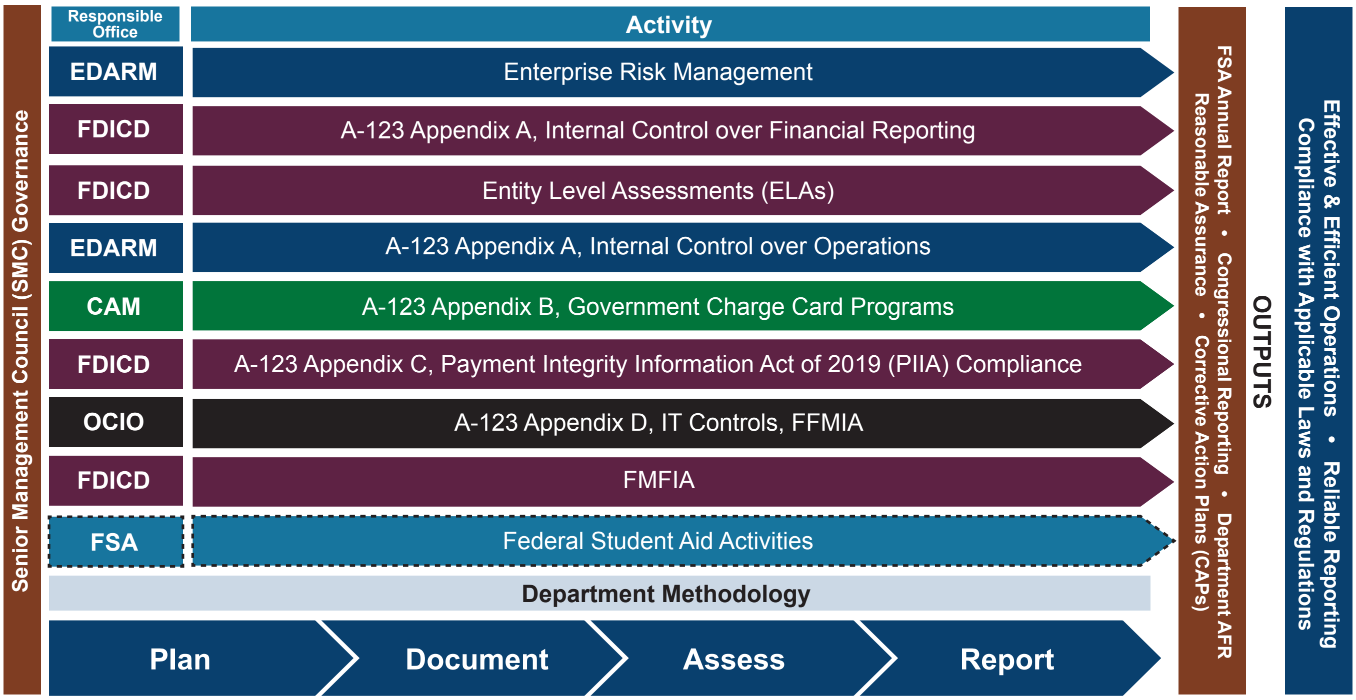
In FY 2022, EDARM also launched the ERM digital tool for collecting, analyzing, and reporting risk data to promote transparency and accountability across the Department.

EDARM continues to make progress in developing and implementing new trainings, tools, and helpful content to better educate and promote healthy risk culture, a culture of continuous improvement within the Department—where data and awareness of enterprise risk are used to objectively inform strategic and operational decisions and optimize agency performance.

Internal 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, complies with applicable laws and regulations, and prepares accurate reports. The Department maintains a comprehensive internal control framework and assurance process as depicted in the following diagram.

Figure 13. Department of Education Internal Control Framework



EDARM	Division of Enterprise Data Analytics and Risk Management
FDICD	Financial Data Integrity and Controls Division
CAM	Contracts & Acquisitions Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
OCIO	Office of the Chief Information Officer
FSA	Federal Student Aid

The Department continues to focus on streamlining and coordinating internal control activities to ensure efficiency of operations, recognize the connection points across areas, and enable transparency of information across the Department. This framework enables increased compliance, process efficiency, oversight, and more informed monitoring of internal controls and risk management by all offices and governance bodies, including the Department's Senior Management Council. The framework also allows for the Department to obtain outcomes from an improved control system and reduced risk landscape. Furthermore, this streamlined approach helps the Department provide reasonable assurance to internal and external stakeholders that the data produced by the Department is complete, accurate, and reliable; internal controls are in place and working as intended; and operations are efficient and effective.

ANALYSIS OF CONTROLS

Overall, the Department relies on annual assurances provided by the heads of its principal offices, supported by risk-based internal control evaluations and testing – as well as annual internal control training provided for all employees – to demonstrate reasonable, but not absolute, assurance that its internal controls are well-designed, in place, and working as intended. The Department's annual assurance process conforms to the requirements contained in the revised U.S. Government Accountability Office (GAO) publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book") and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.*

In FY 2022, the Department and Federal Student Aid (FSA) did not self-identify any material weaknesses related to the effectiveness and efficiency of its operations. However, an area of noncompliance with laws and regulations is noted in the Analysis of Legal Compliance section below. The Department acknowledges that it has areas of control that need further strengthening, as well as major challenges identified by the Department's Office of the Inspector General (OIG) in its FY 2023 Management Challenges report. As an example, data quality and reporting are a challenge identified by the OIG. The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and complete. The Department relies on program data to evaluate program performance and inform management decisions. The establishment of a Data Quality Plan (DQP) integrated into testing of controls is helping to address this challenge identified by the OIG.

The Department maintains processes and procedures to identify, document, and assess internal control over reporting and operations. Key activities include:

- Maintaining process documentation for the Department's significant business processes and subprocesses.
- Maintaining an extensive library of key financial, operational, and information technology (IT) controls.
- Providing technical assistance to principal offices to help them understand and monitor key controls.
- Refining the DQP to improve reporting controls and data quality.
- Implementing a risk-based control testing strategy.
- Developing corrective action plans when internal control deficiencies are found and tracking progress against those plans.
- Recommending and assisting with implementation of robust tools to design more efficient and effective operating procedures.

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

Internal Control Over Reporting

In FY 2022, the Department tested a proportionate number of key financial controls in significant business processes in non-grant areas based on qualitative risk assessments and rotational test plans. The internal controls assessment did not find any control deficiencies or material weakness. However, recommendations have been provided to process owners to strengthen internal controls, such as verifying immaterial differences, obtaining electronic signatures, and updating policies and procedures.

Internal Control Over Operations

In FY 2022, the Department reviewed a number of operational processes based on qualitative risk assessments (in alignment with the Department's ERM profile) and detected some control deficiencies but none that would rise to the level of material weakness. As a result, tools have been developed in the areas of workforce planning, acquisition planning and the procurement process to better utilize resources, improve the flow, timeliness and quality of information and allow for more effective decision-making. A major accomplishment has been the development of a workforce dashboard that consolidates relevant and up-to-date human resources data from multiple systems in a single location and visually depicts complex relationships in an easily digestible manner, enhancing decision-makers' ability to identify critical human resource trends and challenges across the Department.

ANALYSIS OF FINANCIAL MANAGEMENT SYSTEMS

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with 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 FFMIA, 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 vision for its financial management systems is to provide objective financial information to stakeholders to support data-driven decision-making, promote sound financial management, and enhance financial reporting and compliance activities. The Department's core financial applications are integrated under common management control as part of the Education Central Automated Processing System (EDCAPS). EDCAPS is a suite of financial applications (subsystems), including commercial off-the-shelf, custom code, and interfaces that encompass the Department's core financial management processes. Specifically, EDCAPS provides the following functions:

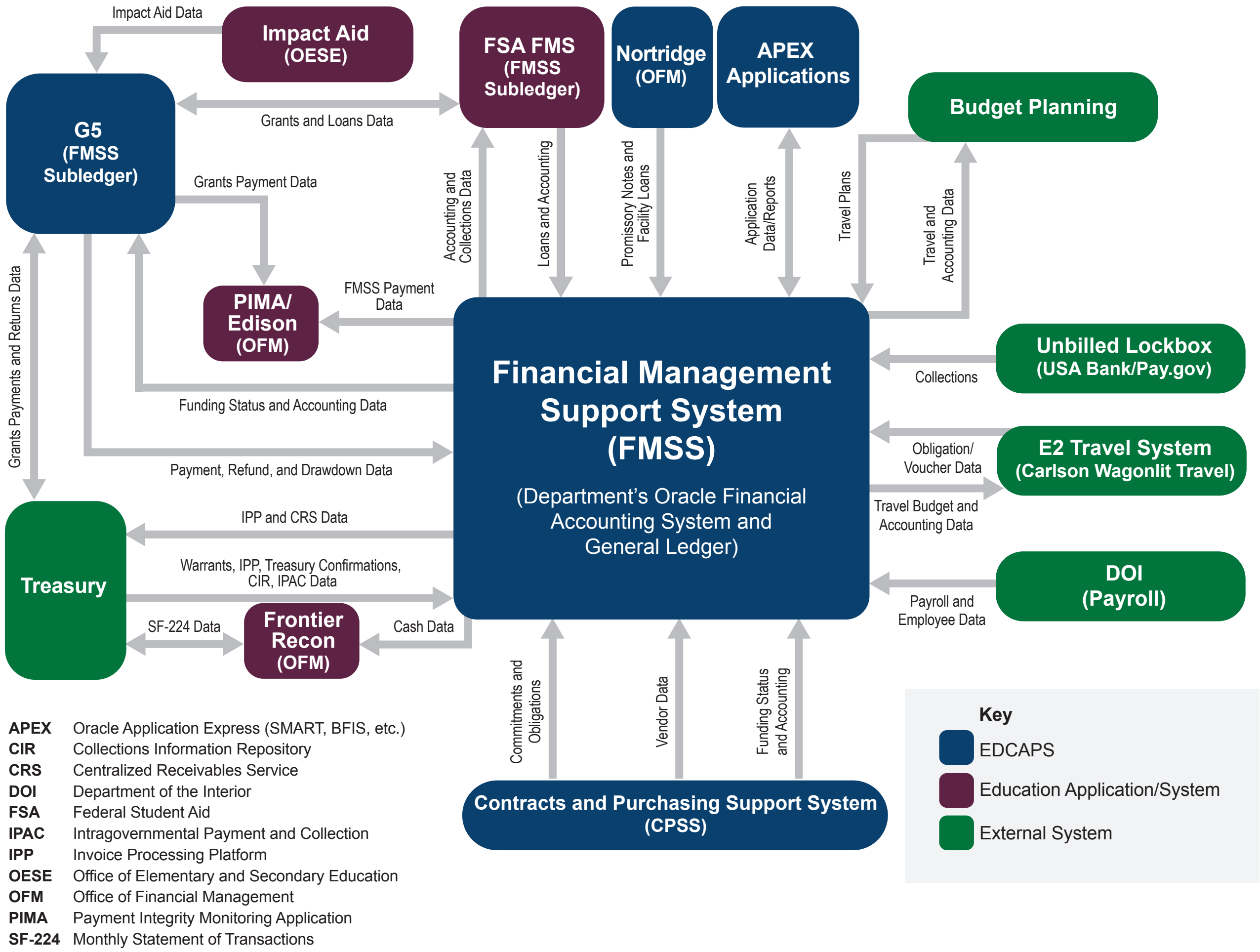
- General ledger—Preparation of financial statements and reconciliation of general ledger balances with subsystems maintained in program areas and Treasury.
- Funds management—Budget formulation, budget execution, and funds control.
- Grants pre- and post-award processing, including grant payment processing.
- Contract pre-and post-award processing.
- Receivables management.
- Cost management.
- Recipient management.
- Administrative processes (e.g., purchasing, travel, and miscellaneous payments).

EDCAPS is composed of five main integrated components:

- Financial Management Support System (FMSS)—FMSS is the Department's core financial system. It provides financial management functions such as the general ledger, financial statement preparation, funds control and budget execution, purchase receiving, accounts receivable, and accounts payable.
- The FMSS Oracle E-Business Suite application resides behind the Department firewall and not an external-facing application.
- Contracts and Purchasing Support System (CPSS)—CPSS provides the Department with a central repository to enter, retrieve, manage, and view acquisition/contract-related data. The centralized data provides enhanced information dissemination, with the ability to respond to both internal and external information requests.
- Grants Management System (G5)—G5 provides the Department with a platform to manage all grant activities, from initial recipient contact to grant processing to payments and grant closeout. This single-system approach provides improved grant information management, recipient response time, and accuracy of financial management information.
- E2 Travel System—E2 provides the Department, under a GSA contract with third party, with a platform to manage travel functions. EDCAPS interfaces with E2 in accordance with an established Memorandum of Understanding and Information Security Agreement between the Department and the vendor.

The following diagram provides the data flow in and out of EDCAPS, including data flow with other Department applications/systems and external applications/systems.

EDCAPS (FMSS) Functional Flow Diagram



Across all its components, EDCAPS is serving approximately 2,800 Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States and territories. EDCAPS is serving approximately 40,970 external users, mostly users of Grants Management System (G5). In FY 2022, the Department conducted an annual risk assessment of EDCAPS and tested 103 IT security controls out of a baseline of 630 IT security controls, as follows:

- EDCAPS—18[3]
- FMSS—28
- CPSS—12
- G5—33
- E2—12

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 2022:

- 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* (FFATA) and *Digital Accountability and Transparency Act of 2014* (DATA Act).
- Transmitting the entire Department's payments through the Department of Treasury Secure Payment System.

The FMSS Oracle E-Business Suite application is behind the Department firewall and not external-facing. FMSS includes the following interfaces to multiple applications which are either not part of the Oracle suite of applications in the Enterprise Resource Plan or are external systems:

3 Number of IT controls tested. No significant deficiencies or material weaknesses were identified.

- Department Systems:
  - Oracle Enterprise Performance Management Cloud Planning (formerly Hyperion).
  - Fiserv Frontier.
  - G5.
  - CPSS.
- External Systems:
  - Treasury systems (Invoice Processing Platform [IPP] invoices/receipts/obligation data, IPP invoice status; payment files, debt referrals, CRS invoices, warrants, Treasury confirmations, CIR collections and administrative return, collections/payments).
  - Department of Interior systems (Payroll).
  - E2 Travel System.

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 these systems. The Department has also determined that its financial management systems substantially comply with FFMIA requirements. However, as noted below in the Analysis of Legal Compliance section, the Department continues to address issues and improve its controls over systems.

ANALYSIS OF LEGAL COMPLIANCE

The Department is committed to maintaining compliance with applicable laws and regulations. Below are some examples:

Payment Integrity Information Act of 2019 (PIIA)

The ***Payment Integrity Information Act of 2019 (PIIA), Pub. L. 116-117, 134 Stat. 113***, was enacted into law on March 2, 2020. The primary purpose of the PIIA is to reorganize and revise several existing improper payments statutes,[4] which establish requirements for federal agencies to cut down on improper payments made by the federal government. PIIA requires federal agencies to report improper payments annually for programs that are deemed susceptible to significant improper payments. PIIA also requires each agency's OIG to review the agency's improper payment reporting in its Agency Financial Report (AFR) and accompanying materials, and to determine whether the agency has met six compliance requirements.

In its annual improper payment compliance audit for FY 2021, the OIG concluded that the Department was not compliant with PIIA because it did not meet one of the six compliance requirements. Specifically, the Department reported an improper payment estimate for the Title I, Part A program of 14.77 percent. To comply with 31 U.S.C. section 3351(2)(F), an agency must report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published. The Department's improper payment estimates were not reliable for three of its programs (Title I, Part A; Pell; and Direct Loan) that required an estimate for FY 2021. Specifically, the improper payment sampling and estimation plan the Department developed for the Title I, Part A program was not adequate for State Educational Agencies (SEAs) that use an advance payment process that does not allow the SEA to directly link payment transactions (expenditures) to specific G5 system drawdowns.

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

Debt Collection Improvement Act of 1996 (DCIA)

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 *Digital Accountability and Transparency Act of 2014* (DATA Act), Pub. L. 113-101, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require notification of a legally enforceable nontax debt that is over 120 days delinquent to the Department of the Treasury for purposes of administrative offset. While the Department continued to work toward an accelerated process to refer delinquent debt to Treasury, extension of the provisions of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in FY 2022 continued to afford administrative forbearance for eligible loans. Beginning in March 2020, the provisions of the CARES Act suspended involuntary collection through the Treasury Offset Program. The suspension of involuntary collections will continue to apply through 2023. Pursuant to the CARES Act and related authorities, no loans were required to be transferred to Treasury during FY 2022. Accordingly, the Department was and is compliant with DCIA as amended by the DATA Act.

4 *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.*

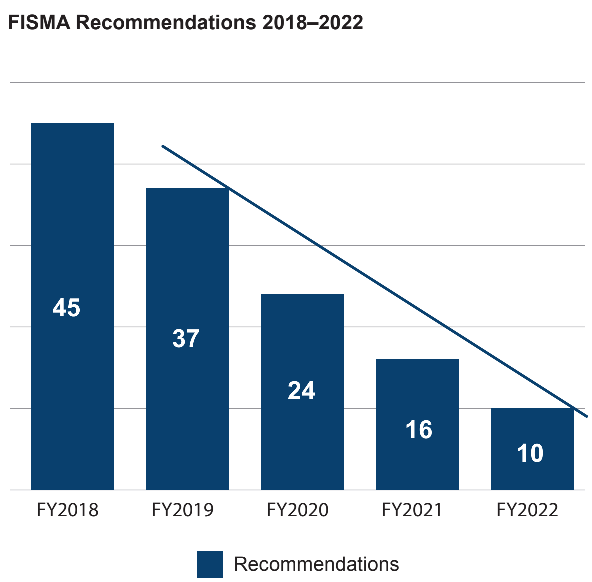
Federal Information Security Modernization Act of 2014 (FISMA)

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

The Department's and FSA's information security programs completed numerous significant activities in FY 2022 to improve cybersecurity capabilities and functions, some of which include:

- The Department received an overall *Federal Information Security Modernization Act of 2014* (FISMA) assessment of "Effective," or a Level 4 Cybersecurity Maturity Level for FY 2022, which marks a significant improvement from FY 2021. This is the first time the Department has achieved this level with seven of nine FISMA domains increasing in score, as supported by information in the graphics below.

Security Function	Metric Domain	Maturity Level	Change from 2021	Met Federal Goal
Identify	Risk Management	Consistently Implemented	=	
Identify	Supply Chain Risk Management	Consistently Implemented	▲	
Protect	Configuration Management	Managed and Measurable	▲	✓
Protect	Identity and Access Management	Consistently Implemented	▲	
Protect	Data Protection and Privacy	Consistently Implemented	=	
Protect	Security Training	Managed and Measurable	▲	✓
Detect	Information Security Continuous Monitoring	Managed and Measurable	▲	✓
Respond	Incident Response	Managed and Measurable	▲	✓
Recover	Contingency Planning	Managed and Measurable	▲	✓



- In February 2022, the Department implemented a new cybersecurity policy framework aligned with Executive Order (EO) 14028 Improving the Nation's Cybersecurity and ***National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5.*** The updated framework ensures a more comprehensive inventory of policies that directly align with the latest catalog of security control families and requirements levied through EO 14028. Five Instructions and 22 Standards have been converted into 20 new Standards (control families) aligned with the Cybersecurity Framework (CSF) and NIST 800-53, Revision 5. The framework modernizes the Department's cybersecurity policies, enables system stakeholders to find the Department's requirements quickly, and allows for updates to the Department's system of record for FISMA reporting, Cyber Security Assessment and Management System (CSAM) with ED-defined control parameters to support System Security Plan (SSP) development and assessments. This includes control overlays for requirements not within 800-53 control baselines, and enhances maintenance and strengthens the ability to update for new requirements while maintaining mapping to CSF rapidly and NIST controls.
- The Department released Standard PR.DS: Protection of Federal Tax Information. Released in January 2022, this standard establishes the Department standards

for safeguarding the confidentiality of Federal Tax Information (FTI) as required by Internal Revenue Service (IRS) Safeguards Program 1 and IRS Publication 1075, Tax Information Security and Privacy Guidelines for Federal, State and Local Agencies. This is in accordance with Internal Revenue Code (IRC), Section 6103(p)(4)3; and IRS Publication 1075, as a condition of receiving FTI directly from either the IRS or from secondary sources.

- Office of the Chief Information Officer (OCIO) refined and used the Department's cybersecurity risk tolerance and appetite, which integrates with the Department's overall ERM program. In FY 2022, OCIO updated its target profile and key performance indicators (KPI) and key risk indicators (KRI) to support tracking and reporting progress made towards the Department's OCIO ERM target profile. OCIO continues membership and participation in ERM Working Groups and mini working groups (ERMWG) to continue to mature integration of Cyber Risk Management with ERM:
    - ERM maturity model metric refinement.
    - ERM digital tools risk reporting and analysis.
    - ERM training for leaders and staff.
    - ERM knowledge management.
- The Department's Security Assessment Team worked with OCIO to implement the Ongoing Security Assessment & Authorization (OSA) program, which started in December 2021. The OSA program and method of assessment replaced the older static-point-in-time assessment model of Assessment & Authorization. The threshold for entry into the OSA program is a risk assessment that focuses on the following areas: system demonstration, control baseline and inheritance review, and the Department's CSF Scorecard and discrepancy reports. The OSA program will reduce steps and modify artifacts to improve efficiency. The overall outcome is more frequent system stakeholder engagement and timely risk visibility.
- OCIO publishes monthly Department's CSF Risk Scorecards as part of the Department's Information Security Continuous Monitoring efforts to identify cybersecurity risks, issues, and opportunities for improvements in its cybersecurity protections. The Department CSF Risk Scorecard provides a detailed analysis tool for authorizing officials, information system owners, and information system security officers to prioritize and mitigate risks to the Department's information systems. In FY 2022, the Department continued to mature its risk management processes through enhancements made to the CSF Risk Scorecard. These enhancements have improved the accuracy and timeliness of the Department's risk reporting and continuous monitoring. System stakeholders are now provided daily visibility of their system's risk and data quality. Additional views were established to augment and consolidate risk reporting to allow the Department's authorizing officials to quickly identify which systems require attention and prioritization of authorization and risk reduction activities. These enhancements are targeted to result in a reduced number of past due Plan of Actions and Milestones (POA&M) and data quality issues. With near-real time risk scoring and reporting in place, executive and system level stakeholders can effectively prioritize and manage the Department's cybersecurity risk daily.
- Throughout the year, the Department continued outreach and risk communications by disseminating monthly "State of IT" reports to the Department's senior leaders. These executive-level reports provide the Department's senior leaders with a holistic view of their IT investments, services, and cybersecurity posture through comprehensive IT and cybersecurity trends, metrics, and key insights to prompt top-down engagement and actions. These reports prepare senior POC leaders for the Monthly Deputy Secretary cybersecurity briefings facilitated by the Department's Chief Information Security Officer (CISO). The meeting communicates Department cyber risks, trends, metrics, key insights, upcoming announcements, and actions.
- The Department continued to mature its risk management processes through enhancements to the CSF Risk Scorecard. POC leadership can now monitor status of program-level business continuity planning and testing activities. These enhancements allowed the Department to close corrective action plan (CAP) 8.3 from the FY 2020 FISMA audit and are targeted to result in consistent implementation of business continuity planning activities. In FY 2022 Quarter 1, the Department enhanced its Power BI reporting to track and report compliance with the Department's 14028 mandates including, but not limited to, Multifactor Authentication (MFA), encryption, and resiliency. The FISMA Dashboard was also enhanced to visualize compliance statuses against recently released FY 2022 OCIO Metrics reporting guidelines (v1.1), issued by OMB/Cybersecurity and Infrastructure Security Agency (CISA) in support of EO 14028 requirements.

- In FY 2022, the Department was approached to provide a demonstration of its cybersecurity risk scoring and visualization capabilities to several partner federal Departments. As a result of the Department's demonstration of risk scoring and visualization capabilities, the partner Departments have expressed interest in establishing similar capabilities within their cybersecurity mission space.

- The Department established a Vulnerability Disclosure Policy (VDP) program in FY 2021, to provide an open channel and legal safe harbor for the discoverer of vulnerabilities to report it to the Department. The VDP allows the research community and others to alert the Department about vulnerabilities in its systems through a clearly established program. The Department expanded the VDP program in FY 2022 Quarter 1 to cover all internet accessible Department systems. Information submitted to the Department under the VDP will be used to mitigate or remediate internet-accessible systems and services vulnerabilities, or vendors' internet-accessible systems or services.

- The Department updated internal vulnerability management procedures in accordance with Binding Operational Directive (BOD) 22-01 Reducing the Significant Risk of Known Exploited Vulnerabilities. The Department continues to remediate each vulnerability according to the timelines set forth in the CISA-managed vulnerability catalog. The Department is working with CISA to mature Continuous Diagnostics and Mitigation (CDM) capabilities to augment and enhance remediation actions as required by this directive.

- The Department developed and implemented a new FISMA 2014 reporting dashboard through Microsoft Power BI to reflect the updated FY 2022 OCIO Metrics. The new dashboard allows leadership to visualize all data collected across the Department in support of its quarterly reporting requirements to DHS and OMB. The dashboard provides the ability to proactively identify discrepancies or potential risks as a result of data captured and presented to both leadership and FISMA 2014 metric owners for action.

- The Department took immediate action in Quarter 1 and Quarter 2 regarding M-22-09 Moving the U.S. Government Toward Zero Trust Cybersecurity Principles by creating, funding, and onboarding a GS-15 zero-trust architecture (ZTA) program manager and releasing a Department strategy and project schedule for full implementation by the end of FY 2024. The Department received the initial transfer of $15 million in Technology Modernization Fund (TMF) funds, used to:
  - establish a ZTA Project Management office (PMO).
  - engage the recompete of Enterprise Identity, Credential, and Access Management (ICAM).
  - obtain Secure Access Service Edge (SASE) & Security Orchestration Automation & Response (SOAR) capabilities.

There is ongoing collaboration between ZTA, ICAM, Enterprise Detection and Response (EDR), and Cyber Data Lake (CDL) PMOs to fulfill progress towards all pillars of Zero Trust. A "zero trust" approach to security provides the Department with a necessary and defensible architecture against increasingly sophisticated cyber-attacks. The Department is on track to meet the requirements set forth by OMB and maintain a resilient cybersecurity posture.

- During the first half of FY 2022, OCIO successfully continued to provide IT services to support nearly 100% telework in response to the COVID-19 pandemic. However, during the second half of FY 2022, the Department shifted from nearly 100% telework to a hybrid telework posture. Throughout this transition, there was no significant impact or compromise to the Department Information Security Program, and the Department continued execution of missions without interruption. Despite the challenging work environment necessitated by the COVD-19 pandemic and the evolving technology changes to meet working requirements, the Department did not have any major information security incidents occur. To continue strengthening its cloud portfolio, the Department has continued its close working relationship with the FedRAMP Project Management Office (PMO) which established increased reoccurring continuous monitoring meetings with participating agencies to help improve the security posture of those Cloud Service Providers.

- In response to the January 2022 Apache Log4j vulnerability, the Department Vulnerability Management (VM) team identified all impacted systems, assets, and remediation actions. All reports were forwarded to the EDSOC for further incident response activities. The EDSOC coordinated across the Department (FSA Security Operations Center [SOC], CSOC, etc.) to identify impacted assets, patch immediately, block indicators of compromise, and take necessary incident response actions if compromises were discovered. The EDSOC completed all network traffic and forensics analysis on the Department's systems and concluded that no Department assets showed indication of a successful compromise. The Department was selected to participate in the first Cybersecurity Safety Review Board analysis of Log4j and was cited as providing the most input and support of Federal Cabinet-level Departments.

- In response to Emergency Directive 22-03 Mitigate VMWare Vulnerabilities, the Department issued a CISO Memorandum on May 20, 2022. Information System Owners and Information System Security Officers were required to enumerate all instances of impacted VMWare products within their system authorization boundaries, report findings to the OCIO VM team, and deploy updates (or remove the VMWare product until an update is available). There were no findings of impact to the Department, which was reported to CISA.
- The Department implemented measures in the wake of the COVID-19 pandemic to permit remote work, including issuance of Standard PR.AC: Emergency personal identity verification (PIV) Alternative Standard. As restrictions have been lifted and per the requirement of Homeland Security Presidential Directive 12, the Department released a CISO memorandum on April 15, 2022, for the rescission of Standard PR.AC. As a result of the memo, more than 90% of Department users are now utilizing PIV. This ensures the security of user access to the Department's networks and systems.
- In support of SOC consolidation and maturation, the Department continues to identify task separation, integrate security tooling, coordinate incident investigation and response, and remove duplication between the Department's two SOCs, EDSOC and FSA SOC. Existing milestones include refining current processes that support incident response and management to be aligned to a singular source, establishing automation within our incident response tool, and evolving training on newly enhanced processes and technologies. In FY 2021, the SOC maturation plan was updated to address key requirements levied on the Department in support of the recently released EO 14028 on Improving the Nation's Cybersecurity and NIST 800-53 Revision 5. Updates to the plan in FY 2022 will result in improved incident response (IR) maturation in keeping within Federal IR requirements, continued improvement to our data loss prevention systems, increased cost savings through virtualization, and increased use of specialized personnel dedicated to threat intelligence analysis, law enforcement cooperation, and hunt team activities, providing a more robust and complete threat analysis product to our customer.

Forward-Looking Information

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

DIRECT LOAN PROGRAM

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) Program, provides students and their families with funds to help pay for their postsecondary education costs. The following describes (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 having a college degree remains high,[5] some students leave school poorly equipped to manage their debt.

Traditionally, federal student loans had fixed-payment 10-year repayment schedules, making it difficult for borrowers to begin repaying at the start of their career when their salaries are low. The recent expansion of income-driven repayment (IDR) plans allows students the opportunity for greater financial flexibility as it pertains to their monthly repayment. 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 73 percent of the direct loan portfolio is in administrative forbearance—the suspended payment status provided to students through the extension of the student loan repayment deferrals.
- As of June 2022, nearly 8.4 million direct loan recipients were enrolled in IDR plans, representing a 1 percent increase from June 2021 and a 3 percent increase from June 2020. Overall, more than 45 percent of direct loan dollars and 33 percent of borrowers in repayment are enrolled in an IDR plan.

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

- Continue conducting outreach efforts to inform student loan borrowers of their repayment options before the emergency loan relief measures expire.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Gen FSA, see page 39.
- Continue to support the development of additional tools, such as the College Scorecard and College Financing Plan, to increase transparency around higher education costs and outcomes that may 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 disbursements and collections associated with a cohort of loans are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected in developing estimates. Estimation of Federal credit programs involves inherent risk. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used. There are four types of inherent risk, described below, that make estimating lifetime program costs a difficult task.

Legislative, Regulatory, and Policy Risk

There are inherent risks to estimating future lifetime disbursements and collections for a cohort stemming from legislative, regulatory, or administrative actions. For instance, the cost structure of the Direct Loan Program may

5 https://cew.georgetown.edu/cew-reports/collegepayoff2021/

be significantly altered if policies around loan forgiveness are expanded. In addition, the effects on financial modeling and estimation associated with recent legislative, regulatory, and policy action is difficult to interpret given the lack of actual trend data availability. Some examples of current risks include the following:

Extension of Student Loan Payment Relief During the COVID-19 Pandemic: The emergency relief measures in the Direct Loan Program, including suspending loan payments, halting collections on defaulted loans, and setting interest rates to 0 percent have been extended. These actions have insulated federal student loan performance from economic disruption caused by the COVID-19 pandemic, while at the same time reducing the amount of loan repayments being remitted to the Department. As the pandemic is ongoing, there is uncertainty regarding cost estimates as future actions to support borrowers during the return to repayment in 2023 could affect those received payments.

Income-Driven Repayment Plans: Without consideration of impacts from the pandemic, IDR plans tend to be more costly to the government than non-IDR plans. For the 2022 loan cohort, it is estimated that the government will recover 47 percent less for loans in IDR 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 (and the corresponding behavioral dynamics driving selection of plans) also impact the overall cost of loans under each plan. Also, having more repayment plan options complicates repayment plan selection, since the tradeoff decisions when selecting the plans vary by borrower and may not always be entirely clear. In general, however, the proliferation of IDR plans has made IDR terms more generous and made the plans available to a greater number of borrowers; these plans are traditionally more costly to the government. Selected comparisons between projected originations and borrower repayments under the different IDR plans are available on the **Department's website**. Future commitment to promote these programs, and potential increased participation in these plans, are areas of uncertainty. Future legislative and/or regulatory activity could also affect the underlying cost of IDR plans.

Public Service Loan Forgiveness: Enacted in 2007, the Public Service Loan Forgiveness (PSLF) program allows a direct loan borrower to have the balance of their direct 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 are not required to apply for the program or provide any supporting documentation on their employment until after having made the 120 qualifying monthly payments.

On October 5, 2021, the Department announced a temporary change to the PSLF program to allow previously ineligible loans to be immediately eligible for forgiveness, or additional progress toward forgiveness, with no further action from the borrower. The changes included a limited PSLF waiver that allows all payments by student borrowers to count toward PSLF, regardless of loan program or payment plan and a review of denied PSLF applications for errors, giving borrowers the ability to have their PSLF determinations reconsidered. Borrowers who have not previously certified employment have been able to apply for the waiver. Two permanent changes to military borrowers working toward PSLF were also implemented. This opportunity ended on October 31, 2022.

The *Consolidated Appropriations Act*, FY 2018, and the *Department of Education Appropriations Act*, FY 2019, each provided $350 million toward Temporary Expanded Public Service Loan Forgiveness (TEPSLF) for borrowers who met eligibility for public service employment but were not enrolled in a qualified repayment plan. The *Consolidated Appropriations Act*, FY 2020, and the *Consolidated Appropriations Act*, FY 2021, each provided $50 million for TEPSLF.

Data on approved PSLF applications first became available in FY 2018 since borrowers first became eligible for PSLF discharges starting October 1, 2017, after having made 120 qualifying payments. As of July 31, 2022, the total number of borrowers who received forgiveness from the PSLF waiver exceeded 172,000. The value of this forgiveness totaled $10.5 billion. Including TEPSLF and PSLF discharges not associated with the waiver, the value of forgiveness exceeded $12 billion.

As of July 31, 2022, the number of borrowers with certified employment totaled nearly 1.33 million. 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. In addition, many borrowers who file employment certification forms early in their careers may also move into private sector employment before completing the 10 years of qualifying payments and thus may (a) never apply for forgiveness or (b) apply for forgiveness much later after returning to public service work. Any future congressional or regulatory action that may affect eligibility for PSLF continues to be an area of uncertainty.

Broad-Based Debt Relief: In August, the administration announced its plan to cancel up to $20,000 in student debt for eligible borrowers to give working and middle-class families more breathing room as they recover from the pandemic. As a result of Student Debt Relief, millions of borrowers will no longer have to make repayments on their loans and millions more will be able to substantially reduce their repayments. The Department estimates that the vast majority of eligible borrowers—81%—will take the necessary steps to get relief. This assumption is uncertain, as other relief programs vary in terms of take-up rates.

The executive action carrying out the plan for Student Debt Relief is based on extensive legal analysis by multiple federal offices concluding that the action is within the Secretary's authority and otherwise complies with the law. That conclusion is reflected in a **memorandum** by the Office of the General Counsel and an **opinion** from the Department of Justice's Office of Legal Counsel, which were both made available with the action's announcement on August 24. As is the case with many high-profile executive actions, the plan is the subject of recent litigation, which is pending. The Department cannot predict the outcome of litigation, but the conclusions in the legal memoranda made available in August have not changed in the intervening time. Accordingly, the Department plans to vigorously defend the executive action against all existing and future challenges.

Borrower Defense to Repayment: On June 22, 2022, the Department and the plaintiffs reached a proposed settlement in the case titled *Sweet v. Cardona* (formerly *Sweet v. DeVos*). If approved by the court, that agreement will affect the processing of borrower defense applications in FY 2023. In the proposed settlements, if the borrower defense application is related to federal student loans taken out to pay for attendance at any school on **the list of schools attached to the settlement agreement**, the borrower will receive "Full Settlement Relief." Full Settlement Relief means that the federal student loan(s) associated with the borrower's attendance at the school will be discharged, the Department will refund any amounts paid to it on those loans, and the credit tradeline for those loans will be deleted from the borrower's credit report.

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 significantly large number of borrower-level events and future economic factors that heavily impact the ultimate cost of student loans. For example, assumptions that need to be estimated for loans originating in FY 2022 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 prior to completing repayment, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed school loan discharge, borrower defense to repayment, etc.); whether the loan will go into deferment or forbearance; whether the loan will go into default and, if so, what collections will be received on the defaulted loan; and, if the loan is in an IDR plan, what the borrower's employment (public sector or not) and income and family size will be over the next 25 years. These projections are generally made based on historical data about borrower characteristics and behavior, which are more difficult to estimate. Lastly, the direct loan portfolio has grown from approximately $356 billion in FY 2011 to more than $1.3 trillion as of the end of FY 2022. 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.

Macroeconomic Risk

The ultimate amount, timing, and total value of future borrower repayments under the Direct Loan Program are heavily affected by certain economic factors, especially since the introduction of IDR plans.

In 2022, the COVID-19 pandemic continued to cause widespread disruption to the American economy. The emergency relief measures provided by Congress and the President resulted in flexibilities for federal student loan borrowers, continuing to prevent spikes in delinquency and default rates. Involuntary loan collections from wage garnishment, tax refund reductions, and reductions of federal benefits such as Social Security are also suspended. However, the ultimate impact of the pandemic on long-term Direct Loan Program costs will depend on, among other things, short- and long-term unemployment, economic growth trends, and potential structural changes in the overall economy and job markets. Some types of macroeconomic risk are inherent to student loan cost estimation, and the Department analyzes them regularly—though some of these risks have been exacerbated by the unprecedented worldwide pandemic. New risks have also developed due to the conditions surrounding the pandemic. Specific examples of macroeconomic risk include:

Interest Rates: Direct Loan Program cost 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 the Department's 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 Direct Loan Program cost.

Unemployment: Unemployment rates have been shown to affect both student loan volume and student loan repayment decisions and behavior. During periods of economic downturn, displaced workers have tended to pursue higher education opportunities in high numbers to strengthen their credentials, change career paths, or improve future employment opportunities. The exact impact on the cost estimates from the current period remains an area of uncertainty. For instance, higher short-term unemployment rates could have an impact on future collections of already defaulted loans by increasing the risk of fewer collections from wage garnishment and tax refund reductions. A sensitivity analysis examining the impact of a 5 percent reduction in default collections, limited to cohorts 2017–21, resulted in a projected increase in the re-estimate of $3.4 billion.

Wage Growth: The estimated costs of IDR 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 IDR plans may deviate from estimated costs. The Department will closely monitor impacts to wage growth because of the pandemic. The estimates are sensitive to slight changes in model assumptions. The Department continues to manage risks in this area by building its knowledge about its borrower base and remaining informed of labor market statistics.

Operational Risk

Unforeseen issues in administering and servicing student loans may impact the cost estimates. For example, in December 2019, the President signed the *Fostering Undergraduate Talent by Unlocking Resources for Education Act* (FUTURE Act), which amends Section 6103 of the Internal Revenue Code to allow the IRS to share taxpayer data directly with the Department. Once implemented, this will make it easier for borrowers to stay enrolled in an IDR plan by allowing automated data sharing between federal agencies and eliminating the need for borrowers to annually recertify their income. A timeline for implementation of the FUTURE Act is uncertain. Similarly, the Department is working to implement the *FAFSA Simplification Act*, which makes significant changes to the need analysis formula that will also introduce operational challenges. The Department invests significant resources to ensure continuous improvements in cybersecurity defenses based on current and emerging threats. Despite this investment, security threats to operations are ongoing and incidents may happen without warning, potentially disrupting student loan administration and ultimately borrower cash flows, which can be impacted by the timing of when collections or disbursements are processed. Hence, there is an inherent risk that future, unpredictable disruptions in the administrative status quo may impact student loan cost estimates.

Another potentially unforeseen issue that may impact cost estimates is when federal loan servicers or private collection agencies exit the student loan servicing program, as several have over the last year. The Department remains committed to ensuring that borrowers receive high-quality service that helps them access the benefits granted by law.

NEXT GEN FSA

About FSA

As the nation's largest provider of financial aid for education beyond high school, Federal Student Aid (FSA) delivers approximately $112 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 and career school. FSA's loan portfolio has grown to more than $1.6 trillion. FSA also provides oversight of approximately 5,600 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

Through the Next Generation Federal Student Aid (Next Gen FSA) initiative, the Department continues to modernize FSA's programs, technology, processes, and operations to improve student, parent, and borrower experiences and outcomes, as well as those of student aid partners. Moreover, through Next Gen FSA, the Department continues to strengthen cybersecurity protections for students, parents, borrowers, institutions, and other financial partners.

Legacy Environment

In the current federal student aid process, students and families navigate a complex and fragmented landscape and interact with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. This poor customer experience creates confusion and results in customers failing to understand how to apply for and maintain their aid eligibility. Because of a confusing current state, federal student loan borrowers do not know for which loan forgiveness and repayment options they qualify. Additionally, operational complexities result in higher administrative costs and hinder effective oversight of the Department's vendors.

Next Gen FSA Environment

FSA combined multiple websites, contact centers, and other customer interfaces into a simplified, consistent, and engaging customer experience, which has been enhanced by standardized training and tools. FSA's website—StudentAid.gov—continues to be customers' single front door on the web. FSA continues to enhance its modern self-service and consumer information tools that help customers understand the aid they have received, their remaining eligibility, for what loan forgiveness programs they may be eligible, and how they can manage loan repayment in a way that meets their goals.

Some of FSA's Digital and Customer Care (DCC) tools include the Federal Student Aid Estimator, Loan Simulator, Aidan Virtual Assistant, and a Public Service Loan Forgiveness (PSLF) help tool. In FY 2022, FSA launched Medallia, a new survey tool, that allows FSA to use customers' feedback to better serve them, and FSA retired the myStudentAid mobile app due to low usage. In FY 2022, FSA also enhanced the PSLF Help Tool to reflect program changes as a result of the limited PSLF waiver the Department announced. FSA enhanced resources and tools to help borrowers prepare for student loan payments to restart after the COVID-19 payment pause ends. FSA also updated the income-driven repayment (IDR) plan application to allow borrowers to self-certify income and better streamline the application process, as well as updated its virtual assistant to answer more IDR plan-related questions.

Customers now are getting questions answered through contact centers staffed by Next Gen Business Process Operations (BPO) vendors, which the Department brought online in FY 2022 under enhanced cybersecurity standards. BPO is the personnel component of the Next Gen vision. These vendors manage millions of customer interactions, have been trained in a uniform way, and operate on a single contact center platform that will improve operational consistency, efficiency, and oversight. While managing customer and partner relations, BPO vendors:

- Deliver efficient and effective customer and partner experiences.
- Improve customer outcomes.
- Ensure compliance with consumer protections standards.
- Establish greater operational flexibility.
- Reduce operational complexity.

In FY 2022, FSA required customers who create a new account on StudentAid.gov to set up and use two-step verification, a commonly-used process where students, parents, and borrowers must provide two or more pieces of information to verify their identity to gain access to an application or digital resource. Two-step verification helps prevent cybercriminals from illegally obtaining student aid account information and credentials used to access online tools, such as the *Free Application for Federal Student Aid* (FAFSA®), PSLF Help Tool, and Loan Simulator. The Department's actions meet the requirements—in *Executive Order 14028 - Improving the Nation's Cybersecurity*—to implement multi-factor authentication.

Next Gen remains deeply committed to improving the FSA experience for partners as well as customers. In FY 2022, FSA introduced an enhanced, modernized National Student Loan Data System (NSLDS®) Professional Access website for the institutions and other partners that administer the federal student aid programs. The updated site is more secure and easier to navigate. The site also improves the user experience, eliminates the need for users to toggle between systems to see students' grant information, and simplifies the process to download most reports.

The FSA Partner Connect website, **fsapartners.ed.gov**, consolidates the tools that partners use regularly onto a single digital platform that streamlines operational information by award year, provides notifications related to a partner's specific school activities, tracks scheduled system outages, and more. FSA Partner Connect also reduces the administrative burden on financial aid professionals at more than 5,600 postsecondary schools around the globe, allowing them more time to serve students. FSA's future plans for the Partner Connect site include replacing the legacy Postsecondary Education Participants System (PEPS) and redesigning the Application for Approval to Participate in the Federal Student Financial Aid Programs (E-App).

In FY 2022, FSA posted the solicitation for its long-term loan servicing solution, the Unified Servicing and Data Solution (USDS). Currently, six federal loan servicers (i.e., legacy loan servicers) support borrowers first while they are in school and in loan repayment. Each legacy loan servicer operates under its own brand and has its own website and self-service tools for customers. This disjointed servicing system is often confusing for borrowers, and they are understandably frustrated when they receive inconsistent information about something as important as their student loans. The overarching goals of the USDS are to:

- Provide all federally managed borrowers with complete account management capabilities on StudentAid.gov.
- Increase servicer accountability to reduce loan delinquencies and defaults and other customer service benchmarks through clear, measurable service-level agreements and performance incentives.
- Allow FSA to collect more and better data from legacy loan servicers to improve account transfers, borrowers' access to information, and FSA's ability to monitor servicer performance.
- Bring legacy loan servicers up to enhanced cybersecurity standards.

To maintain the stability of the loan servicing environment, FSA expects to award new loan servicing contracts through the USDS and ensure that USDS vendors are compliant with modern cybersecurity standards before the legacy loan servicing contracts expire in December 2023. Through the USDS solicitation, FSA will award contracts to multiple loan servicers who will help guide more than 35 million student loan borrowers with federally managed loans through successful repayment.

LEVERAGING DATA AS A STRATEGIC ASSET

The Department continues to focus on leveraging its data as a strategic asset by further implementing requirements in the *Foundations for Evidence-Based Policymaking Act* (Evidence Act; **P.L. 115-435**) and the **Federal Data Strategy**. The Department has implemented efforts to strengthen data governance while overseeing the unprecedented investment in students and schools through the Education Stabilization Fund, created and subsequently augmented through the triad of COVID relief laws. This section highlights five areas guiding the Department towards realizing the power of data in daily operations and national policy: (1) the ED Data Strategy; (2) Open Data; (3) the Education Stabilization Fund Transparency Portal; (4) Data Quality; and (5) the ED Learning Agenda.

The Department's Data Strategy

The FY 2020 Action Plan for the Federal Data Strategy called for agencies to "put in place a data strategy or road map," and in December 2020, the Department completed and **published** its inaugural Data Strategy. The Department's Data Governance Board (DGB) guided the development of four goals—to strengthen agency-wide data governance, build human capacity to leverage data, advance the strategic use of data, and to improve data access, transparency, and privacy. The Office of the Chief Data Officer (OCDO) led agency-wide working groups composed of representatives of each principal office to develop 19 objectives and a multi-year action plan to guide implementation throughout FY 2021 and FY 2022.

December 2021 marked the completion of the first year implementing the Department's **Data Strategy** and executing its priority goals and objectives designed to realize the full potential of data to drive decision-making and support our nation's students. Building on progress made in FY 2021, the DGB and OCDO coordinated across principal offices of the Department in FY 2022 to implement data governance policies, strengthen data management functions, launch an agency data literacy program, conduct research for a data privacy playbook, improve our data quality approach, and more.

More specifically, in FY 2022, OCDO recommended improvements to the management of data-related investments through the Department's capital planning process, to support Goal 1 of the Data Strategy, documenting the current state and target state, with an implementation plan for Quarter Four of FY 2022. The agency also continued exemplary progress in Goal 2 with the implementation of a suite of new curricular opportunities for Department staff to enhance their data competencies and skills, continued internal outreach and advocacy through weekly and monthly data skill engagements and principal office-specific sessions, and a focus on cross-agency engagement to share the Department's leading-edge work in this space.

As evidence of the impact and effectiveness of these efforts to instill a data centric culture throughout the Department, in early FY 2022, the DGB completed a review of the FY 2021 Agency Data Maturity Assessment (DMA), in which 93% of ED's principal offices improved their data maturity from FY 2020. This analysis of the DMA further informed the DGB's priorities for FY 2022, which include a focus on data management strategies and oversight as well as data quality. ED's pioneering work in the Data Maturity arena was highlighted in a *Partnership for Public Service* **issue brief** as an example for other federal agencies to emulate.

Finally, OCDO and the DGB have commenced an analysis to gauge the progress and accomplishments rendered through ED's inaugural Data Strategy with the goal of publishing by early FY 2023 the agency's Data Strategy version 2.0 to guide and inform efforts throughout FYs 2023, 2024, and 2025.

Open Data

Improving access to Department data, while maintaining its quality and confidentiality, is key to expanding the agency's ability to generate evidence to inform policy and program decisions. Increasing access to data for Department staff, federal, state, and local lawmakers, and researchers can help the Department to make new connections and foster evidence-based decision making.

The Department's Open Data Platform (ODP) (**https://data.ed.gov/**) was publicly launched in December 2020, with an initial population of public data profiles. A central repository for Department data assets, ODP is a fully featured, robust, and highly scalable data repository that maintains all data assets in a fully searchable catalog. As required by the Evidence Act and guided by Data Strategy Goal 4, throughout FY 2022, the Department continued to advance towards a comprehensive data inventory by further expanding on the ODP; increasing its catalogued data assets for both externally available open data and internal sources subject to open data priorities, reviewing all data assets for release, and growing the number of Department open data assets listed in the Federal Data Catalogue.

The ODP significantly improves the Department's ability to grow and operationalize its comprehensive data inventory while progressing on open data requirements. In FY 2022, OCDO and the National Center for Education Statistics (NCES) worked to catalogue and consolidate NCES data sets to the comprehensive data inventory. The data inventory will become significantly more comprehensive when that consolidation has been completed later in FY 2022. Additionally, the Open Data Platform has been enhanced to provide principal office data stewards with login.gov access as well as improved upload and meta data entry interface that will simplify growing and maintaining the comprehensive data inventory.

Finally, while guidance related to the consistent implementation of Title II of the Evidence Act remains unpublished by OMB and the 2022 Federal Data Strategy Action Plan has yet to be released to agencies, the Department remains committed to publishing and executing the Act's required open data plan by the end of FY 2022. Collectively, the Department remains at the forefront of federal agencies in realizing the requirements of the *Open, Public, Electronic and Necessary Government Data Act* (**OPEN**) (Title II of the Evidence Act), and the ODP is leading example of how the Department is making its data open by default.

Education Stabilization Fund Public Transparency Portal

Launched publicly in the first quarter of FY 2021, the Education Stabilization Fund (ESF) Transparency Portal (Portal), located at **covid-relief-data.ed.gov**, is the Department's website dedicated to collecting and disseminating data and information about the ESF programs managed by the Department and authorized through the *Coronavirus Aid, Relief, and Economic Security* (CARES) *Act*, *Coronavirus Response and Relief Supplemental Appropriations* (CRRSA) *Act*, and the *American Rescue Plan* (ARP) *Act*. The Portal provides decision-makers, parents, students, teachers, education leaders, and taxpayers with information about ESF programs and discloses how states, districts, and institutions of higher education (IHEs) spent COVID relief funds. The funding data is from public data sources and reflects data collected by the Department and data released or shared by other federal agencies, including the General Services Administration, and the Department of the Treasury. The Portal enables state and IHE grantees to submit annual performance reports on funding authorized through the ESSER, GEER, EANS, and HEER Funds, providing the public and decision makers fuller insight into the expenditures and usage of ESF program funds.

Throughout FY 2022, the Department executed several enhancements to the Portal which improved transparency and increased accountability. For example, in FY 2022, the Office of Elementary and Secondary Education (OESE) collaborated with OCDO to include state level award and expenditure data for the Emergency Assistance to Non-Public Schools (EANS) program authorized through the ARP Act. This feature was in addition to a cyclical monthly refresh of award and expenditure data for all ESF programs as disclosed on USAspending.gov and subsequently published to the Portal.

OCDO, in coordination with OESE and the Office of Postsecondary Education, also developed and published the Year 2 Annual Performance Report (APR) forms for the ESSER, GEER, and HEER Fund programs and Year 1 APR form for the EANS program. This involved the review and adjudication of hundreds of public comments and the training on the APR form requirements via webinars for grantees of each of the four main ESF programs featured on the Portal. ESSER and GEER grantees were also afforded the opportunity to submit corrections to improve the quality of their now final Year 1 APR data submissions documenting usage of CARES Act funds. Collectively, the enhanced level of technical assistance provided to ESF grant recipients in FY 2022 supports the Department's efforts to improve the quality and accuracy of the data it receives from ESF grantees on the expenditure and use of funding under CARES, CRRSA, and ARP Acts.

Beginning in quarter three of FY 2022, the Department commenced collection of Year 2 APR data for the ESSER, GEER, and HEER Fund grantees and Year 1 data for EANS prime grantees through the Portal. The Department anticipates publishing the near 5,000 APRs collectively received across the four main ESF programs represented on the Portal in the first quarter of FY 2023. An exemplar of open, transparent data, the Portal is fully responsive to the mandate in the OPEN Government Data Act (Title II of the Evidence Act) to make public data open and accessible.

Data Quality

The Department, states, and schools must have effective controls to ensure that reported data are accurate, reliable, and accessible to improve the use of that data at the Department and in the education community. However, the Department's program offices have historically had varying levels of data quality control among their data sets, and findings from the 2023 Office of Inspector General's Management Challenges Report citing a lack of overall integrity and persistent weaknesses in the data quality and reporting it receives from grantees provide further evidence that a comprehensive strategy is warranted.

The ED Data Strategy Objective 1.5 calls for the Department to "Implement a cohesive data quality approach for the agency, leveraging best practices, technical assistance, and controls." Building on efforts launched in previous fiscal years, the Department has continued to refine and execute components of a multi-pronged approach to address root causes and improve data quality. Executing initially with grantees participating in ESF programs, such actions throughout FY 2022 have included ensuring grantees are aware of their data responsibilities under the conditions of their grants and of the credible consequences for noncompliance, ranging from additional informal monitoring through termination of the grant. Resources and technical assistance have also been levied to improve the varying capacity of grantees in reporting data and varying capacity among Department staff in reviewing grantee-reported data.

As monitoring program performance remains a key motive for improving data quality, improving the development, reporting, and use of the agency's programs' performance and accountability measures remains a focus for the Department as well (Data Strategy Objective 3.4). The focus throughout FY 2021 and into FY 2022 has been the review of the *Government Performance and Results Act* (GPRA) lifecycle with agency stakeholders. The Department's work has included drafting a framework for review of performance measures that support evidence-based decisions, incorporating budget guidance for programs, the development of a data quality review checklist for performance measures, and identifying opportunities to review the work during the Information Collection Request process.

The Department has continued to work on developing data quality controls for each stage of the data lifecycle, including mechanisms for evaluating, preventing, and remediating data irregularities to assure higher quality data for the agency to use in meeting its mission and strategic objectives. To help further this goal, in FY 2022, the Department completed and published in October 2023, a Data Quality Playbook, outlining authorities, tools, and resources for grant program managers. The playbook helps grant program managers assess and improve data quality before submission, proposes meaningful incentives for data submitters, strengthens communication strategies, and proposes ways to reduce the burden on both Department staff and grantees. The playbook provides guidance for strengthening the agency's data quality standards to help reduce data quality issues and improve data interoperability. It also builds common language for discussing data quality with internal and external stakeholders and provides recommendations for handling common irregularities.

Other critical initiatives planned for implementation in FY 2022 and start of FY 2023 include updating the Department's *Information Quality Act* (IQA) Guidelines and the establishment of data quality plans as a component in early stages of the data collection (and investment lifecycle). To better align with updated expectations from the Office of Management and Budget (**OMB M-19-15**), the Evidence Act, as well as organizational need, the Department plans to revise its IQA Guidelines to provide clearer guidance to the public (and Department staff) about data quality requirements, processes, and appeals. The Department will also be placing a stronger emphasis on the establishment and transparency of data quality plans in advance of data collection or creation, to ensure appropriate levels of resourcing are provided to ensure data are fit for purpose.

The Department's Learning Agenda

The Department's FY 2022–FY 2026 Learning Agenda was published in July 2022, in conjunction with the release of the Department's Strategic Plan. The Learning Agenda is aligned to the Department's goals and strategic objectives, reflecting the Secretary's priorities for the Department over the next four years. The Learning Agenda is complemented by an Annual Evaluation Plan. The Annual Evaluation Plan includes a listing of the Department's most significant evaluation activities in a given fiscal year. All Evidence Act deliverables are located at **https://www.ed.gov/data**.

The Learning Agenda was developed in consultation with the Department's Evidence Leadership Group (ELG). The ELG is co-chaired by the Department's Evaluation Officer and the Director of the Department's Grants Policy Office (GPO) and includes members from the Department's primary grant-making offices as well as mission-support units, such as the Department's Budget Service, and Office of General Counsel, and ex-officio representatives from the Office of the Chief Data Officer, the Statistical Official, and the Performance Improvement Officer. Feedback from OMB and consultation with stakeholders across government, education, and the general public, was also used to inform the Department's Learning Agenda.

In addition to advising the Evaluation Officer on the development of the Learning Agenda, the ELG advises Department leaders on how to support the capacity of Department staff to make better use of data and evidence. The GPO, led by the ELG co-chair, continues to spearhead a range of internal training opportunities for Department staff to bolster the use of the Secretary's policy priorities, including the use of evidence in program design, and to consider how the Department's grantmaking activities can build evidence for improvement in the future.

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 the new G6 modernization is one of the Department's key initiatives.

G5 Modernization/G6

The G5 modernization project is an initiative that started in 2019 to develop a new grants management system that will support the Department's grant programs and the broader grants community. G6 is the modernized system that will replace G5, allowing users to apply, track, and manage all grants through an improved user experience. It will modernize and consolidate existing business processes and manual workarounds into one platform and streamline the grants management lifecycle, improving oversight and monitoring.

Project Objectives

The Department's Grants Management System, G5, is a custom-built, full life cycle grants management and payment system that has reached the end of life. Despite years of ongoing G5 maintenance, stakeholders continue to identify concerns regarding the system's functionality and/or ease of use. The Department's current grant processes rely on multiple systems utilizing various technologies. Much of the data is duplicated, there is a lack of visibility, and there are ad-hoc workarounds.

To effectively address the needs of all users, the Business Systems Support Division within the Office of Finance and Operations initiated the G5 Modernization Initiative to replace G5 and implement a state-of-the-art grants management system. The objective of this program is to implement an enterprise-wide grants management platform that achieves the following objectives:

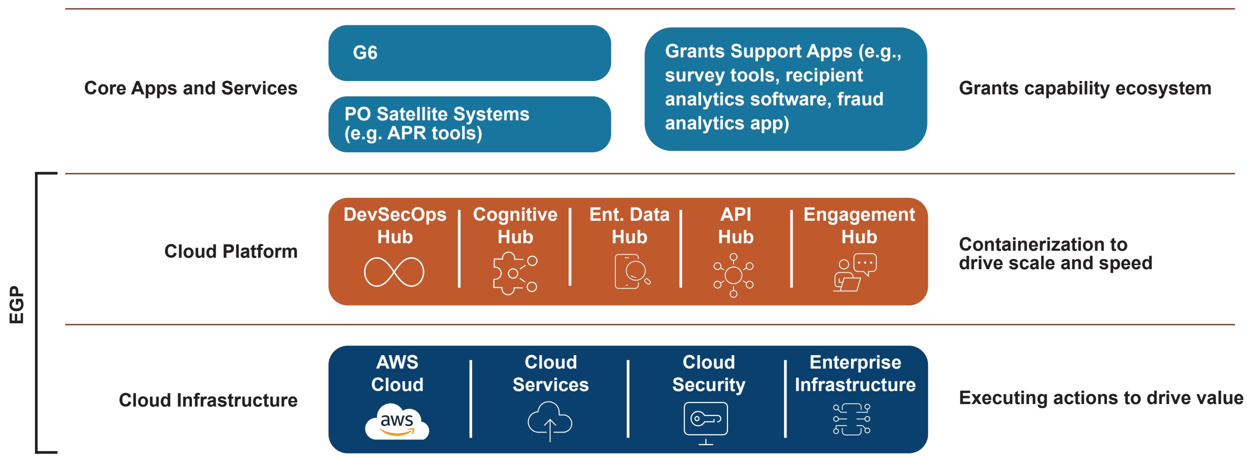
1. Improved effectiveness of grant programs by **streamlining grant processes, tools, and technology agency-wide.**
2. Enhanced and **modularized grants platform** with superior customer experience using industry best practices.
3. **Reduced cost** by minimizing disjointed grants systems, lowering maintenance, and reducing paper.
4. **More informed decision-making** by Program Offices by utilizing advanced analytics and collaboration tools.
5. An evergreen platform capable of **easily incorporating future technology advancements and compliance requirements.**

System Components

The "system" consists of two main components.

- ***Education Grants Platform (EGP).*** The EGP will serve as the foundation for the entire Grants Segment Portfolio of Systems. The EGP, implemented as a "Platform of Platforms," will house Grants Management functionality and capabilities needed across the Department. The EGP, depicted below, is a grants platform that incorporates Infrastructure as a Service provided by Amazon Web Services, Platform as a Service provided by Red Hat OpenShift, and a host of Software as a Service and traditionally deployed tools that establish a framework for advanced analytics, technology development, and data integration for improved grant operations. Over time, the EGP will be used to both develop and host the Department's grants ecosystem (technology and services). G6 is considered the nucleus of the EGP.

- ***G6.*** The Department's grants modernization initiative will implement an incremental modern, modular, and secure application that segments the grants process into granular modules using microservices that are interdependent, yet autonomous enough to be maintained separately. Managing the end-to-end grants process, G6 will combine state-of-the-art Interactive Experience and Customer Experience frameworks to provide users with a cognitive grants experience powered by Artificial Intelligence, Natural Language Processing, and advanced analytics.



Agile Development

The Grants Modernization Initiative is developing G6 through a user-centered and incremental approach using the Agile methodology over multiple years. The subsequent years will be used to roll out G6 capabilities in an incremental manner to production and retire the corresponding capabilities from the legacy G5 system. As functionality is built, groups of grant users will test and validate what is built prior to it being released in the system. OFO has facilitated multiple working groups, user research interviews, and outreach sessions that all keep stakeholders informed and include them in the planning efforts around development.

G6 Capabilities

G6 is being developed to execute the G5 business processes and functionality across the grant lifecycle. The G6 system will:

- Include all the Department's core requirements.
- Maintain an advanced security posture for the data and infrastructure.
- Utilize Advanced Business Intelligence and Collaboration features to allow Program Officers to make more informed decisions with increased communication and visibility into data.
- Provide an intuitive user experience.

The G6 system will have the following characteristics:

- Modular with the ability to turn off or restrict a module or sub-module as needed.
- Based on an open architecture and OMB approved grant standards.
- Built to ensure flexibility, adaptability, interoperability, and configurability.
- Built using a modern technology stack that ensures the underlying technology components do not become outdated before reaching their end of life.
- Mobile-enabled.

- Highly automated.
- Compliant with legislative changes.
- Roles-based and rules-driven.

Timeline

In Year 1 (FY 2022), the modernization program is implementing the EGP.

Looking to Year 2 (FY 2023), the program will begin its first phase of the G5 modernization to G6. The team will implement the Pre-award phase of the grants' lifecycle, including Planning and Scheduling, Applications, Application Packages (Grants.gov, Impact Aid, Fellowship), Discretionary Grants, Formula Grants, Loans, Application Technical Review Plan, and Review Process. These capabilities are identified based on what is available in the current G5; however, the Department expects that the implementation team shall design the G6 system with a much superior user experience using the industry best practices, human-centered design, and federal guidelines.

The Department is planning for the development effort for the remaining years and capabilities. FY 2023 to FY 2025 will be dedicated to Phases 2, 3 and 4 where we will migrate different modules to the new platform and decommission the corresponding modules from the legacy system, therefore stabilizing the G6. In FY 2026, we envision decommissioning the legacy G5 and moving into steady state G6.