

FY 2021

AGENCY  
FINANCIAL  
REPORT

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U.S. DEPARTMENT OF EDUCATION



## U.S. Department of Education

Miguel Cardona  
*Secretary*

## Office of Finance and Operations

Denise Carter  
*Delegated the authority to perform the functions and duties of the position of Chief Financial Officer*

November 19, 2021

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This report is available at <http://www.ed.gov/about/reports/annual/index.html>

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To become connected to the Department through social media, please visit the Department's website at [www.ed.gov](http://www.ed.gov). Our Twitter page is at [@usedgov](https://twitter.com/usedgov), and our blog is at [Homeroom](http://Homeroom).

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For fiscal year 2021, in addition to the *Agency Financial Report* (AFR), the Department will post to its website the *Annual Performance Report and Annual Performance Plan* (Report and Plan). This Report and Plan and the Congressional Budget Justification will be posted on the Department's website at <http://www.ed.gov/about/reports/annual/index.html> with the FY 2023 budget.

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

Office of Finance and Operations  
U.S. Department of Education  
Washington, DC 20202-0600

# About This Report

The purpose of the U.S. Department of Education's (Department's) fiscal year (FY) 2021 *Agency Financial Report* (AFR) is to inform Congress, the President, other external stakeholders, and the American people on how the Department used the federal resources entrusted to it to advance the mission of the Department to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department accomplishes its mission and the related strategic goals and objectives by administering programs that range from preschool education through postdoctoral research; enforcing civil rights laws to provide equal access and treatment; and supporting research that examines ways that states, schools, districts, and postsecondary institutions can improve America's education system. As evidenced by the information contained in this AFR, the Department has demonstrated that it is a good steward of financial resources and has put in place well-controlled and well-managed business and financial management systems, processes, and practices.

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

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

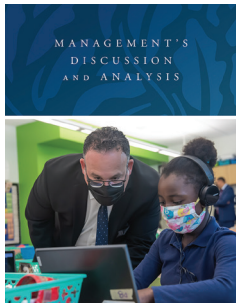
## Certificate of Excellence

The Department won its 17th prestigious Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its FY 2020 AFR. Additionally, the Department was awarded with a Best-in-Class award for an Innovative Presentation of A Matter of Wide Public Interest.



# How This Report Is Organized

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



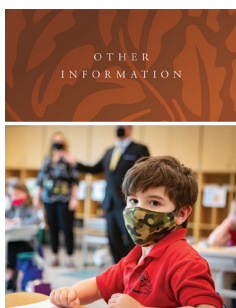
## MANAGEMENT'S DISCUSSION AND ANALYSIS

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



## FINANCIAL SECTION

This section provides a message from the chief financial officer, the financial statements and notes, required supplementary information, and the report from the independent auditors.



## OTHER INFORMATION

This section provides the Office of Inspector General's Management and Performance Challenges for FY 2022, a summary of financial statement audit and management assurances, *Payment Integrity Information Act* reporting details, civil monetary penalty adjustment for inflation, and *Grants Oversight and New Efficiency Act of 2016* and grant closeout process reporting.



## APPENDICES

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

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# Message From the Secretary



**November 19, 2021**

Fiscal year (FY) 2021, while challenging, was also a year in which the U.S. Department of Education (the Department) redoubled our efforts to ensure that the nation’s students receive an education that unlocks their potential—no matter their background or circumstance. With a great education, children can do and become anything they choose. That is the American dream so many of us have experienced, and I am committed to making sure that all our students can achieve *their* dreams. I see this Department as a service agency, devoted to that goal.

Our priorities for FY 2021 were to: reopen schools safely for students, educators, and school staff amid the evolving COVID-19 pandemic, understanding the vital importance of in-person learning; reinvest in the supports and resources students need to thrive; and reimagine our education system so that it truly serves all students well. The current public health and resulting economic crises have revealed needs and yielded lessons that must inform our work with states and communities as, together, we strive to advance excellence and equity for the nation’s diverse learners. We can heal, restore, and rebuild—creating a U.S. education system that is better than ever before.

I spent much of this year traveling to multiple states and territories, talking directly to educators, parents, and students; touring classrooms; visiting enriching and engaging summer programs; attending college vaccination clinics; and observing school buildings in desperate need

of upgrade. I have seen firsthand the opportunities and challenges in education. I also have seen the incredible resilience of our communities and the immense care our educators have for their students. These experiences have given me an invaluable perspective and reinforced my passion for advancing the goals of President Biden’s Build Back Better agenda.

This is America’s moment to ensure that we reopen our schools safely while we deliver on education’s potential to be the “great equalizer”—the force that can open the doors of opportunity for every child. Simply going back to how things were before the pandemic would mean returning to a system in which too many students, particularly students of color, students from low-income backgrounds, English learners, and students with disabilities, would continue to be underserved. The potential of every child is limitless, but we know that educational opportunity—access to outstanding educators; safe, welcoming schools; rigorous coursework, and other critical support—is not distributed equally, which negatively impacts student outcomes. This Administration has made equity—making sure *every* child receives what they need to succeed in school—a core priority. It is why we studied the disparate impacts of the pandemic on America’s students and made sure that schools had the resources they needed to reopen for in-person instruction and to support students’ academic, social, emotional, and mental health needs.

This is America’s moment to reinvest in public education. That’s why the *American Rescue Plan Act of 2021* (ARP) provides unprecedented resources to help schools meet the needs of students most affected by COVID-19—often the same students furthest from opportunity before the pandemic. Importantly, there is \$122 billion in ARP Elementary and Secondary School Emergency Relief funds and \$40 billion in ARP funds for emergency relief for colleges and universities. The Biden administration also has proposed historic investments in education, from preschool through college, via the Build Back Better agenda.

To support students during the pandemic, safely reopen schools, and begin the transformation of our education system, we, at the Department, have taken important steps.

In March, we hosted the National Safe School Reopening Summit where panels of students, educators, school district leaders, and other partners engaged in productive

conversations about the pandemic's impact, strategies to reopen schools, and ways to rebuild. We embarked on a listening tour to assess the needs of our local communities. We released three COVID-19 handbooks to help prekindergarten through grade 12 schools, as well as colleges and universities, address the pandemic's impacts, and launched the Safer Schools and Campuses Best Practices Clearinghouse to share promising practices for reopening. We partnered with the National Governors Association and the Council of Chief State School Officers to create the Summer Learning and Enrichment Collaborative to help states and school districts use their ARP funds to address lost instructional and extracurricular time. We paused student loan payments, helping borrowers burdened by debt during the COVID-19 emergency. We expanded the Second Chance Pell experiment, which provides Pell Grants to incarcerated students, so they may pursue postsecondary education and better their lives and the lives of their families. Finally, we partnered closely with experts at the federal, state, and local levels in shaping responsive policies and resources; provided continuous assistance and guidance to educators, students, and parents; and engaged thousands of stakeholders in our nationwide efforts.

This is America's moment to reimagine education, in ways that are more innovative and inclusive, and fairer than ever. Toward that end, the Department's Office for Civil Rights (OCR) published back-to-school resource collections designed to assist schools with planning for a successful and equitable return to pre-K-12 schools and college campuses. The two collections include fact sheets, Q&As, letters to educators, and other materials explaining the obligations that elementary, secondary, and postsecondary schools have under the federal civil rights laws enforced by OCR to provide educational environments free from discrimination. In June, OCR issued a Notice of Interpretation, explaining that it will enforce Title IX's prohibition on discrimination on the basis of sex, to include discrimination based on sexual orientation and gender identity. In addition, the administration took action to help borrowers receive student loan discharges due to total and permanent disability and provided relief for tens of thousands of student loan borrowers whose postsecondary institutions engaged in misconduct.

As we reimagine teaching and learning, we must do more to level the playing field, including providing a strong foundation from birth, improving the diversity of our teacher workforce, and creating learning pathways that work for all students. Our FY 2022 budget request

includes nearly \$103 billion for Department programs, a 41% increase over the FY 2021 appropriation. The request would address disparities between under-resourced schools and their wealthier counterparts, expand access to quality preschool, increase the availability of wraparound services in underserved schools, provide greater funding for the *Individuals with Disabilities Education Act*, significantly increase Pell Grants, and offer two years of free community college to first-time college students.

The Department continues to make stewardship of taxpayer funds a priority. I have been assured that the financial and performance data included and assessed in this *Agency Financial Report* are complete and reliable in accordance with federal requirements. The financial report includes information and assurances about the Department's financial management systems and controls as well as control and compliance challenges noted by the Department. Similarly, the Department's related *Annual Performance Report and Annual Performance Plan* (Report and Plan) provides information on the overall performance of the Department as a federal agency. Each year this Report and Plan accompany the Department's annual budget submission and links performance goals with resources for achieving targeted levels of performance.

This year, the Department received an unmodified or "clean" opinion on its FY 2021 financial statements. The preceding year (FY 2020), the internal control report identified one material weakness, "Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement" for which the Department has developed corrective action plans that have been implemented over the past year. Nonetheless, this material weakness is included again in this year's audit report. The Department remains committed to evaluating its internal controls for improvement opportunities.

There is a great sense of urgency about this work. Generations of inequity have left far too many students without high-quality, inclusive learning opportunities. A great education has the power to transform lives, uplift whole communities, and strengthen our democratic society—if we prioritize and invest in what works for students. The U.S. Department of Education has done so this year and will do so in the coming year and beyond.



**Miguel A. Cardona, Ed.D.**

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MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS



# 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) 2021 *Agency Financial Report* (AFR) by refining graphics and providing more useful, balanced, and easily understood information about the *Coronavirus Aid, Relief, and Economic Security Act*, also known as the CARES Act, and about 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](mailto: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 2021. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2021 will be provided in the Department's *FY 2021 Annual Performance Report and FY 2023 Annual Performance Plan* to be released online at the same time as the President's FY 2023 *Budget of the United States Government* (President's Budget) in February 2022. 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](mailto:PIO@ed.gov). For more details on performance, please refer to the Department's budget and performance web page at [www.Performance.gov](http://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 Enterprise Risk Management, Direct Loans, Next Generation Federal Student Aid (Next Gen FSA), Leveraging Data as a Strategic Asset, and Technology Business Management Solutions (TBMS).

# 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 education agencies, and school districts by engaging in four major categories of activities:

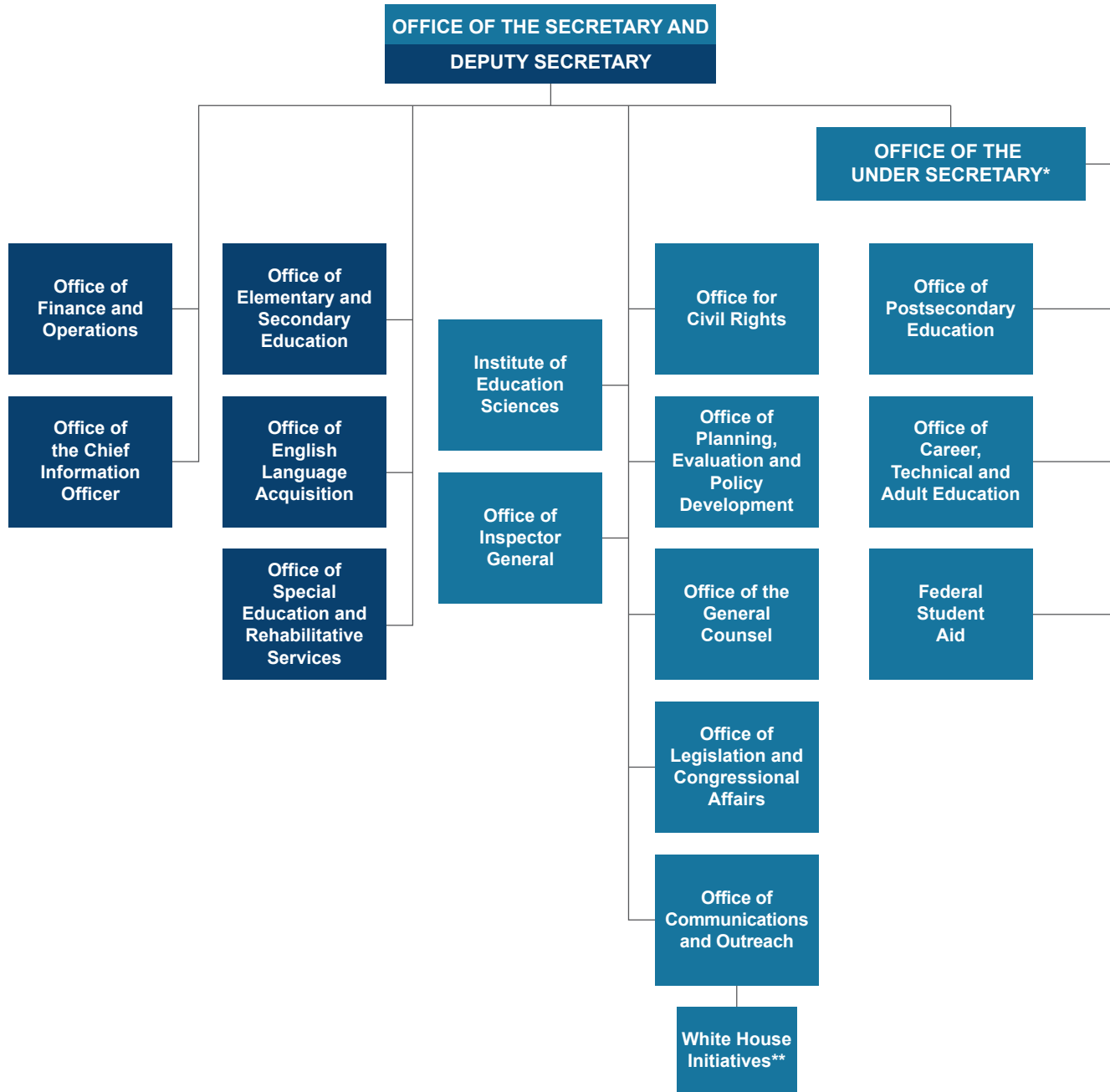
- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds.
- Supporting data collection and research on America's schools.
- Identifying major issues in education and focusing national attention 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 2021

This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2021 coordinating structure of the Department is available.



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

\* 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 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 Department's Approach to Performance

## PERFORMANCE MANAGEMENT FRAMEWORK

In accordance with the *GPRA Modernization Act of 2010*<sup>1</sup>, the Department's framework for performance management starts with the four-year *Strategic Plan*, including its two-year Agency Priority Goals (APG), which serve as the foundation for establishing and implementing long-term priorities and performance goals, objectives, and measures by which the Department can gauge achievement of its stated outcomes. Progress towards the Department's strategic goals and its APGs is measured using data-driven review and analysis. Additional information on performance management is available in the *Annual Performance Plans and Annual Performance Reports*.

The *FY 2018–22 Strategic Plan* is comprised of four strategic goals and five FY 2020 and FY 2021 APGs. The *Strategic Plan* aims to align the administration's yearly budget requests and the Department's legislative agenda, supported by the considerable experience and resources available from its staff. The Department will implement a new Strategic Plan for FY 2022–26 that will include new strategic goals and strategic objectives. Additionally, new APGs will be implemented for FY 2022 and FY 2023. Questions or comments about the *Strategic Plan* should be emailed to [PIO@ed.gov](mailto:PIO@ed.gov).

## FY 2018–22 Strategic Goals and Strategic Objectives

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

\* Strategic Objective 4.1 was revised due to **Executive Order 13992, Revocation of Certain Executive Orders Concerning Federal Regulation**

<sup>1</sup> *GPRA Modernization Act of 2010* amends the *Government Performance and Results Act of 1993* (GPRA).

THE DEPARTMENT'S AGENCY PRIORITY GOALS

The Department identified five APGs for FY 2020–2021. These goals aimed to increase education choices, enhance multiple pathways for student success in career and job ready skills, improve the Department's Federal Student Aid (FSA) customer service, improve student privacy protection and cybersecurity at institutions of higher education (IHE), and provide regulatory relief and burden reduction to stakeholders. The Department discontinued reporting on the APGs with the change of administration in January 2021. GPRA requires agencies to report quarterly updates of progress

APG	<p><b>Education Freedom: Improve awareness of and access to high-quality K-12 education opportunities for students and families.</b> By September 30, 2021, the Department will increase both the number and percentage of total charter school students and total scholarship students nationwide.</p> <ul style="list-style-type: none"> <li>Charter school enrollment will increase from 3.29 million to 3.51 million (6.90 percent of all students in public schools).</li> <li>The number of scholarship students, including participants in state-based vouchers, tax-credit scholarship, and education savings account program, will increase from 482,000 to 579,250 (1.10 percent of the total school age population).</li> <li>The number of parents who receive support and engagement through technical assistance and other resources will increase by 5 percent per year.</li> </ul>
Related Strategic Objective	<p><b>Strategic Objective 1.1:</b> Increase high-quality educational options and empower students and parents to choose an education that meets their needs.</p>
APG	<p><b>Multiple Pathways to Success: Improve nationwide awareness of and access to career pathways that support job skills development and career readiness.</b> By September 30, 2021, the Department will, through programs such as the Career and Technical Education and Adult Education State Grants:</p> <ul style="list-style-type: none"> <li>Support the creation and expansion of integrated education and training (IET) programs in all 50 states, Puerto Rico, and the District of Columbia.</li> <li>Increase enrollment of participants in IET programs to 56,000.</li> <li>Support the enrollment of Career and Technical Education concentrators in science, technology, engineering, and mathematics (STEM) fields.</li> <li>Increase by 25,000 the number of federal financial aid recipients who earn a postsecondary credential in STEM.</li> </ul>
Related Strategic Objective	<p><b>Strategic Objective 1.3:</b> Prepare all students for successful transitions to college and careers by supporting access to dual enrollment, job skills development and high-quality science, technology, engineering and mathematics (STEM).</p>
Related Strategic Objective	<p><b>Strategic Objective 2.3:</b> Support agencies and educational institutions as they create or expand innovative and affordable paths to relevant careers by providing postsecondary credentials or job-ready skills.</p>
APG	<p><b>FSA Customer Service: Leverage the Next Generation Financial Services Environment (Next Gen FSA) to improve and personalize customers' experience with Federal Student Aid (FSA).</b> By September 30, 2021, FSA will transform its relationship with prospective and current customers through deployment of significant components of the Next Gen FSA that result in a personalized experience:</p> <ul style="list-style-type: none"> <li>The number of individuals submitting a Free Application for Federal Student Aid® (FAFSA®) through a mobile device will increase to 2.6 million.</li> <li>The overall customer satisfaction level throughout the student aid life cycle, as measured by the FSA Customer Satisfaction score*, will increase.</li> </ul>
Related Strategic Objective	<p><b>Strategic Objective 2.4:</b> Improve quality of service for customers across the entire student aid life cycle.</p>
APG	<p><b>Student Privacy and Cybersecurity: Improve student privacy and cybersecurity at institutions of higher education (IHEs) through outreach and compliance efforts.</b> By September 30, 2021, the Department will participate in 12 engagements with sector-related non-governmental organizations to inform the development of five best practice programmatic improvements.</p>
Related Strategic Objective	<p><b>Strategic Objective 3.2:</b> Improve privacy protections for, and transparency of, education data both at the Department and in the education community.</p>
APG	<p><b>Regulatory Reform: Provide regulatory relief to education stakeholders as necessary and appropriate**.</b> (Related Strategic Objective: 4.1) By September 30, 2021, the Department will provide regulatory relief for education stakeholders by taking no fewer than eight deregulatory actions, which includes reduction in paperwork burden.</p>
Related Strategic Objective	<p><b>Strategic Objective 4.1:</b> Improve regulatory processes.</p>

\* The Federal Student Aid Customer Satisfaction Score is an annual composite metric that measures the overall customer satisfaction level throughout the student aid life cycle for FAFSA® applicants (mobile and FAFSA.gov), Title IV aid recipients in school, and borrowers in repayment. The score is based on the American Customer Satisfaction Index surveys.

\*\* The APG was discontinued due to **Executive Order 13992, Revocation of Certain Executive Orders Concerning Federal Regulation**



made towards achieving APGs to a centralized website: **Performance.gov**. These APGs are intended to focus efforts toward achieving the priorities of the Administration leadership under which they were established. Consistent with this intention, when a Presidential election leads to a change in Administration, reporting on the APGs established by a different Administration to Performance.gov is discontinued in a transition year (e.g., 2021) for the remainder of that APG cycle's performance period (e.g., FYs 2020–2021 APG cycle).

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

Strategic Goal 1 focused on outcomes related to the transition from the *No Child Left Behind Act* to implementation of the *Every Student Succeeds Act* (ESSA), which reauthorized the *Elementary and Secondary Education Act* in December 2015. The hallmark of the ESSA is the flexibility it provides for states to do what is best for children while preserving important protections for economically disadvantaged students, children with disabilities, English learners, and other vulnerable students. The law requires that states take steps to ensure all students have access to excellent teachers and positive, safe learning environments that equip them for college and career success. In FY 2021, \$41.8 billion was appropriated to the Department in support of Strategic Goal 1.

The Department encourages families to be aware of educational opportunities and options so that they can make the best choice for their student's needs. Access to high-quality educational opportunities should be afforded to all students. In FY 2021, the Department continued to support greater state and local flexibility in elementary and secondary education and encouraged providing school choice options to families. The Institute of Education Sciences' (IES)-funded **Research on Education Access and Choice (REACH) Center** continued to study all forms of school choice and provide evidence-based resources through its **What Works Clearinghouse** to inform and improve choice policy design and implementation to increase opportunities and outcomes for disadvantaged students.

Due to the COVID-19 pandemic, the modes and quality of educational instruction varied across the nation. The Department provided support and assistance to state education agencies (SEA), local educational agencies

(LEA), families, and other stakeholders in the education community through various resources such as grants, technical assistance, and outreach activities. Resources included three volumes of the Department's COVID-19 Handbook, which focused on **strategies for safely reopening elementary and secondary schools, roadmap to reopening safely and meeting all students' needs, and addressing the impact of COVID-19 on higher education students, faculty, and staff**. The Department published websites that shared best practices and lessons learned as schools reopened for in-person learning. Additionally, the Department provided guidance on the use of *American Rescue Plan Act of 2021* (ARP) funding to include the Summer Learning & Enrichment Collaborative which called on states to use ARP funding to build effective summer programs to help address the lost instructional and extracurricular time students may have experienced as a result of the COVID-19 pandemic, particularly for underserved communities.

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

Strategic Goal 2 focused on expanding the Department's efforts to support innovative and accessible paths to postsecondary credentials and job-ready skills training. In addition to supporting expanded postsecondary opportunities, the Department has multiple initiatives focused on affordability. These initiatives ensure borrowers have the best information available to make postsecondary program selection and associated borrowing decisions. The Department also continues to help students understand their financial aid options and repayment obligations. In FY 2021, \$31.9 billion was appropriated to the Department in support of this Strategic Goal 2. The Department awarded more than 6,000 discretionary grants designed to strengthen the capacity of colleges and universities to promote reform, innovation, and improvement in postsecondary education; promote and expand access to postsecondary education; and increase college completion rates for the nation's students. In addition, funding for Strategic Goal 2 also supports the Department's enhancements to FSA customer service.

The Department continues efforts to help prepare the nation's workforce of tomorrow with the right skills and credentials of today. In FY 2021, the Department continued

the reTHINK Adult Ed Challenge, which targeted the design of 100 or more new preapprenticeship programs involving partnerships between adult education providers, sponsoring apprenticeship organizations, and employers. The selected finalists came from a variety of institutions including institutions of higher education, local education associations, community or faith-based organizations, and correctional facilities. The Department awarded one grand prize and four runner-up awards between \$100,000 and \$250,000 to fund model design, scale-up and program implementation. The Department also supported the adult education and literacy practitioners with online professional development to support them in delivering virtual instruction during the pandemic.

FSA provides more than \$120 billion annually to students and their families. Enhancing the service provided to customers and stakeholders continues to be priority. In FY 2021, Aidan®, the **StudentAid.gov** virtual assistant, became available to all **StudentAid.gov** website visitors. FSA will continue to improve the user experience by adding new content, developing new capabilities, and refining the artificial intelligence model.

In FY 2020, the Department successfully placed more than 40 million federal student loan borrowers in administrative forbearance status. In FY 2021, FSA has ensured that student loan servicers have kept borrowers in a suspended repayment status, without accruing interest or being subject to adverse credit reporting. The Department is preparing to successfully return federal student loan borrowers to repayment in February 2022.

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

Strategic Goal 3 focuses on strengthening data-driven decision-making in education by focusing on the ways the Department manages and makes available education data, while protecting student privacy. The Department is committed to improving how staff and stakeholders access, use, and share meaningful data on education while protecting privacy. These improvements enable the Department to provide stakeholders in the education community with timely and accurate information that allows them to make informed decisions. Approximately \$574 million in discretionary resources was appropriated to support Strategic Goal 3 in FY 2021.

In December 2020, the Department completed and published its inaugural **Data Strategy**. The Data Governance Board guided the development of four goals—strengthen agencywide data governance; build human capacity to leverage data; advance the strategic use of data; and improve data access, transparency, and privacy—with 19 objectives. This Data Strategy provides a road map for the agency to improve education outcomes and lead the nation through evidence-based policy and data-driven decisions.

The Department collected information necessary to facilitate clear and transparent reporting on the implementation of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act); the *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* (CRRSAA); and the *American Rescue Plan Act of 2021*. The Education Stabilization Fund (ESF) Transparency Portal was launched, which allows the Department to track performance, hold grantees accountable, and provide transparency to taxpayers and oversight bodies. Additionally, the Department completed its first collection of annual performance reports from organizations that received CARES Act grants, using capabilities within the ESF Public Transparency Portal to enable grantees to submit annual performance reports on funding authorized through the Higher Education Emergency Relief Fund (HEERF), the Elementary and Secondary School Emergency Relief (ESSER) funds, and the Governor's Emergency Education Relief (GEER) funds.

The Department is committed to protecting student's education data both within the Department and at educational institutions. In support of this commitment, in FY 2021, the Department engaged with nearly 1,000 schools to inform, collaborate, and improve the security of student financial and privacy data. This engagement has led to improvements in outcomes, reduction of risks, and enhanced cybersecurity and student data privacy. FSA's postsecondary cybersecurity team conducted more than 20 outreach activities, both in response to breach incidents and proactively to improve compliance with cybersecurity safeguards. Additionally, the Department conducted outreach initiatives to more than 500 IHEs in response to Microsoft Exchange vulnerability to ensure that IHEs were aware of the vulnerability and took appropriate actions to remediate or prevent potential exposure.

In FY 2021, the ESF **Public Transparency Portal**, launched in November 2020, was updated throughout the year to display awards made to and expenditures made by states, districts, and colleges authorized through the CARES Act, CRRSAA, and the ARP. The portal is used for key data collections associated with the ESF—specifically, the HEERF, GEER, ESSER, and equivalent Outlying Area funds. The Public Transparency Portal allows the Department to track performance, hold grantees accountable, and provide transparency to taxpayers and oversight bodies.

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

Strategic Goal 4 focuses in general on protecting taxpayers from fraud, waste, and abuse. This involves improving internal decision-making and operations to provide better delivery of services to stakeholders. In FY 2021, \$624 million was appropriated to support Goal 4.

Strategic Goal 4 includes the responsibility of the Department to implement enterprise risk management (ERM). The Department uses a coordinated approach to identify, measure, and assess challenges related to mission delivery and resource management. In FY 2021, the Department established the Office of Enterprise Data Analytics and Risk Management, which formally integrates ERM and operational internal controls activities and aims to provide leadership with actionable insights powered by data analytics. The office supports a culture of continuous process improvement in which data and awareness of enterprise risk are used to objectively inform strategic and operational decisions and optimize the Department's performance.

Strategic Goal 4 also includes the responsibility to ensure the Department's workforce is properly trained and accountable. In FY 2021, the Department established the Department-wide National Engagement Strategy (NES), focusing on four key engagement areas: Leaders Lead, Collaborative Management, Merit Systems Principles, and Training and Development. Implementation of the NES will formalize and streamline ideas and feedback as well as assist in sharing best practices across the Department.

# Financial Highlights

## INTRODUCTION

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

The Department consistently produces complete, accurate, and timely financial information. The Department's

financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board and the format and content specified by 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). For 20 consecutive years, the Department has

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

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2021	FY 2020	Amount	Percentage	Amount	Percentage
<b>Balance Sheets</b>						
Fund Balance with Treasury	\$ 351.9	\$ 136.0	\$ 215.9	158.8%	\$ 202.4	148.8%
Loan Receivables, Net - Direct Loan Program	1,104.9	1,100.5	4.4	0.4%	(49.5)	-4.5%
Loan Receivables, Net - Federal Family Education Loan (FFEL) Program	58.2	67.4	(9.2)	-13.6%	(3.0)	-4.5%
Debt Associated with Loans - Direct Loan Program	1,142.2	1,160.1	(17.9)	-1.5%	(49.5)	-4.3%
Debt Associated with Loans - FFEL Program	78.3	89.0	(10.7)	-12.0%	(3.0)	-3.4%
Loan Guarantee Liabilities	7.5	1.1	6.4	581.8%	0.6	54.5%
Accrued Grant Liability	7.6	1.9	5.7	300.0%	3.9	205.3%
<b>Statements of Net Cost</b>						
Improve Learning Outcomes for All P-12 Students	60.9	40.0	20.9	52.3%	21.0	52.5%
Expand Postsecondary Opportunities, Improve Outcomes to Foster Economic Opportunities, and Promote Productive Citizenry	178.8	149.4	29.4	19.7%	85.2	57.0%
<b>Statements of Budgetary Resources</b>						
Unobligated Balance from Prior Year Budget Authority (Net)	41.4	26.9	14.5	53.9%	0.7	4.8%
Appropriations (Discretionary and Mandatory)	476.8	245.0	231.8	94.6%	235.0	95.9%
New Obligations and Upward Adjustments (Total)	627.5	430.8	196.7	45.7%	217.2	50.4%
Unobligated Balance, End of Year (Total)	62.1	42.6	19.5	45.8%	17.8	41.8%
Outlays, Net	267.1	218.0	49.1	22.5%	37.5	17.2%
Distributed Offsetting Receipts	(6.6)	(13.6)	7.0	-51.5%	-	0.0%

earned an unmodified (or “clean”) audit opinion. The financial statements and notes for FY 2021 are on pages 48–93 and the Independent Auditors’ Report begins on page 98.

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31

U.S.C. § 3515(b). The statements are prepared from the Department’s books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government.

## FINANCIAL STATEMENT IMPACTS OF COVID-19 ACTIVITIES

Most 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 primarily by suspending nearly all federal loan payments until January 31, 2022, interest free. The Department also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student loan repayment deferrals was provided through FY 2020 and FY 2021 indefinite appropriations totaling \$98.4 billion.

Cost impacts of the student loan pause on interest and collections were recorded as loan modifications in FY 2020 (\$41.9 billion) and FY 2021 (\$53.1 billion). These COVID-19 loan modifications are a component of subsidy expense, which reduced the overall loan

receivable balances for the Direct Loan and Federal Family Education Loan (FFEL) programs by \$88.0 billion and \$6.9 billion respectively over the past two years. Detailed explanations of the FY 2021 COVID-19 Direct Loan Program loan modifications are provided in the Analysis of Direct Loan Program Subsidy Expense section beginning on page 19 and in Note 5 of the financial statements beginning on page 62.

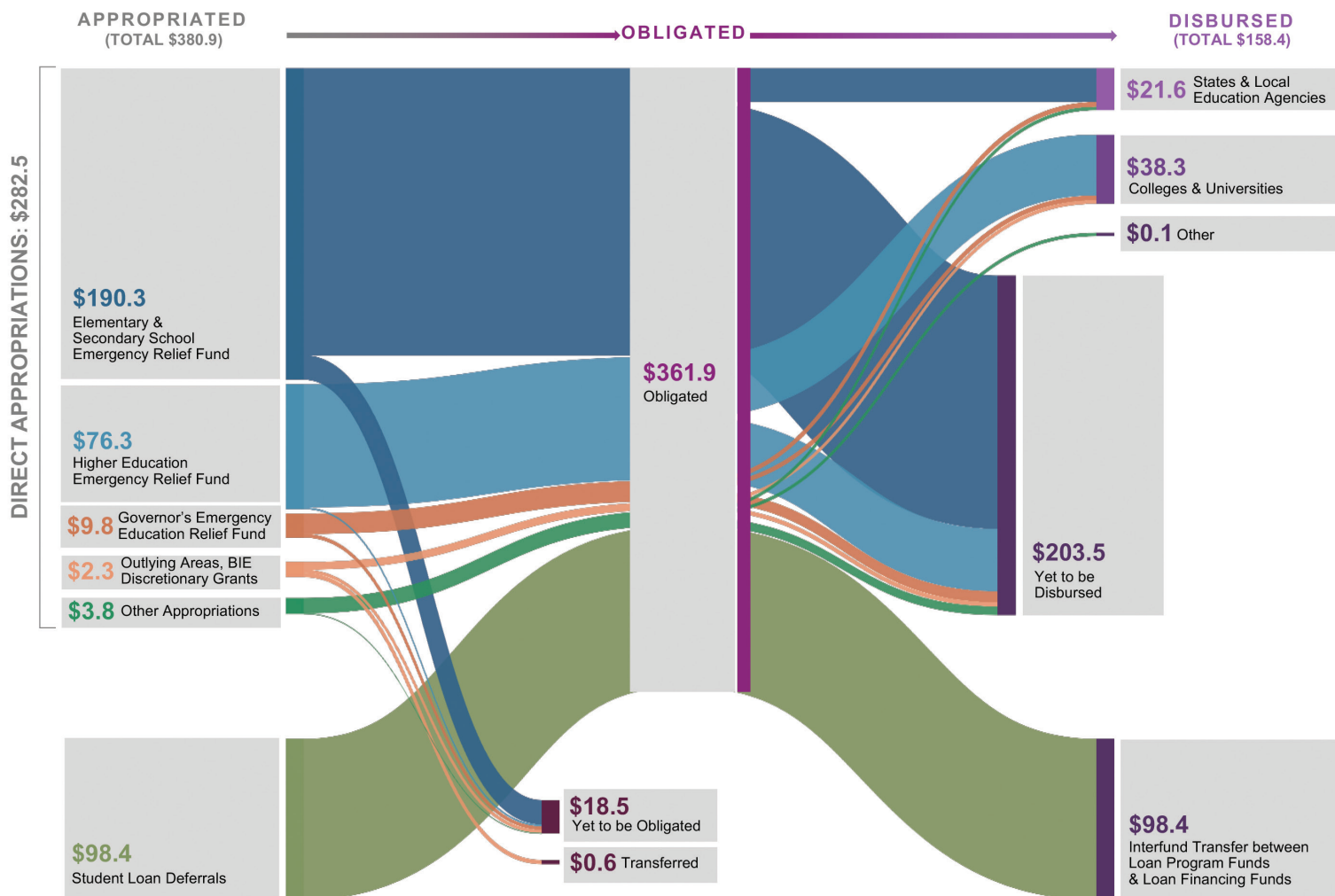
In addition to COVID-19 relief, the Department provided targeted relief to thousands of borrowers by canceling \$11.5 billion of loans using authorities previously provided by Congress. The targeted beneficiaries include those qualifying for total and permanent disability discharge, those who were defrauded by failed for-profit schools, soldiers deployed to war zones, and other public servants previously denied eligibility for forgiveness under the Public Service Loan Forgiveness (PSLF) program.

Additional changes to the PSLF program that will increase loan forgiveness are coming in FY 2022—see page 91.

The direct and indirect funding stemming from the combined FY 2020 and FY 2021 COVID-19 relief legislation and administrative actions is summarized in Figure 1. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end September 30, 2021, totaled \$222.0 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 1.**

**COVID-19 Funding Flow**  
(Dollars in Billions)



**Elementary and Secondary School Emergency Relief (ESSER) Fund**—Funds provided for state education 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**

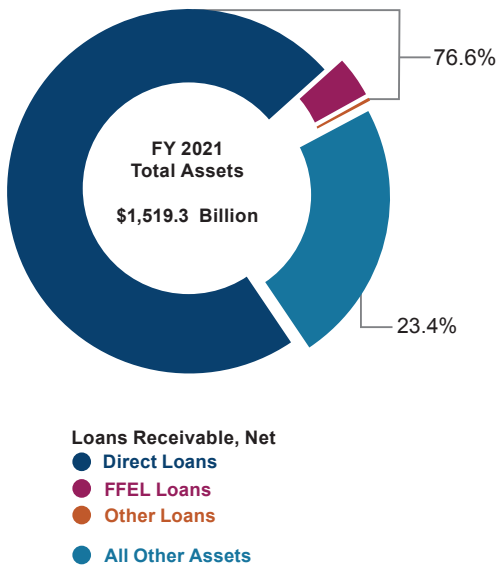
The consolidated balance sheets present, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.

The Department's assets totaled \$1,519.3 billion as of September 30, 2021. As shown in Figure 2, most assets relate to loans receivables, \$1,165.1 billion, which comprised 76.6 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 14. All other assets totaled \$354.2 billion, most of which was Fund Balance with Treasury which increased

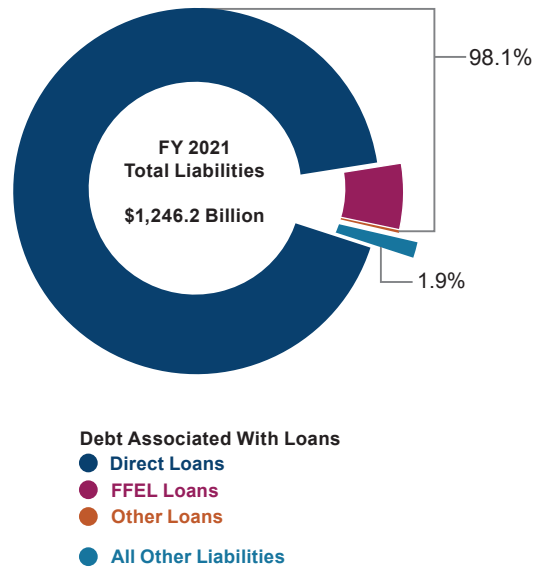
by \$215.9 billion, mostly as a result of an increase in undisbursed COVID-19 funds as of September 30, 2021.

The Department's liabilities totaled \$1,246.2 billion as of September 30, 2021. As shown in Figure 3, 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 direct loans totaled \$1,142.2 billion as of September 30, 2021. Analysis of debt associated with the Direct Loan Program begins on page 16.

**Figure 2.**  
Assets by Type



**Figure 3.**  
Liabilities by Type



**ANALYSIS OF DIRECT LOAN PROGRAM RECEIVABLES, NET**

Figure 4 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 has slowed in recent years as enrollment has 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.

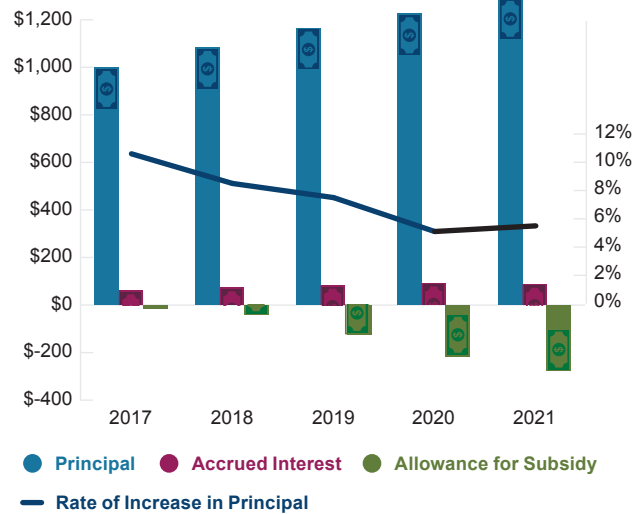
The rate of increase in principal has slowed in recent years as the Direct Loan program has disbursed fewer than \$95 billion in new loans each year since FY 2016 as a result of stagnant and in some cases declining enrollment. Even so, new loan disbursements continue to exceed overall loan principal 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 rise in FY 2021.

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 since FY 2017 is due primarily to higher subsidy costs, the main causes being high participation in income-driven repayment (IDR) plans and the COVID-19 deferrals of student loan repayments (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 19).

**Figure 4.**

**Components of Direct Loan Receivables, Net**  
(Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2017	2018	2019	2020	2021
Principal	\$ 998.8	\$ 1,083.7	\$ 1,164.9	\$ 1,224.8	\$ 1,292.2
Rate of Increase in Principal	10.6%	8.5%	7.5%	5.1%	5.5%
Accrued Interest	\$ 59.5	\$ 72.0	\$ 83.3	\$ 92.1	\$ 86.5
Allowance for Subsidy	\$ (16.8)	\$ (40.7)	\$ (124.4)	\$ (216.4)	\$ (273.9)
<b>Total No. of Direct Loan Borrowers (in Millions)</b>	<b>33.0</b>	<b>34.2</b>	<b>35.1</b>	<b>35.9</b>	<b>37.0</b>



**Table 2.****Payment Status of Direct Loan Principal and Interest Balance**

(Dollars in Billions)

Loan Status	Fiscal Year				
	FY 2017	FY 2018	FY 2019	FY 2020**	FY 2021**
Total No. of Direct Loan Borrowers (in Millions)	33.0	34.2	35.1	35.9	37.0
<b>Total Dollar Amount of Direct Loans Outstanding</b>	<b>1,058.4</b>	<b>1,155.7</b>	<b>1,248.1</b>	<b>1,316.9</b>	<b>1,378.7</b>
Current Repayment <sup>1</sup>	467.8	531.2	594.7	14.2	16.2
% Current Repayment	44.2%	46.0%	47.6%	1.1%	1.2%
In School, Grace Period, and Education Deferments	291.7	295.5	294.8	282.8	271.9
% In School, Grace Period, and Education Deferments	27.6%	25.6%	23.6%	21.5%	19.7%
Forbearance and Noneducation Deferments	122.5	121.5	133.2	887.5	967.8
% Forbearance and Noneducation Deferments	11.6%	10.5%	10.7%	67.4%	70.2%
Delinquent (Past Due 31-360 Days)	79.7	92.5	90.8	0.5	0.0
% Delinquent (Past Due 31-360 Days)	7.5%	8.0%	7.3%	0.0%	0.0%
Default/Bankruptcy/Other*	96.7	115.0	134.6	131.9	122.8
% Default/Bankruptcy/Other*	9.1%	10.0%	10.8%	10.0%	8.9%

<sup>1</sup> 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 and FY 2021 are significantly lower than prior 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 FY 2020 and FY 2021 delinquent balances are 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).

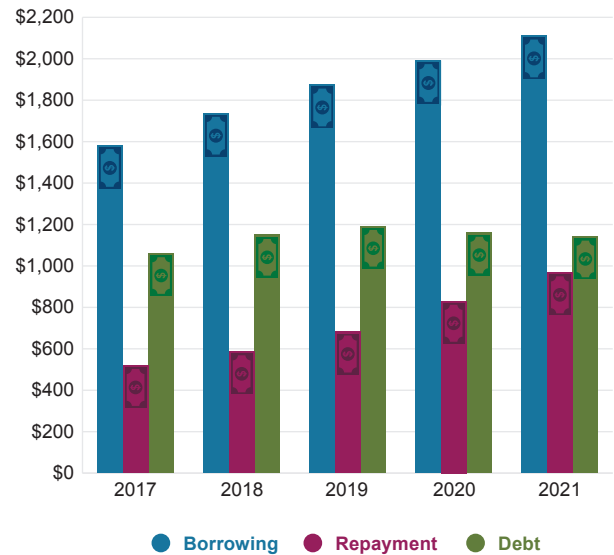
- Potentially improving the borrower's credit rating by reducing the student debt balance. The relative strength of FSA borrower payment activity has been driven, in part, by efforts of borrowers to improve their credit stance to purchase homes during much of 2020 and 2021. During the pandemic, the U.S. 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**

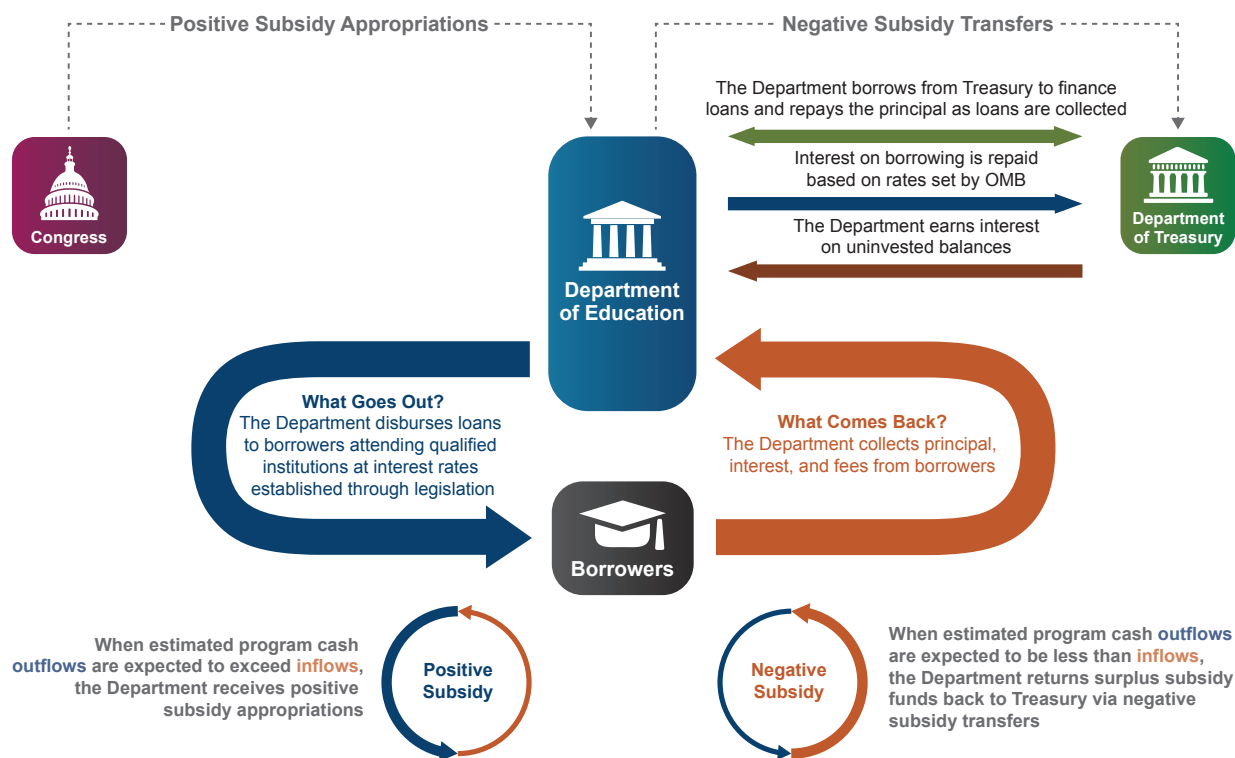
The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows. Figure 5 shows the Direct Loan Program cumulative borrowing and repayment activity that 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 6 on page 17 of this report.

**Figure 5.**

**Direct Loan Program Cumulative Financing Activity**  
(Dollars in Billions)



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



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	2017	2018	2019	2020	2021
<b>Net Borrowing</b>	\$ 67.3	\$ 89.1	\$ 41.5	\$ (32.0)	\$ (17.9)
Borrowing from Treasury	160.5	155.3	137.6	116.9	120.0
Debt Repayments to Treasury	(93.2)	(66.2)	(96.1)	(148.9)	(137.9)
Interest Expense to Treasury	(31.3)	(32.3)	(33.8)	(34.7)	(33.0)
Interest Earned from Treasury	4.3	3.9	4.1	4.8	4.2
Cumulative Taxpayer Cost / (Savings)	16.8	40.7	124.4	216.4	273.9
Current Subsidy Expense (Revenue)	5.3	4.4	61.5	100.9	93.9

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2017	2018	2019	2020	2021
<b>Loan Disbursements</b>	\$ 142.5	\$ 134.1	\$ 130.7	\$ 117.4	\$ 104.8
Stafford Subsidized	23.4	20.3	20.0	19.1	18.3
Stafford Unsubsidized	51.4	49.0	48.1	46.1	44.1
PLUS	18.7	23.1	22.7	21.7	20.8
Consolidation <sup>1</sup>	49.0	41.6	39.8	30.4	21.5
<b>Loan Collections<sup>2</sup></b>	<b>82.0</b>	<b>84.9</b>	<b>91.3</b>	<b>69.9</b>	<b>37.2</b>
Principal	62.6	63.5	67.0	55.3	33.3
Interest	17.6	19.5	22.4	12.9	2.3
Fees	1.9	1.9	1.9	1.7	1.6

\* Numbers may not add due to rounding.

<sup>1</sup> Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

<sup>2</sup> Loan collections include prepayments, including prepayments in full due to consolidation of underlying Direct Loans.

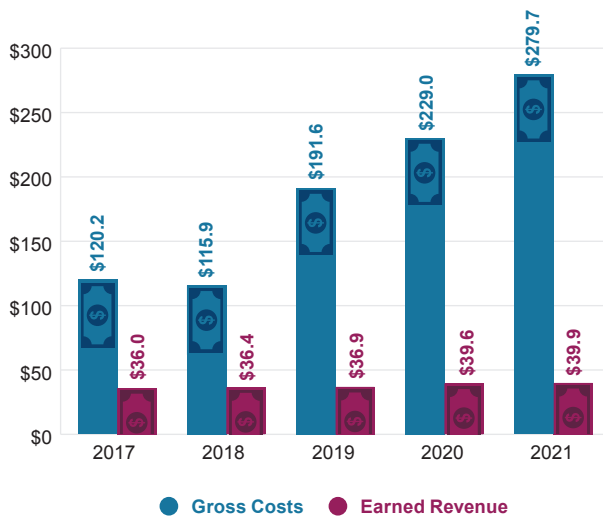
STATEMENTS OF NET COST

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 7 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 increases in the Department's net costs for FY 2021 were primarily due to loan modifications (subsidy expense) and grant expenses related to COVID-19 activities.

Figure 7.

Gross Costs & Earned Revenue  
(Dollars in Billions)



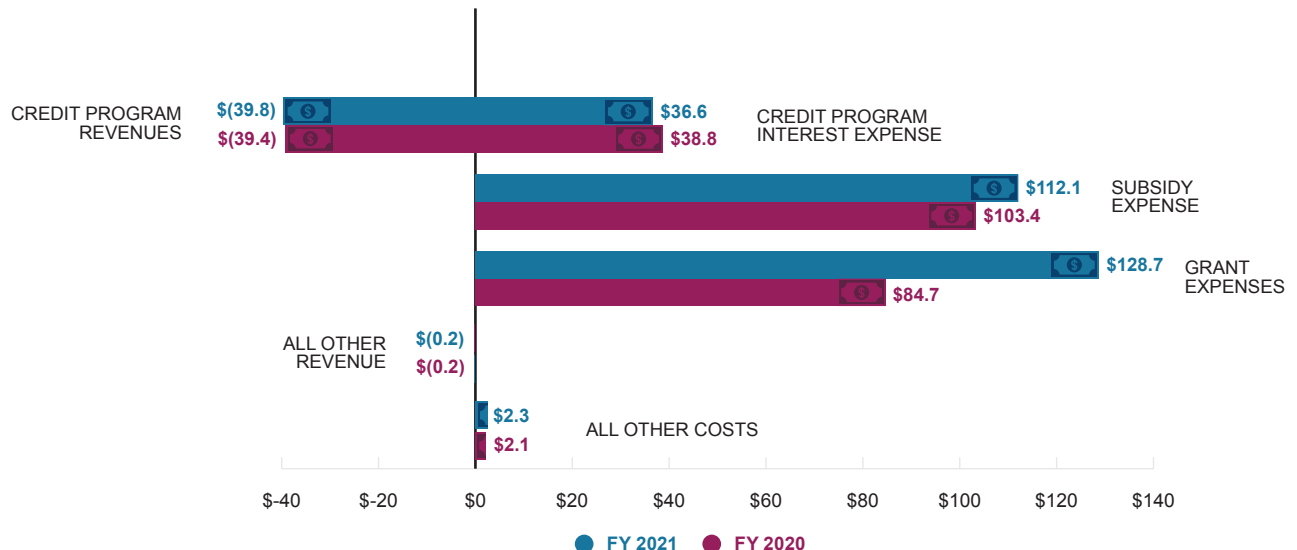
GROSS COSTS AND EARNED REVENUE BY TYPE

As shown in Figure 8, 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 10).

Figure 8.

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 excludes 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.

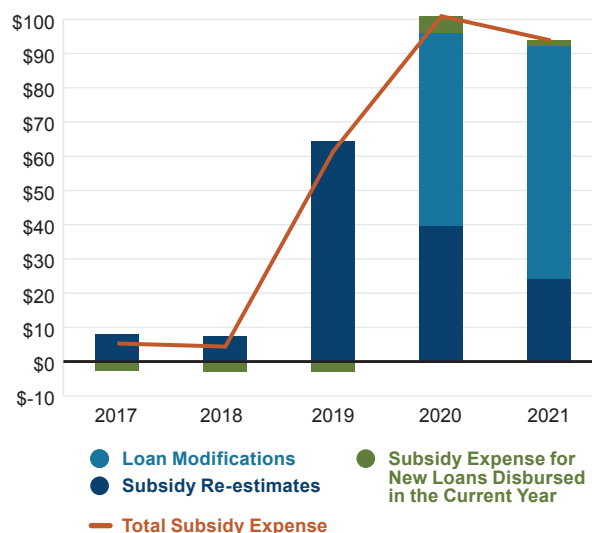
The Department estimates subsidy expenses annually for new loans disbursed in the current year and updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates). The Department also updates subsidy expenses due to changes to terms of existing loans (subsidy modifications). Figure 9 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 is positive or negative.

The Direct Loan Program subsidy expense for new loans disbursed in the current year was negative from FY 2017 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 in FY 2020 and FY 2021 was 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 components of the Direct Loan Program subsidy re-estimates and loan modification costs are summarized below. More detail about these components can be found in the notes to the financial statements beginning on page 64.

Figure 9.

Direct Loan Program Subsidy  
(Dollars in Billions)



	2017	2018	2019	2020	2021
Subsidy Expense for New Loans Disbursed in the Current Year	\$ (2.6)	\$ (3.1)	\$ (3.0)	\$ 5.1	\$ 1.6
Subsidy Re-estimates	7.9	7.4	64.5	56.1	24.0
Loan Modifications	-	0.1	-	39.7	68.3
<b>Total Subsidy</b>	<b>\$ 5.3</b>	<b>\$ 4.4</b>	<b>\$ 61.5</b>	<b>\$100.9</b>	<b>\$ 93.9</b>

Subsidy Re-estimate Components	2021	2020
Income Driven Repayment (IDR) Model Changes	\$ 22.4	\$ 35.5
Prior Year's Cohort Assumption Changes	15.5	4.8
Interest on the Re-Estimate	5.0	5.9
Default	(6.4)	1.8
Repayment Plan Selection	0.7	6.5
Discount Rates	(11.5)	-
Death, Disability, and Bankruptcy (DDB)	3.2	-
Deferment And Forbearance	(4.8)	-
Collections	1.5	-
Interactive Effects	(1.6)	1.5
Other Assumptions	-	0.1
<b>Total Direct Loan Program Subsidy Re-estimates</b>	<b>\$ 24.0</b>	<b>\$ 56.1</b>

Loan Modification Components	2021	2020
Student Loan Repayment Deferrals	\$ 49.5	\$ 38.6
Total and Permanent Disability	18.7	1.1
Faith-Based Final Rule	0.1	-
<b>Total Direct Loan Program Loan Modifications</b>	<b>\$ 68.3</b>	<b>\$ 39.7</b>

**GRANT EXPENSES**

As shown in Figure 10, overall grant expenses increased 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 81. 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:

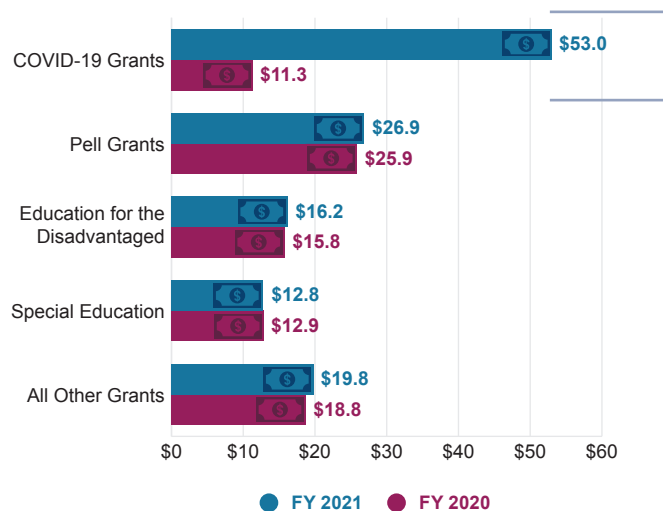
- **Pell Grants**—Provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on the student's expected family contribution, the cost of attendance (as determined by the institution), the student's enrollment status (full-time or part-time), and whether 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 10.**

**Grant Expenses by Program Areas**  
(Dollars in Billions)



**COVID-19 Grant Expenses**  
(Dollars in Millions)

COVID-19 Grants	FY 2021	FY 2020
<b>Education Stabilization Fund:</b>		
Elementary and Secondary School Emergency Relief Fund	\$ 20,036	\$ 1,552
Higher Education Emergency Relief Fund	31,407	9,135
Governor's Emergency Education Relief Fund	1,341	536
Outlying Areas & Discretionary Grants	130	21
<b>Total Education Stabilization Fund</b>	<b>52,914</b>	<b>11,244</b>
Other COVID-19 Grants	66	15
<b>Total COVID-19 Grants</b>	<b>\$ 52,980</b>	<b>\$ 11,259</b>

STATEMENTS OF CHANGES IN NET POSITION

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

STATEMENTS OF BUDGETARY RESOURCES

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

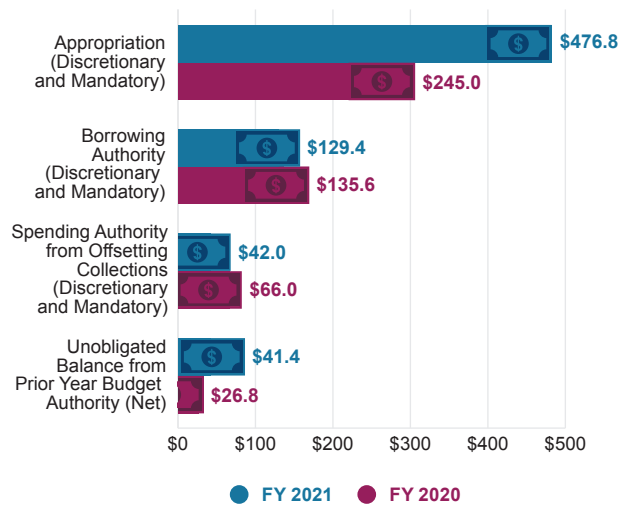
Figure 11 shows the components of the Department's budgetary resources, which totaled \$689.6 billion for FY 2021, increasing from \$473.4 billion, or 45.7 percent from the prior year. This increase was primarily due to increases in appropriations received totaling \$231.8 billion, of which \$235.0 billion was for increases in direct and indirect appropriations for COVID-19 activity.

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 \$14.6 billion, or 54.4 percent. Of this increase, \$0.7 billion was due to COVID-19-funded balances and the remaining increase was due primarily to an increase in Direct Loan Program unapportioned authority from FY 2019 to FY 2020 and repayment of Direct Loan Program debt in FY 2021 for prior year balances.

Figure 11.

Components of Budgetary Resources (Dollars in Billions)



- New Obligations and Upward Adjustments (Total) increased by \$196.7 billion, or 45.7 percent due primarily to an increase of \$203.0 billion for grant obligations funded by the COVID-19 appropriations and an increase of \$14.0 billion in obligations associated with loan modifications for COVID-19 student loan deferrals.
- Unobligated Balance, End of Year increased \$19.3 billion or 45.3 percent. Of this increase, \$17.8 billion was 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 \$49.1 billion (22.5 percent) due primarily to an increase of \$37.5 billion in COVID-19 grant outlays.

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 negative subsidies. Of the \$7.0 billion decrease in FY 2021 versus FY 2020, \$6.3 billion was attributed to the FFEL Program.

Disbursements, Net is comprised of gross outlays and offsetting collections in the Department's credit program nonbudgetary financing funds.

**Table 3.**

**Outlays, Distributed Offsetting Receipts, and Disbursements, Net**

(Dollars in Billions)

	FY 2021	FY 2020
<b>Outlays, Net</b>		
Credit Programs	\$ 141.7	\$ 129.8
Grants	122.4	85.5
Contractual Services	2.3	2.0
Personnel Compensation and Benefits	0.7	0.7
<b>Total Outlays, Net</b>	<b>\$ 267.1</b>	<b>\$ 218.0</b>
<b>Distributed Offsetting Receipts</b>		
Subsidies	(5.6)	(12.3)
Repayment of Perkins Loans and Capital Contributions	(0.9)	(1.3)
Other	(0.1)	-
<b>Total Distributed Offsetting Receipts</b>	<b>\$ (6.6)</b>	<b>\$ (13.6)</b>
<b>Disbursements, Net</b>		
Direct Loan Program		
Gross Disbursements	\$ 143.8	\$ 158.2
Offsetting Collections	(171.5)	(188.1)
Total Direct Loan Program Disbursements, Net	(27.7)	(29.9)
FFEL Program		
Gross Disbursements	8.3	17.5
Offsetting Collections	(19.2)	(30.6)
Total FFEL Program Disbursements, Net	(10.9)	(13.1)
Other Loan Programs		
Gross Disbursements	0.7	0.5
Offsetting Collections	(2.0)	(0.4)
Total Other Loan Program Disbursements, Net	(1.3)	0.1
<b>Total Disbursements, Net</b>	<b>\$ (39.9)</b>	<b>\$ (42.9)</b>



# Analysis of Systems, Controls, and Legal Compliance

## MANAGEMENT ASSURANCES

The Secretary of the Department of Education's Fiscal Year 2021 Statement of Assurance provided below is the final report produced by the Department's annual assurance process.

### STATEMENT OF ASSURANCE FISCAL YEAR 2021 November 19, 2021

The Department of Education's (the Department) 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.

With the exception of a material weakness in financial reporting in the Independent Auditors' Report, the Department has not identified any material weaknesses in internal controls: operations, reporting, or compliance with applicable laws and regulations. The Department considers the applicable internal controls to be working effectively.

Based on the results of the Department's assessments described above, our system of internal controls provides the Department's management with reasonable assurance that the objectives of Sections 2 and 4 of the FMFIA were achieved as of September 30, 2021.



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 as well as mission-support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. The guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal control:

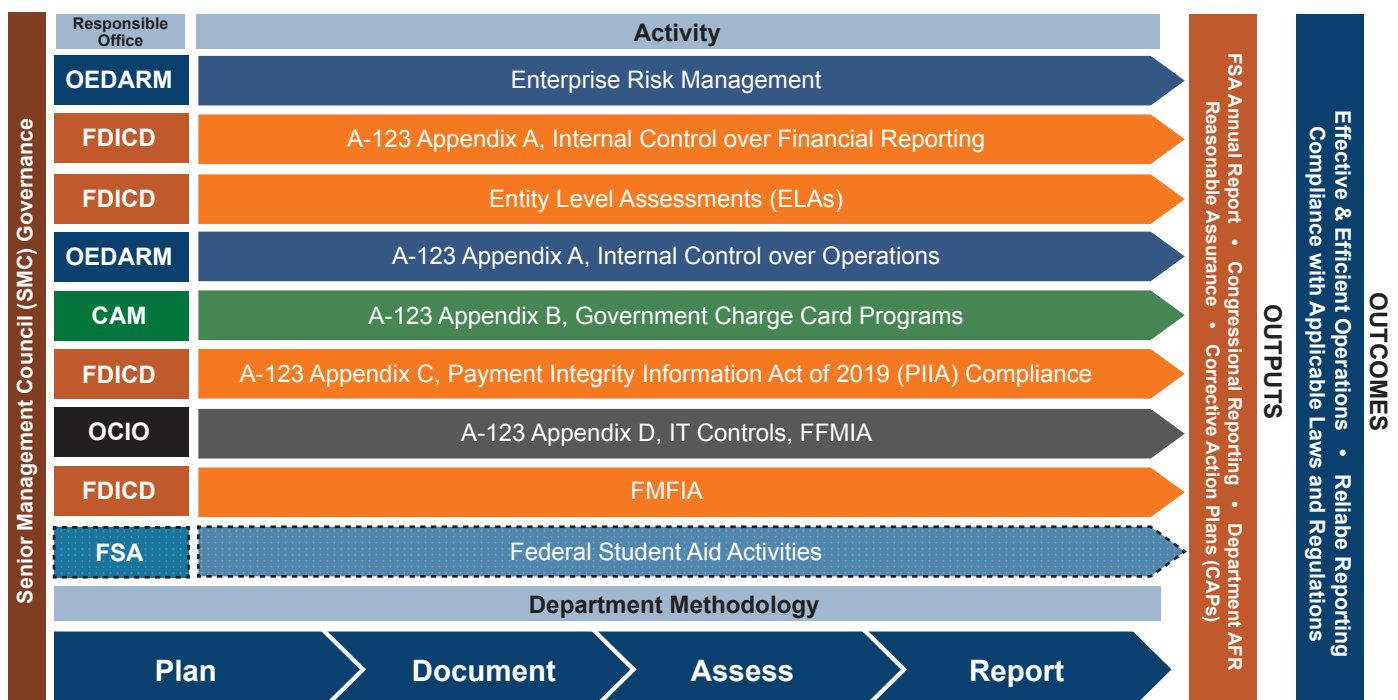
- *Operations*—Effectiveness and efficiency of operations.
- *Reporting*—Reliability of reporting for internal and external use.
- *Compliance*—Compliance with applicable laws and regulations.

This section describes the Department's internal control framework, offers an analysis of the effectiveness of its internal controls, and explains assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2021 to meet the three objectives.

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 12  
Department of Education Internal Control Framework



The Department continues to focus on streamlining and coordinating internal control activities to ensure efficiency of operations, recognizing the connection points across areas, and enabling transparency of information across the Department. This framework enables increased compliance process oversight and more informed monitoring of internal controls and risk management by all offices and governance bodies, including the Department's Senior Management Council. This framework also allows for the Department to obtain the outcomes of a better control system and a 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 for all employees, to provide 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 2021, the Department and 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, such as those identified elsewhere in this report, as well as the major challenges identified by the Department's OIG in its FY 2021 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 pro-

gram performance and inform management decisions. The establishment of a DQP integrated into testing of controls is helping to address this challenge identified by the OIG.

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 and compliance with key financial management laws and regulations, as described below.

### Internal Control Over Reporting

The Department maintains processes and procedures to identify, document, and assess internal control over reporting. 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.

In FY 2021, the Department tested a proportionate number of key financial controls for both grant and non-grant areas based on qualitative risk assessments and rotational test plans. The internal controls assessment detected some control deficiencies but none that would rise to the level of material weakness. Corrective actions have been initiated for the deficiencies identified. In addition, numerous recommendations have been provided to process owners to strengthen internal controls, such as verifying immaterial differences, obtaining electronic signatures, and updating policies and procedures.

## 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 federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Appendix D to OMB Circular A-123, Compliance with the 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.
- Receivable management.
- Cost management.
- Recipient management.
- Administrative processes (e.g., purchasing, travel, and miscellaneous payments).

EDCAPS is composed of four main integrated components:

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

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 the G5. In FY 2021, the Department conducted an annual risk assessment of EDCAPS and tested 104 IT security controls out of a baseline of 630 IT security controls. No significant deficiencies or material weaknesses were identified.

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 2021:

- 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:

- Department Systems:
  - Oracle Enterprise Performance Management Cloud Planning (formerly Hyperion).
  - Frontier.

- G5 Grants
- CPSS Contracts Purchasing Support
- 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 admin 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<sup>1</sup>, 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 AFR and

accompanying materials, and to determine whether the agency has met six compliance requirements.

In its annual improper payment compliance audit for FY 2020, the OIG concluded that the Department was not compliant with PIIA because it did not meet two of the six compliance requirements, as described in Finding 1. Specifically, the Department did not demonstrate improvement in reducing improper payments in the William D. Ford Federal Direct Loan (Direct Loan) Program. In addition, the Department reported improper payment rates that exceed 10 percent for the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) and Immediate Aid to Restart School Operations (Restart) programs.

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

### **Debt Collection Improvement Act of 1996**

The *Debt Collection Improvement Act of 1996* (DCIA), **Pub. L. 104-134**, 110 Stat. 1321-358, was enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*, **Pub. L. 104-134**, 110 Stat. 1321. The primary purpose of the DCIA is to increase the collection of nontax debts owed to the federal government. Additionally, the *DATA Act*, **Pub. L. 113-101**, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require notification of a legally enforceable nontax debt that is over 120 days delinquent to the Department of the Treasury for purposes of administrative offset.

Due to unique program requirements of the *Higher Education Act of 1965* (HEA), in 2015 the Department requested guidance from the chief counsel of the Department of the Treasury's Bureau of the Fiscal Service to interpret the impact of the revised DATA Act's delinquent debt referral requirement on Title IV debt. In July 2015, the Fiscal Service's chief counsel determined compliance for Title IV debt requires that the Title IV debt be: 1) in technical default (i.e., 271 days delinquent per Title IV aging) and 2) a receivable of the federal government. Therefore, the Treasury Offset Program (TOP) referral requirement for Title IV debt owned by FSA at the time of delinquency is 271 days delinquent, and the requirement for debt acquired via a FFEL guarantee default claim or default Perkins Loan assignment is 120 days delinquent (per DCIA aging, which begins upon acceptance of a defaulted debt). As of September 30, 2021, FSA's current business process requires loans to

<sup>1</sup> *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.

be transferred to the default loan servicer after 360 days of delinquency. FSA refers debt to TOP after exhausting due process with each borrower, which extends beyond the delinquency period in the DATA Act. Further, due to the number of entities and systems involved in handling student loan debts and the decentralized nature of such processes, FSA is not yet capable of meeting an accelerated time line. Accelerating the timeline requires substantial changes to servicing legacy systems. Rather than making changes to these legacy systems, FSA plans to build new TOP referral requirements into the NextGen FSA servicing platform. FSA has developed a long-term project plan to incorporate the referral requirements into servicer contracts and guaranty agency agreements to initiate the required system programming changes. This determination that the Department does not have a process in place to enable the referral of FSA owned Title IV debts on the 271st day of delinquency and referral of relevant FFEL claims and delinquent Perkins Loan debt on the 121st day of delinquency does *not* represent a material weakness in the Department's internal controls.

While the Department continues to work on an accelerated process to refer debt to Treasury, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) affords administrative forbearance for eligible loans. Beginning in March 2020 and continuing throughout FY 2021, the CARES Act suspended involuntary collection through TOP. This suspension of involuntary collections will continue to apply at least through January 31, 2022. Pursuant to the CARES Act and related authorities, no loans were required to be transferred to Treasury during FY 2021. Accordingly, the Department was and is compliant with DCIA as amended by the DATA Act.

### **Federal Information Security Modernization Act of 2014**

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 information systems that support the operations and assets of the agency and to ensure the confidentiality, integrity, and availability of system-related information.

The Department's and FSA's information security programs completed numerous significant activities in FY 2021 to improve cybersecurity capabilities and functions, some of which include:

- 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 enterprise risk management (ERM) program. Key performance indicators (KPI) and key risk indicators (KRI) have been established 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.

OCIO publishes monthly Department Cyber Security Framework (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 2021, 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.

OCIO disseminated monthly *State of IT* principal office-level reports for continued outreach to executive stakeholders to take the appropriate actions as necessary

based on cyber data, trends, metrics, and key insights specific to their organization offered through cybersecurity data visualizations.

OCIO established initial operating capabilities for the Department's cybersecurity data lake and continued to enhance configuration for ingestion of Continuous Diagnostics and Mitigation and continuous monitoring data. Currently, 10 data sources have been identified for initial operational capabilities. These enhancements allow for better cyber risk visibility and monitoring of Department information systems to enable prompt data-driven decisions.

- To mitigate operational impacts of the COVID-19 pandemic, OCIO delivered Personal Identity Verification Alternative Solution (PIV-A) as an alternative multifactor authentication solution providing continuity of critical business functions. Additionally, OCIO identified, analyzed, and recommended a cloud-based solution to provide rapid expansion of the Department's virtual private network (VPN) capacity supporting the workforce during the COVID-19 telework phase. OCIO also performed outreach for increased vigilance during the COVID-19 telework phase. OCIO implemented proactive security monitoring of PIV-A VPN connections by using a new data-lake-based security information and event management (SIEM) software solution. Department employees have also been educated regarding increased phishing and other cybercriminal scams targeting a largely at-home workforce (stimulus checks, spoofing legitimate government health organizations, etc.).
- OCIO completed the enhancement of the Department's network access control capability for nongovernment-furnished equipment within the Department's new IT environment that is superior to capabilities that existed before the FY 2019 transition. This provides a foundation to further implement the Department's Zero Trust architecture.
- To bolster the Department's email security, OCIO fully deployed and monitored the Office 365 email Data Loss Prevention (DLP) capability. This capability enhances the Department's overall DLP capabilities and works in concert with network and desktop DLP solutions. OCIO also deployed DLP desktop agents on nearly 100 percent of Department endpoint devices to further enhance the identification of personally identifiable information such as Social Security and credit card numbers. In FY 2021, the Department's DLP solution identified and blocked 9,562 emails which prevented potential sensitive personally identifiable information security incidents.
- Through enhanced reporting of email and web security posture, the Department was able to maintain U.S. Department of Homeland Security (DHS) Binding Operational Directive (BOD) 18-01 compliance of 100 percent for email security and 97 percent for Hypertext Transfer Protocol Secure (HTTPS) tracking. Additionally, there were no overdue critical or high vulnerabilities in FY 2021 for the Department's public facing assets reported in accordance with DHS BOD 19-02 *Cyber Hygiene*.
- Cybersecurity and personnel security requirements were incorporated into the Department's acquisition regulations in December 2019. The Office of Acquisition Management issued Acquisition Alert 2020-01, *Education Acquisition Regulation Class Deviation: Cyber and Personnel Security Requirements for Contractors*. This deviation ensures active contracts, solicitations, and future contracts communicate the Department's cybersecurity and personnel security requirements to contractors and prospective contractors.
- OCIO continued conducting quarterly Department-level, system-tailored Incident Response and Contingency Plan testing tabletop exercises virtually, which focused on contingency planning in the event of a cyber incident. As of September 2021, 98 percent of the Department's FISMA 2014-reportable systems had a valid contingency plan test. Feedback reports were provided to system stakeholders on weaknesses and opportunities for improvement to their contingency plans.
- OCIO continued supporting the Scholarship for Service (SFS) program which is managed by the National Science Foundation in collaboration with the U.S. Office of Personnel Management (OPM) and DHS. This initiative reflects the critical need for IT professionals; industrial control system security professionals; and security managers in federal, state, local, and tribal governments. Upon graduation, scholarship recipients are required to work for a federal, state, local, or tribal government in a position related to cybersecurity. In July 2021, the Department spoke to students from SFS about the Department's internship and upcoming employment opportunities
- OCIO established a roadmap for migrating the Department's policies and security control

implementation from National Institute of Standards and Technology SP 800-53, *Security and Privacy Controls for Information Systems and Organizations*, Revision 4 to Revision 5. This road map will allow the Department to better understand, plan, and prepare as it begins to update key security controls in accordance with the new Revision 5 guidance. The Department also participated in a cross-agency working group with GSA, HHS, and other agencies to collaborate on the development and standardization of organizational parameters for the NIST 800-53 Revision 5 security controls.

- OCIO has implemented an ACS Directive, OCIO: 3-114, *Cybersecurity Awareness Simulated Phishing Exercise Behavioral Based Escalations*, which establishes the Department standards for acceptable behaviors in response to an authorized simulated phishing exercise as well as behavioral-based escalations for federal employees and contractors based upon identification of a pattern of unacceptable behaviors (e.g., repeat-risk email users) that puts the network and data at risk. This directive also documents actions required to reduce Departmental risk from end users who exhibit unacceptable behaviors in response to one or more exercise(s). In support of this new directive, OCIO established enhanced reporting and retraining support for privileged users and repeat risk users. All privileged users who had unacceptable behavior as a result of the first exercise conducted, were required to and have completed the necessary training courses.
- OCIO supported all required actions from DHS Emergency Directive 21-01, *Mitigate SolarWinds Orion Code Compromise*. The Department immediately disconnected/powered down SolarWinds Orion products, versions 2019.4 through 2020.2.1 HF1, from the Department network and notified the Cybersecurity and Infrastructure Security Agency (CISA) on December 14, 2020, as required. The Department continues to analyze forensic images of system memory and/or host operating systems for all impacted assets. OCIO completed a forensics analysis and an independent, external, third-party, certified forensics examiner determined no threat actor was present in the system and no malicious activity has taken place. Additionally, OCIO also provided both the Senate and U.S. House of Representatives formal responses to inquiries regarding this emergency directive.
- OCIO supported all required actions from DHS Emergency Directive 21-02, *Mitigate Microsoft Exchange On-Premises Product Vulnerabilities*. The Department immediately disconnected impacted exchange servers from the Department's network and notified CISA on March 5, 2021. All impacted assets were updated to the latest version required by CISA by March 9, 2021.
- The Department, including the FSA Zero Trust strategic implementation plan, addresses current issues with access, including unauthorized, and siloed single-point solutions for data protection. This initiative establishes an architectural plan; a solution design; an accompanying process; and implements a secure framework to address access, verification, and integration issues across all information systems hosted at multiple independent data centers and within numerous cloud service providers. The Department and FSA will leverage Zero Trust concepts to move to a data-centric access and protection model versus the traditional network-based perimeter protection concepts. The submitted plan outlines the development, modernization, and enhancement of the program:
  - Establish and fully implement a Zero Trust Program that includes strategy, architecture, design, and an implementation road map.
  - Develop Zero Trust workbooks and standards to support adaptation of Zero Trust for the Department.
  - Establish a catalog of Zero Trust services and capabilities.
  - Adopt Zero Trust across cloud-computing environments in accordance with the developed road map.
  - Establish a Zero Trust-specific section in the cybersecurity training program.
  - Adopt multifactor authentication and encryption for data at rest and in transit, to the maximum extent consistent with federal records laws and other applicable laws.
- To mitigate impacts of the COVID-19 pandemic on remote stakeholders, the Department identified, analyzed, and implemented a cloud-based solution to provide rapid expansion of the Department's VPN capacity to support extensive teleworking capabilities. As a result of these efforts, the Department was able to improve the availability and continuity of operations



for its networks. The Department also provided targeted outreach to proactively address threats to teleworking employees (e.g., warning them of increased phishing attempts and other cybercriminal scams that target largely at-home workers). As a result of this increased outreach, the Department has benefitted from an improved average reporting rate (+7 percent) for its phishing exercises across its user base in FY 2021 from FY 2020.

- The Department issued an amendment to Acquisition Alert (AA) 2020-01, *Education Acquisition Regulation (EDAR) Class Deviation: Cyber and Personnel Security Requirements for Contractors*. This amendment implements deviated EDAR clauses to accurately reflect the Department's updated cybersecurity and privacy requirements. Below are the requirements added/updated:
  - DHS Binding Operation Directives.
  - Continuous Monitoring / Ongoing Security Assessment & Authorization.
  - Identity, Credential, and Access Management and Personal Identify Verification (PIV) Systems.
  - National Institute of Standards and Technology (NIST) Zero Trust Architecture/Zero Trust Network.
  - Department Cyber Data Lake.
  - Office of Management and Budget (OMB) Trusted Internet Connections 3.0.
  - *National Defense Authorization Act* Section 889 Compliance.
- The Department's cybersecurity risk exposure has been directly reduced due to the amendment to this alert that allows the Department to enforce all the newly updated cybersecurity requirements articulated in the revised cybersecurity clause (which became effective September 28, 2020) with the amendment to Acquisition Alert 2020-01. The OCIO Information Assurance Services Division reviews all new IT contracts as a part of the ERM review process ensuring the updated clause inclusion before contract award.
- To allow the research community and others to alert the Department about vulnerabilities in its systems through a clearly established program, the Department *Vulnerability Disclosure Policy* (VDP) was published on March 1, 2021, in accordance with DHS BOD 20-01. The Department's VDP provides an open channel and legal safe harbor for the discoverer of vulnerabilities to report them to the Department. Version 2.0 of the VDP, released June 1, 2021, expanded the scope of the policy to include all internet-accessible, public-facing systems or services of the Department, more than a year ahead of schedule.
- Leveraging lessons learned with the Department of Energy, the Department formally established an Information Communications Technology (ICT) Supply Chain Risk Management (SCRM) program and released a strategic road map designed to provide a vision and action plan for the planning, preparation, implementation, and execution of the Department's ICT SCRM program. Following this road map and plan will allow the Department to move from a point-in-time compliance model to a near real-time detection, analysis, and correction model, resulting in improved ICT SCRM and more accurate and frequent assessments of ICT SCRM security control effectiveness. The Department's ICT SCRM program ensures that the Department and its contractors are assessing, protecting, and measuring risks involved with their selection of suppliers and not accepting unnecessary risks.
- The Oracle Enclave has been created for integrating all Oracle license usage into one cluster for cost avoidance. An approximate \$7 million in savings is estimated for the Department over three years, beginning in 2022. Currently, the Department is using this enclave for several systems, including EDCAPS, ED*Facts*, and PIVOT-I.
- OCIO, via the Information Technology Program Services Division, recently activated the Technology Business Management Solutions (TBMS) to provide cost transparency through a single, integrated view of IT costs by service, office, line item, and project. TBMS will empower Department leaders with information to improve financial performance.
- During FY 2021, OCIO successfully completed a major infrastructure upgrade in the Department's disaster recovery environment in Raleigh, NC. Enterprise improvements included an increase to overall infrastructure performance, dependability, capacity, and security. This upgrade provides the Department with a significant increase to the network bandwidth from 10GB to 40GB, increased cloud computing resources (the number of hosts increased

by 30 percent, RAM by 100 percent, and cores by 25 percent) resulting in overall improved performance, resolution of several existing vulnerabilities and POA&Ms that enhance the security posture of the Raleigh datacenter.

- OCIO implemented a Human Capital, Financial and Resource Management tool, comprised of a suite of dashboards, that provides an on-demand, interactive, and consolidated view of critical management areas. The tool is designed with a primary focus on providing executive-level status views of human capital management, financial management, budgetary execution and procurement to OCIO's senior leadership and leaders at the division and branch levels. The critical data points that leaders need to make informed business decisions are updated throughout the day to ensure that OCIO is proactively able to meet its strategic objectives and goals. These unique dashboards are discussed below:
  - The Human Resources Hiring Dashboard provides leadership with an up-to-the-minute aggregate or divisional snapshot view reflecting the status of current hiring actions. It lists the number of positions that have received agency approval to be encumbered, the number of positions presently encumbered, hiring actions that are not yet complete, and the number of new hires that have begun their employment with OCIO during the current fiscal year. In addition, updates are incorporated to identify the stage of each hiring action within the recruitment process. The Office of Human Resources has created a service-level agreement (SLA) identifying the number of days for each phase of the recruitment process in alignment with the OPM's 80-day hiring model. Those time lines are listed within the dashboard along with averaged quarterly variances that have occurred. In addition, current actions where SLAs have been missed are labeled as such, and viewers are able to specifically see the exact SLAs that have deviated from the prescribed time lines.
  - The Central Information Technology (CIT)-focused dashboard improves financial transparency and accountability for OCIO's leadership, division branch chiefs and program/project managers by increasing visibility into quantitative and qualitative key metrics. The key metrics reported include annual allocations, allotments, year-to-date-spending for both CIT and non-CIT budget line items, as well as late Acquisition Plan (AP) actions. Division chiefs and programs can visually and quickly identify areas that require their attention, such as projects still having the most remaining funding, late AP actions, and AP actions due in 30/60/90 days. Divisions are then held accountable for executing their plans accordingly.
  - The non-CIT dashboard focuses on pay and nonpay budgets and has been essential in driving critical decisions throughout the year, including pay and training availability for OCIO's employees.
  - While the OCIO Financial Executive Dashboard was primarily developed with the executive leadership audience in mind, it has served a multifaceted purpose as the basis for numerous tactical actions at the next level of leadership in both CIT and non-CIT.
- OCIO launched standard operating procedures for the proper alignment and retention of records inventories. These procedures enable principal offices to strengthen the protection of controlled unclassified information.
- In FY 2021, the Department's High Value Asset (HVA) program, in partnership with FSA, was presented as a "Best in Government" for its engagement with the DHS assessment team. DHS senior leadership noted how the Department and its components were outstanding in their planning, coordination, execution, and timeliness of its Risk and Vulnerability Assessments. Highlights of the program expressed how the Department worked with DHS to ensure a seamless process was executed for HVA assessment. This was presented at the federal CISO Council HVA Subcommittee as the gold standard for HVA engagement.

- In FY 2021, the Department's Cybersecurity and Awareness Program Manager was awarded the 2021 Federal Information Security Educators Cybersecurity Awareness and Training Innovator Award. The Department Cybersecurity and Awareness Program Manager oversees the Department's Phishing Program, Cybersecurity and Privacy Awareness Training, Role-Based Training, Workforce Development, and Continuous Outreach Activities.
- The Department developed and implemented a new FISMA 2014 reporting dashboard through Microsoft Power BI. 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 first quarter submission provided favorable Risk Management Assessment results across all FISMA 2014 security domains.

# Forward-Looking Information

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

## ENTERPRISE RISK MANAGEMENT

The Department's enterprise risk management (ERM) program supports agencywide 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 seeks to embed a systematic and deliberate view of risk into key management practices, yielding more effective performance and operational outcomes. The Department's implementation of ERM includes three critical strategies that are more fully described under Strategic Objective 4.2, Identify, assess, monitor and manage enterprise risks:

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

The Office of Enterprise Data Analytics and Risk Management (OEDARM), within the Office of Finance and Operations (OFO), leads the agency's overall ERM strategy and formally aligns ERM and internal controls processes. OEDARM leadership established a formal ERM Working Group (ERMWG) in FY 2020 with senior representation across the agency to further solidify the Department's ERM governance structure. Since its formation, the ERMWG has been instrumental in conducting coordinated risk assessments and further incorporating the risks highlighted or exacerbated by the

COVID-19 pandemic into short- and long-term risk planning. In addition to the representation of offices in the working group, OEDARM 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.

OEDARM leadership actively sought to enhance strategic partnerships with ERM colleagues across the government as well as with Department's own OIG. Initiatives in FY 2021 included: identifying metrics to inform the maturity of the Department's risk program; creation of a Knowledge Management Action Plan to develop a streamlined process of defining, structuring, retaining, and sharing the knowledge of Department employees; and the creation of digital tools for collecting, analyzing, and reporting risk data to promote transparency and accountability across the Department. OEDARM additionally established an informal, yet crucial, conversation series to bring awareness to various risk topics at the Department and to provide an open forum for discussion of risk in a safe, comfortable, setting. OEDARM's newly launched ERM internal-facing website contains useful tools, resources, and data to better educate and promote healthy risk culture for the entire Department.

OEDARM will continue the above and additional strategic efforts during FY 2022 to foster 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. Throughout FY 2022, the Department plans to further integrate ERM with key management processes—leveraging objective data analytics, key performance indicators and key risk indicators and considerations inform budget formulation, strategic planning, and performance management. In light of the current COVID-19 pandemic, the Department has intentionally shifted to an even more comprehensive and collaborative approach to risk management—to embed consideration of externally driven risks related to national health emergencies, natural disasters, potential terrorist

threats, and other significant crises that could adversely impact continuity of operations and mission delivery.

## 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,<sup>1</sup> 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 70 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 2021, nearly 8.3 million direct loan recipients were enrolled in IDR plans, representing a 1 percent increase from June 2020 and an 8 percent increase from June 2019. Overall, more than 47 percent of direct loan dollars and 32 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 on January 31, 2022.

- 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 given the inherent uncertainty involved 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. The 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 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 through January 31, 2022. These actions have insulated

<sup>1</sup> <https://cew.georgetown.edu/cew-reports/collegepayoff2021/>

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 2022 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 2021 loan cohort, it is estimated that the government will recover 44 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, and data on actual PSLF forgiveness remains limited, as borrowers first became eligible in FY 2018.

Data on approved PSLF applications first became available in FY 2018 since borrowers first became eligible for PSLF loan forgiveness starting October 1, 2017, after having made 120 qualifying payments. 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. As of September 30, 2021, the total number of borrowers who received forgiveness from PSLF and TEPSLF exceeded 16,000. The value of this forgiveness totaled nearly \$1.26 billion. Despite the relatively modest numbers of approved applications to date, the number of borrowers who have certified their employment in a public service organization continues to increase steadily. As of September 30, 2021, 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.

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 on their part. The changes include a limited PSLF waiver that allows all payments by student borrowers to count toward PSLF, regardless of loan program or payment plan and review of denied PSLF applications for errors, giving borrowers the ability to have their PSLF determinations reconsidered. Borrowers who have not previously certified employment will also be able to apply for the waiver. Two permanent changes to military borrowers working toward PSLF were also implemented. Any future congressional or regulatory action that may affect eligibility for PSLF continues to be an area of uncertainty.

## 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 2021 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 during times of unprecedented uncertainty facing students and borrowers in repayment plans today. Lastly, the direct loan portfolio has grown from approximately \$356 billion in FY 2011 to nearly \$1.3 trillion as of the end of FY 2021. 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 2021, 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 is subject to significant uncertainty and 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. While the COVID-19 pandemic has been accompanied by a spike in unemployment (at least in the short term), the impact on student loan volume has been more mixed, as higher education has struggled to provide students the level of instruction they were receiving prepandemic. The exact impact on the cost estimates from the current recession remains a significant 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 2016–20, resulted in a projected increase in the re-estimate of \$2.4 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. Data is not available for the FY 2021 financial statements, and the ultimate cost may not be known for some time. 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 time line for implementation of the FUTURE Act is uncertain, which can make predicting the impact on student loan cost estimates a challenge. 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.

On September 30, 2021, the Department was awarded \$20 million from the Technology Modernization Fund board. The Department will use the money to implement a Zero Trust architecture to improve the protections of student data it manages. By improving and modernizing cybersecurity technologies the Department will provide more secure and less burdensome user experiences both for employees and the public.

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, FSA delivers more than \$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 or career school. FSA also oversees the 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

FSA manages one of the largest consumer loan portfolios in the country, valued at \$1.6 trillion. It is critical that the Department provides an environment that provides customers with the services and experiences that they expect and the outcomes that they deserve. The Next Gen FSA initiative is enabling FSA to realize this vision by modernizing the way connections are made with customers and streamlining the student aid systems and processes. This broad effort will deliver an improved customer experience for millions of Americans across the entire student aid life cycle, from fostering greater awareness about the availability of financial aid, to applying for aid, to repaying loans, to improving the participation experiences and oversight of FSA partners at postsecondary institutions.

### Legacy Environment

In the current federal financial aid process, students and families must navigate a complex and fragmented landscape, interacting with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. Too often, this poor customer experience creates confusion, resulting in borrowers failing to understand how to apply for and maintain their aid eligibility, which repayment options they qualify for, and the financial implications of their student debt. Additionally, operational complexities and out-of-date contracts result in higher administrative costs and hinder effective oversight of the Department's vendors.



## Next Gen FSA Environment

Multiple websites, mobile applications, contact centers, and other customer interfaces have been combined into a simplified, consistent, and engaging customer experience, which will be enhanced by standardized training and tools. Since December 2019, FSA has launched a single front door on the web, **Studentaid.gov**, and has launched multiple modern self-service and consumer information tools that help customers understand the aid they have received, their remaining eligibility, and how they can manage loan repayment in a way that meets their goals. Some of these Digital and Customer Care (DCC) tools include the Federal Student Aid Estimator, *Loan Simulator*, and Public Service Loan Forgiveness Help Tool. In FY 2022 Next Gen DCC will continue to create and enhance tools and products for customers on StudentAid.gov and the myStudentAid mobile app. For example, in FY 2022, FSA plans to launch Medallia, a new customer feedback tool, while also making improvements to other tools, like the PSLF Help Tool and the Income-driven repayment plan application—which will allow for borrowers to move more quickly through the process when they cannot match with the IRS for providing income information. While not as eye-catching, FSA is working on technical integrations and cybersecurity updates that will be less visible to customers, but are significant improvements nonetheless. DCC's integration with the new NSLDS will allow the Department to be more flexible in what data is shown to customers, and multifactor authentication will keep bad actors from breaching the site.

While FSA's digital platform helps customers cut through the information clutter and access robust self-service, other components of Next Gen will bring onboard multiple contact centers that provide customers and partners with support across the entire student aid lifecycle, all under the FSA brand.

In early FY 2022, FSA will launch the Business Process Operations (BPO) initiative. BPO is the personnel component of the Next Gen FSA's vision. BPO vendors will provide customers and partners across all FSA programs and operations with support via contact centers and manual processing. Contact center work includes, but is not limited to, providing general assistance to students, parents, and borrowers as they navigate processes to learn about, apply for, receive, and repay federal student aid. BPO's will manage key back-office activities that encompass the full lifecycle of federal student financing in a manner consistent with leading financial services

providers and other industry leaders recognized for high-quality customer service. While managing customer and partner relations, FSA's BPO's will:

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

Next Gen remains deeply committed to improving the FSA experience for partners. In March 2021, FSA launched the FSA Partner Connect website, **fsapartners.ed.gov**. Before the launch, FSA's partners used several different systems to access tools and resources to support students during their educational journey. This new interface 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. In FY 2022, FSA will continue to develop and enhance the tools and systems used by partners and financial aid professionals.

The contracts that bring onboard these new tools, systems, and platforms include objective performance standards and accountability measures to ensure customers receive accurate, timely responses to their inquiries. These new technologies will also integrate modern cybersecurity protections, and a new enterprise wide data analytics platform will drive improved data and governance standards.

## Solicitation and Procurement Process

FSA is strategically planning its future solicitation strategy, with the priority being to ensure that its customers and partners have stable, reliable, and accountable solutions that meet their needs.

As the Next Gen vision evolves, FSA will ensure that the appropriate contractual actions will be taken to maintain or improve servicing capabilities. FSA aims to modernize

all back-end systems and infrastructure to pave the way for improved loan processing and management of customer accounts.

As FSA develops long-term plans for federal loan servicing, the goal will be to improve accountability, enhance service for at-risk borrowers, and establish performance benchmarks.

## 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**. Throughout the COVID-19 pandemic, the Department continued its efforts to strengthen data governance while overseeing the unprecedented investment in students and schools. 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 subsequently completed and **published** its inaugural Data Strategy. The Department's Data Governance Board (DGB) guided the development of four goals—to strengthen agencywide data governance; build human capacity to leverage data; advance the strategic use of data; and to improve data access, transparency, and privacy. The Department's Data Strategy provides a road map for the agency to improve education outcomes and lead the nation through evidence-based policy and data-driven decisions. The Office of the Chief Data Officer led agencywide working groups composed of representatives of each principal office to develop objectives and action plans for implementation throughout FY 2021 and FY 2022. Key Data Strategy implementation efforts include integrating existing data governance initiatives into agencywide efforts, the implementation of agencywide data governance policies for program office data life cycle and data management functions, launching an agencywide data literacy program, and establishing data quality guidelines.

### Open Data

The Evidence Act requires agencies to make data “open by default,” and the Department is planning to develop, release, and execute the Act's required open data plan consistent with OMB guidance. The Department will balance privacy and security with the open data mandate while prioritizing a broader public use of data paid for by its citizens. The Department's Open Data Platform (ODP) (<https://data.ed.gov/>) was publicly launched December 2020, with an initial population of public data profiles. A central repository for 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, the Department will build towards a comprehensive data inventory by 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 expanding the number of Department open data assets listed in the Federal Data Catalog. The ODP improves the Department's ability to grow and operationalize its comprehensive data inventory while progressing on open data requirements. The Department is at the forefront of federal agencies in realizing the requirements of the *Open, Public, Electronic and Necessary Government Data Act* (OPEN Government Data Act) (Title II of the Evidence Act) and the ODP is yet another way the Department is seeking to make data open by default.

### Education Stabilization Fund Public Transparency Portal

The ESF Transparency Portal, located at [covid-relief-data.ed.gov](https://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 Act* (CARES Act), *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSAA), and the American Rescue Plan Act of 2021 (ARP). The ESF Portal empowers decision-makers, parents, students, teachers, education leaders, and taxpayers with information about ESF programs and discloses how states, districts, and institutions of higher education (IHE) spent COVID-19 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 **HEERF**, **ESSER**, and **GEER** funds, providing

the public and decision-makers fuller insight into the expenditures and usage of ESF program funds. The Portal currently displays the CARES Act Annual Performance Report 2020 data by grantee and includes downloadable data files for decision-makers and the public detailing how ESF funds were spent on allowable activities such as distance-learning, ensuring student health and safety, and emergency aid to college students. An exemplar of open, transparent data, the Portal is 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's program offices have historically had varying levels of data quality control among its datasets. The Evidence Act calls for agencies to make greater use of administrative and program data, but there are limitations on enforcing remission of complete and accurate data from grantees. Current control processes address data quality only at the point when data are submitted, and, commencing initially in FY 2020, the Department identified a multipronged approach to address root causes and improve data quality. 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." Efforts include 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. It also includes provisions to improve the varying capacity of grantees in reporting data and varying capacity among Department staff in reviewing grantee-reported data. When fully deployed, this is expected to take the form of technical assistance to grantees, additional resources for the Department for data quality review, and expanded use of technological solutions to automate and reduce for manual reporting and review.

In late FY 2020, exigent circumstances, volume of new grant funds, and other challenging environmental factors led the Department to immediately deploy a variation of this strategy for key data collections associated with the ESF—specifically, the HEERF, GEER, ESSER, and equivalent Outlying Area funds. The Department executed a contract to develop a data collection portal, implement a data management solution to support internal and external reporting, and launch a public transparency website. In addition to early communications to grantees about expectations for data quality, several components of the data collection process include explicit data quality components.

This includes auto-population of known data values in the collection instrument; help desk services for grantees submitting performance data; a data management platform that imposes business rules to improve data quality; and established phases for opening, closing, and reopening the tool for grantees to submit data quality corrections.

Throughout FY 2021, the Department 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. Future efforts coordinated through the ED Data Strategy include the development of a data quality playbook to clarify data quality roles and responsibilities and build staff capacity to understand and address quality issues. The playbook will address how to help grantees assess and improve data quality before submission, propose meaningful incentives for data submitters, strengthen communication strategies, and propose ways to reduce the burden on both Department staff and grantees.

### The Department's Learning Agenda

The Department's FY 2022–FY 2026 Learning Agenda will be published in February 2022, in conjunction with the release of the FY 2023 President's Budget. The Learning Agenda is aligned to the Department's *Strategic Plan*, reflecting the secretary's goals and objectives 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 (EO) and the director of the Department's Grants Policy Office (GPO) and includes members from the Department's primary grantmaking 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 public, was also used to inform the Department's Learning Agenda.

In addition to advising the EO 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. 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 Technology Business Management Solutions (TBMS) is one of the Department's key initiatives.

#### Technology Business Management Solutions

The purpose of the TBMS project is to provide greater cost transparency into IT spending. The TBMS allows OCIO to communicate the cost drivers for, and the value of, IT to senior leadership, improve the efficiency and predictability of the formulation of the IT budget, and optimize IT costs.

Beginning in 2017, OMB required agencies to begin reporting IT spending in alignment with the TBMS framework, including using cost pools and IT towers

to classify IT spending. The Department has started to leverage TBMS beyond the minimum OMB reporting requirements to encompass the full implementation of the TBMS cost accounting framework. The Department of Education is refining the TBMS effort to: 1) provide accurate cost analysis and accounting of operations and services to improve tracking cost variances, 2) provide ad hoc reports to stakeholders on IT spending, and 3) contextualize the Department's internal resource costs with real-world data to inform decisions. The goal is to provide a "bill of IT" to form the basis of a show-back model to drive more informed decision-making around IT.

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

- Accurately account for and categorize IT spending in cost pools and IT towers.
- Evaluate IT spending using a method that helps identify redundant IT assets (e.g. systems, applications, and licenses).
- Extract cost elements from disparate sources, analyze these elements, and report cost stressors and trends to stakeholders.
- Prepare accurate pricing through a show-back model to client offices for the services provided and consumed by each client office.

FINANCIAL  
SECTION



# Message From the Chief Financial Officer



I am pleased to present our fiscal year (FY) 2021 *Agency Financial Report* (AFR) for the Department of Education (Department). Throughout FY 2021, the Department has remained committed to our stated mission to “promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.”

Congress established the Department as a Cabinet-level agency in 1980. Today, the Department supports programs that touch every area and level of education. The Department’s early learning, elementary, and secondary education programs annually serve more than 17,000 school districts and more than 56 million students attending more than 98,000 public and 32,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 10 million postsecondary students at more than 5,600 institutions of higher education.

The Department is responsible for administering education programs authorized and funded by Congress and signed into law by the President. This responsibility involves developing regulations and policy guidance regarding program operations, determining how program funds are awarded to recipients consistent with statutory requirements, and ensuring programs are operated fairly and conform to statutes and laws prohibiting

discrimination in federally funded activities. The Department also collects data and conducts research on education to help focus attention on education issues of national importance.

While remaining in a maximum telework posture for the past year, the Department’s innovative and dedicated workforce achieved several accomplishments during FY 2021:

- In FY 2020 and FY 2021, Congress passed multiple COVID-19 relief bills that provided the Department with over \$280 billion of supplemental funding for educational purposes. With this influx of funds, the Department successfully managed payment integrity risk by implementing strong internal controls that reduce the risk of improper payments while also implementing management flexibilities to temporarily reduce regulatory burdens on grantees adversely impacted by the pandemic.
- The Department established the Office of Enterprise Data Analytics and Risk Management, which merges enterprise risk management and operational internal controls activities and aims to provide leadership with actionable insights powered by data analytics.
- In March 2021, the Federal Student Aid (FSA) launched the FSA Partner Connect website, [fsapartners.ed.gov](https://fsapartners.ed.gov) to help streamline the Next Generation Federal Student Aid (Next Gen FSA) experience for partners.
- For the 20th consecutive year, we received an unmodified (clean) audit opinion on our financial statements from our independent auditor. A clean opinion confirms that our financial statements are presented fairly, in all material respects, and conform with generally accepted accounting principles. The internal control report identified one repeat material weakness, “Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement.” The Department developed and implemented a corrective action plan to begin addressing deficiencies identified as part of this particular weakness in FY 2021 and remains

committed to continually evaluating current internal controls for improvement opportunities in FY 2022 and beyond.

- We received external validation of our sustained efforts to produce user-friendly, transparent financial reporting by earning the Department's 17th award of the Association of Government Accountants' Certificate of Excellence in Accountability Reporting, as well as a special award for the Innovative Presentation of A Matter of Wide Public Interest. Federal financial reports must pass a rigorous independent review against a comprehensive set of standards to earn this prestigious recognition, which is the highest award bestowed for federal financial reporting.

I am proud of the work the Department has accomplished over the past fiscal year, though challenges still lie ahead. Student loan payment relief during the COVID-19 pandemic was extended through January 31, 2022. This measure included suspending loan payments and halting collections on defaulted loans. These actions have largely 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. This final extension will give students and borrowers the time they need to plan for restart and ensure a smooth pathway back to repayment. The Department is working with students and borrowers and providing guidance and information about how to plan for payment restart as the end of the pause approaches.

The Department's achievements illustrate the remarkable effort and dedication of our employees and partners. We will continue to serve as accountable and committed stewards supporting the Department's mission on behalf of the public while enhancing our financial management capabilities.

*Denise L. Carter*

**Denise Carter**

*Delegated the authority to perform the functions and duties of the position of Chief Financial Officer*

*November 19, 2021*

# About the Financial Section

In FY 2021, the Department prepared its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is an important part of the Department's financial management goal of providing accurate and reliable information for decision-making.

## FINANCIAL STATEMENTS AND NOTES

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

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

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

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

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

- Note 1.** Summary of Significant Accounting Policies
- Note 2.** Non-Entity Assets
- Note 3.** Fund Balance with Treasury
- Note 4.** Other Assets
- Note 5.** Loan Receivables, Net, and Loan Guarantee Liabilities
- Note 6.** Liabilities Not Covered by Budgetary Resources
- Note 7.** Debt Associated with Loans
- Note 8.** Subsidy Due to Treasury
- Note 9.** Other Liabilities
- Note 10.** Net Cost of Operations
- Note 11.** COVID-19 Activity
- Note 12.** Statements of Budgetary Resources
- Note 13.** Reconciliation of Net Cost to Net Outlays
- Note 14.** Commitments and Contingencies
- Note 15.** Subsequent Event
- Note 16.** Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for FR Compilation Process



**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

This section contains the Combining Statements of Budgetary Resources for the years ended September 30, 2021, and September 30, 2020.

**REPORT OF THE INDEPENDENT AUDITORS**

The results of the audit of the Department's financial statements for FY 2021 and FY 2020 to comply with the *Chief Financial Officers Act of 1990*, as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department's Office of Inspector General contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of the Department as of September 30, 2021, and 2020, and for the years then ended.

**U.S. Department of Education**  
**Consolidated Balance Sheets**  
**As of September 30, 2021 and September 30, 2020**  
(Dollars in Millions)

	FY2021	FY2020
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 351,868	\$ 136,015
Other Intragovernmental Assets (Note 4)	114	124
Total Intragovernmental	351,982	136,139
Public:		
Loans Receivable, Net (Note 5)		
Direct Loan Program	1,104,851	1,100,544
Federal Family Education Loan (FFEL) Program	58,246	67,380
Other Credit Programs for Higher Education	1,967	3,107
Cash and Other Monetary Assets	1,913	1,943
Other Assets (Note 4)	324	273
Total Public	1,167,301	1,173,247
<b>Total Assets</b>	<b>\$ 1,519,283</b>	<b>\$ 1,309,386</b>
<b>LIABILITIES (Note 6)</b>		
Intragovernmental:		
Debt Associated with Loans (Note 7)		
Direct Loan Program	\$ 1,142,195	\$ 1,160,099
FFEL Program	78,254	88,986
Other Credit Programs for Higher Education	1,096	2,302
Accounts Payable	1	-
Other Liabilities:		
Subsidy Due to Treasury (Note 8)	1,513	3,298
Guaranty Agency Funds Due to Treasury	1,913	1,943
Other Intragovernmental Liabilities (Note 9)	739	669
Total Intragovernmental	1,225,711	1,257,297
Public:		
Accounts Payable	5,010	3,773
Loan Guarantee Liabilities (Note 5)	7,496	1,123
Other Liabilities:		
Accrued Grant Liability	7,589	1,939
Other (Note 9)	382	323
Total Public	20,477	7,158
<b>Total Liabilities</b>	<b>\$ 1,246,188</b>	<b>\$ 1,264,455</b>
Commitments and Contingencies (Note 14)		
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 301,798	\$ 99,314
Cumulative Results of Operations	(28,703)	(54,383)
<b>Total Net Position</b>	<b>\$ 273,095</b>	<b>\$ 44,931</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,519,283</b>	<b>\$ 1,309,386</b>

*The accompanying notes are an integral part of these statements.*

**U.S. Department of Education**  
**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2021 and September 30, 2020**  
(Dollars in Millions)

	FY2021	FY2020
<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>		
Gross Costs	\$ 61,013	\$ 40,145
Earned Revenue	(118)	(129)
<b>Net Program Costs</b>	<b>\$ 60,895</b>	<b>\$ 40,016</b>
<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>		
<b>Direct Loan Program</b>		
Gross Costs	\$ 131,088	\$ 137,303
Earned Revenue	(35,673)	(34,970)
<b>Net Cost of Direct Loan Program</b>	<b>\$ 95,415</b>	<b>\$ 102,333</b>
<b>FFEL Program</b>		
Gross Costs	\$ 16,898	\$ 5,419
Earned Revenue	(3,095)	(3,108)
<b>Net Cost of FFEL Program</b>	<b>\$ 13,803</b>	<b>\$ 2,311</b>
<b>Other Credit Programs for Higher Education</b>		
Gross Costs	\$ 1,673	\$ 144
Earned Revenue	(1,060)	(1,368)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>\$ 613</b>	<b>\$ (1,224)</b>
<b>Non-Credit Programs</b>		
Gross Costs	\$ 68,994	\$ 45,987
Earned Revenue	(15)	(5)
<b>Net Cost of Non-Credit Programs</b>	<b>\$ 68,979</b>	<b>\$ 45,982</b>
<b>Net Program Costs</b>	<b>\$ 178,810</b>	<b>\$ 149,402</b>
<b>Total Program Gross Costs</b>	<b>\$ 279,666</b>	<b>\$ 228,998</b>
<b>Total Program Earned Revenue</b>	<b>\$ (39,961)</b>	<b>\$ (39,580)</b>
<b>Net Cost of Operations (Notes 10 &amp; 13)</b>	<b>\$ 239,705</b>	<b>\$ 189,418</b>

*The accompanying notes are an integral part of these statements.*

**U.S. Department of Education**  
**Consolidated Statements of Changes in Net Position**  
**For the Years Ended September 30, 2021 and September 30, 2020**  
(Dollars in Millions)

	FY2021		FY2020	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
<b>Beginning Balances</b>	\$ 99,314	\$ (54,383)	\$ 72,757	\$ (76,267)
Appropriations Received	477,507	-	245,237	-
Appropriations Transferred - In/Out	(409)	-	(154)	-
Other Adjustments (Rescissions, etc.)	(1,107)	1	(871)	-
Appropriations Used	(273,507)	273,507	(217,655)	217,655
Nonexchange Revenue	-	8	-	11
Donations and Forfeitures of Cash and Cash Equivalents	-	1	-	-
Imputed Financing from Costs Absorbed by Others	-	36	-	30
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(8,168)	-	(6,394)
Net Cost of Operations	-	(239,705)	-	(189,418)
<b>Net Change</b>	<b>\$ 202,484</b>	<b>\$ 25,680</b>	<b>\$ 26,557</b>	<b>\$ 21,884</b>
<b>Net Position</b>	<b>\$ 301,798</b>	<b>\$ (28,703)</b>	<b>\$ 99,314</b>	<b>\$ (54,383)</b>

*The accompanying notes are an integral part of these statements.*

**U.S. Department of Education**  
**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2021 and September 30, 2020**  
(Dollars in Millions)

	FY2021		FY2020	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	\$ 20,772	\$ 20,650	\$ 17,756	\$ 9,119
Appropriations (Discretionary and Mandatory)	476,520	239	244,680	350
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	129,407	-	135,589
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	(206)	42,224	191	65,762
<b>Total Budgetary Resources</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>	<b>\$ 262,627</b>	<b>\$ 210,820</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
New Obligations and Upward Adjustments (Total)	\$ 457,228	\$ 170,268	\$ 242,724	\$ 188,098
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	35,815	-	16,446	-
Unapportioned, Unexpired Accounts	1,931	22,252	1,822	22,722
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 37,746</b>	<b>\$ 22,252</b>	<b>\$ 18,268</b>	<b>\$ 22,722</b>
Expired Unobligated Balance, End of Year	2,112	-	1,635	-
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 39,858</b>	<b>\$ 22,252</b>	<b>\$ 19,903</b>	<b>\$ 22,722</b>
<b>Total Budgetary Resources</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>	<b>\$ 262,627</b>	<b>\$ 210,820</b>
<b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>				
Outlays, Net (Discretionary and Mandatory)	\$ 267,076		\$ 218,025	
Distributed Offsetting Receipts (-) (Note 12)	(6,625)		(13,610)	
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 &amp; 13)</b>	<b>\$ 260,451</b>		<b>\$ 204,415</b>	
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ (39,881)</b>		<b>\$ (42,946)</b>

*The accompanying notes are an integral part of these statements.*

# Notes to the Financial Statements for the Years Ended September 30, 2021 and September 30, 2020

## NOTE 1. Summary of Significant Accounting Policies

### REPORTING ENTITY AND PROGRAMS

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

The Department is a component of the U.S. government. For this reason, some of the assets and liabilities reported by the Department may be eliminated for governmentwide reporting because they are offset by assets and liabilities of another U.S. government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

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

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

The Direct Loan Program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized

Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

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

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

**Grant Programs.** The Department has more than 100 grant programs. The three largest grant programs are Title I of the *Elementary and Secondary Education Act*, federal Pell Grant, and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition, the Department offers

other discretionary grants under a variety of authorizing legislation awarded using a competitive process, and formula grants using formulas determined by Congress with no application process. (See Note 10)

**COVID-19.** Congress passed multiple COVID-19 relief bills in fiscal year (FY) 2020 and FY 2021 including the following that provided funding for educational purposes: the *Coronavirus Aid, Relief, and Economic Security Act*, of 2020 (CARES Act), the *Coronavirus Response and Relief Supplemental Appropriations Act* of 2021 (CRRSAA), and the *American Rescue Plan Act of 2021* (ARP). The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund, which includes the (1) Elementary and Secondary School Emergency Relief Fund, (2) Higher Education Emergency Relief Fund, (3) Governor's Emergency Education Relief Fund, and (4) funds for outlying areas. The Education Stabilization Fund is being distributed to recipients through various grant programs. The Department transferred \$563 million of the funds to the Department of the Interior to be administered by the Bureau of Indian Education. (See Notes 3, 10, and 11)

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by suspending nearly all federal loan payments until January 31, 2022, interest free. The Department also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student loan repayment deferrals was provided through indefinite appropriations. (See Notes 5, 10, and 11)

Other regulatory flexibilities and incentives provided in the COVID-19 legislation include:

- Federal Supplemental Educational Opportunity Grants to provide emergency aid to students.
- Work-study payments, which will continue even if students can no longer work on-site.
- Pell Grants, financial aid, and loans originated for the spring 2020 term, which students who have had to leave college campuses will not have to pay back. Moreover, none of this aid will count against students' financial aid lifetime limits.
- Waiving satisfactory academic progress requirements to help ensure that students do not lose academic standing and the ability to receive federal financial student aid.

- Tax credits that incentivize employers to help pay for student loans.

## PROGRAM OFFICES

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

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

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

## BASIS OF ACCOUNTING AND PRESENTATION

These financial statements were prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and

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

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

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

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

### ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

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

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a subsidy cost to the government

(a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs, and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

Subsidy cost is an estimate of the present value cost of providing direct loans but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using a set of econometric and financial models, as well as cash flow models.

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates to the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates to previous cost estimates based on new legislation or other government actions that change the terms of existing loans (loan modifications) that alter the estimated subsidy cost and the present value of outstanding loans. Loan modifications can also include modification adjustment gains and losses to account for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

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

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

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

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed



loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as nonbudgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the *Budget of the United States Government* (President's Budget).

- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Notes 12 and 13)

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. The Department advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to the Department. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 8.9 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each borrower. Interest accrues while a loan is in deferment or forbearance. Loans are canceled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also canceled through the Public Service Loan Forgiveness (PSLF) program, which forgives the remaining balance

on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers the Pay As You Earn (PAYE) program. This student loan repayment program is designed to help borrowers who struggle to make their normal student loan payments. The plan allows payments to be limited to 10 percent of discretionary income if qualifications are met. Under the PAYE program, if all requirements are met, forgiveness of the remaining balance of a student loan is possible after 20 years of payments.

## BUDGETARY RESOURCES

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

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

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

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

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

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

#### ENTITY AND NON-ENTITY ASSETS

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

#### FUND BALANCE WITH TREASURY

Fund Balance with Treasury includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations

are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's records. (See Note 3)

#### ACCOUNTS RECEIVABLE

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

#### CASH AND OTHER MONETARY ASSETS

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

The balance of guaranty agencies' federal funds represents consolidated reserve balances of the 20 guaranty agencies based on the guaranty agency financial reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. A year-end valuation adjustment is made to adjust the Department's balances to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury on the Department's balance sheets. The funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The guaranty agencies' federal funds are the property of the United States and are reflected in the President's

Budget. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Note 2)

### LOAN RECEIVABLES, NET AND LOAN GUARANTEE LIABILITIES

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

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

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

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

### PROPERTY AND EQUIPMENT, NET AND LEASES

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

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

### LIABILITIES

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

### DEBT ASSOCIATED WITH LOANS

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-

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

### SUBSIDY DUE TO TREASURY

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

### ACCOUNTS PAYABLE

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

### ACCRUED GRANT LIABILITY

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

## PERSONNEL COMPENSATION AND OTHER EMPLOYEE BENEFITS

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

### Retirement Plans and Other Retirement Benefits.

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

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

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

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

not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by the Department.

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

### IMPUTED COSTS

Services are received from other federal entities at no cost or at a cost less than the full cost to the Department. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statements of Net Cost and are offset by imputed revenue in the Statements of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of services other than those related to employee benefits are not included in the Department's financial statements.

### NET COST

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan*.

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

**Credit Program Subsidy Expense.** Subsidy expense is an estimate of the present value cost of providing loans, excluding the administrative costs of issuing and servicing the loans. To estimate subsidy expense, the Department must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). The Department projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. The Department estimates subsidy expenses annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and

updates previous cost estimates based on changes to terms of existing loans (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the estimated subsidy cost of outstanding direct loans (or direct loan obligations). The change in book value of direct loans resulting from a modification and the cost of modification will normally differ due to the use of different discount rates or the use of different measurement methods. Any difference between the change in book value and the cost of modification is recognized as a modification adjustment transfer gain or a modification adjustment transfer loss. (See Notes 5 and 10)

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

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

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

### NET POSITION

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

### ALLOCATION TRANSFERS

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

The Department is a party to allocation transfers as a parent entity to the Department of the Interior and receives allocation transfers as a child entity from the Department of Health and Human Services.

### TAXES

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

### USE OF ESTIMATES

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

The Department's estimates for credit programs are calculated using a series of assumption models that are updated using a statistically valid sample of National Student Loan Data System (NSLDS<sup>®</sup>) data, data from the Debt Management and Collection System, and economic

assumptions provided by OMB. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. The Department recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. The Department therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements. The Department updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in the modeling methodology is essential to the financial reporting and budgeting processes so that the Department can forecast the costs of various program options when making policy decisions. (See Note 5)

### RECLASSIFICATIONS

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

- The format of the balance sheet was changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change will allow readers to see how the amounts shown on the balance sheet are reflected on the Governmentwide Balance Sheet and thereby support the preparation and audit of the *Financial Report of the United States Government*. The presentation of the FY 2020 balance sheet was modified to be consistent with the 2021 presentation. Balance sheet notes affected by the new balance sheet format were also reclassified. (See Notes 2, 4, 5, and 9)
- Note 13, Reconciliation of Net Cost to Net Outlays, was reclassified to conform to FY 2021 Treasury guidance for the presentation of this reconciliation.

**NOTE 2. Non-Entity Assets**

(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
<b>Non-Entity Assets</b>				
Fund Balance with Treasury	\$ 285	\$ -	\$ 233	\$ -
Loans Receivable, Net	-	693	-	633
Cash and Other Monetary Assets	-	1,913	-	1,943
Other Assets				
Accounts Receivable, Net	-	66	-	42
<b>Total Non-Entity Assets</b>	<b>285</b>	<b>2,672</b>	<b>233</b>	<b>2,618</b>
Entity Assets	351,697	1,164,629	135,906	1,170,629
<b>Total Assets</b>	<b>\$ 351,982</b>	<b>\$ 1,167,301</b>	<b>\$ 136,139</b>	<b>\$ 1,173,247</b>

The Department's FY 2021 assets are predominantly entity assets (99.8 percent), leaving a small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in deposit and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (71.6 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (25.9 percent), reported as loan receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities (see Note 9).

**NOTE 3. Fund Balance with Treasury**

(Dollars in Millions)

	2021			2020		
	COVID-19 Funds	All Other Funds	Total	COVID-19 Funds	All Other Funds	Total
Unobligated Balance						
Available	\$ 18,515	\$ 17,300	\$ 35,815	\$ 672	\$ 15,774	\$ 16,446
Unavailable	-	24,382	24,382	-	24,236	24,236
Obligated Balance, Not Disbursed	203,460	130,330	333,790	18,944	124,403	143,347
Authority Temporarily Precluded from Obligation	-	(396)	(396)	-	-	-
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 12)	-	(41,978)	(41,978)	-	(48,230)	(48,230)
Other	-	255	255	-	216	216
<b>Total Fund Balance with Treasury</b>	<b>\$ 221,975</b>	<b>\$ 129,893</b>	<b>\$ 351,868</b>	<b>\$ 19,616</b>	<b>\$ 116,399</b>	<b>\$ 136,015</b>

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance (\$24.4 billion) differs from unapportioned and expired amounts on the SBR (\$26.3 billion) due to the Guaranty Agencies' Federal Funds (\$1.9 billion).

In FY 2021 and FY 2020, \$354 million and \$305 million, respectively, of unused funds from canceled appropriations were returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines (see Note 12).

**NOTE 4. Other Assets**

(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Receivable, Net	\$ 9	\$ 284	\$ 3	\$ 234
Advances to Others and Prepayments	104	34	120	32
Property and Equipment, Net	-	6	-	6
Other	1	-	1	1
<b>Total Other Assets</b>	<b>\$ 114</b>	<b>\$ 324</b>	<b>\$ 124</b>	<b>\$ 273</b>

Included in the accounts receivable with the public are amounts owed because of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department of Education. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2021, related to criminal restitutions totaled \$120 million and \$109 million, respectively.

Changes in property and equipment balances were as follows:

**Property and Equipment**

(Dollars in Millions)

	Acquisition Value	Accumulated Depreciation	Net
<b>2021</b>			
Balance Beginning of the Year	\$ 167	\$ (161)	\$ 6
Capitalized Acquisitions	1	-	1
Depreciation Expense	-	(1)	(1)
<b>Balance At End of Year</b>	<b>\$ 168</b>	<b>\$ (162)</b>	<b>\$ 6</b>
<b>2020</b>			
Balance Beginning of the Year	\$ 169	\$ (161)	\$ 8
Dispositions	(2)	1	(1)
Depreciation Expense	-	(1)	(1)
<b>Balance At End of Year</b>	<b>\$ 167</b>	<b>\$ (161)</b>	<b>\$ 6</b>

**NOTE 5. Loan Receivables, Net and Loan Guarantee Liabilities**

**Loans Receivables**

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
<b>2021</b>				
Direct Loan Program	\$ 1,292,214	\$ 86,501	\$ (273,864)	\$ 1,104,851
FFEL Program	82,009	23,902	(47,665)	58,246
Other Credit Programs for Higher Education	2,060	294	(387)	1,967
<b>Total Loans Receivable</b>	<b>\$ 1,376,283</b>	<b>\$ 110,697</b>	<b>\$ (321,916)</b>	<b>\$ 1,165,064</b>
<b>2020</b>				
Direct Loan Program	\$ 1,224,816	\$ 92,132	\$ (216,404)	\$ 1,100,544
FFEL Program	84,765	24,110	(41,495)	67,380
Other Credit Programs for Higher Education	3,364	373	(630)	3,107
<b>Total Loans Receivable</b>	<b>\$ 1,312,945</b>	<b>\$ 116,615</b>	<b>\$ (258,529)</b>	<b>\$ 1,171,031</b>



The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. The emergency relief measures provided by Congress and the administration in response to the COVID-19 pandemic were recorded as loan modifications and are described in each of the programs below. Per OMB guidance, loan modifications were calculated using the President's Budget formulation discount rates. The net loans receivable is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

What follows is additional analysis of the activity, costs, and adjustments for each of the loan programs

### DIRECT LOAN PROGRAM

The federal government makes loans directly to students and parents through participating IHEs under the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors.

Direct Loan Program loan receivables include defaulted and nondefaulted loans owned by the Department. Of the \$1,378.7 billion in gross loan receivables, as of September 30, 2021, \$91.5 billion (6.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to \$100.3 billion (7.6 percent) as of September 30, 2020.

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

	2021	2020
Stafford	\$ 18,325	\$ 19,126
Unsubsidized Stafford	44,146	46,077
PLUS	20,824	21,735
Consolidation	21,508	30,427
<b>Total Disbursements</b>	<b>\$ 104,803</b>	<b>\$ 117,365</b>

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

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

Direct loan consolidations were \$21.5 billion during FY 2021 and \$30.4 billion during FY 2020. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

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

	2021	2020
Interest Expense on Treasury Borrowing	\$ 32,957	\$ 34,705
<b>Total Interest Expense</b>	<b>\$ 32,957</b>	<b>\$ 34,705</b>
Interest Revenue From the Public	(459)	28,161
Interest Revenue on Uninvested Funds	4,230	4,786
Administrative Fees	32	163
Amortization of Subsidy	29,154	1,595
<b>Total Revenues</b>	<b>\$ 32,957</b>	<b>\$ 34,705</b>

### Direct Loan Program Subsidy Expense (Dollars in Millions)

	2021	2020
<b>Subsidy Expense for Direct Loans Disbursed in the Current Year</b>		
Interest Rate Differential	\$ 19,844	\$ 19,022
Defaults, Net of Recoveries	606	1,925
Fees	(1,603)	(1,676)
Other	(17,259)	(14,131)
<b>Total Subsidy Expense for Direct Loans Disbursed in the Current Year</b>	<b>1,588</b>	<b>5,140</b>
<b>Modifications and Re-Estimates</b>		
Loan Modifications		
Modification Adjustment Transfer Gain	(2,716)	(265)
Modification Adjustment Transfer Loss	182	347
Loan Modifications	70,812	39,576
<b>Total Loan Modifications</b>	<b>68,278</b>	<b>39,658</b>
Net Upward Subsidy Re-Estimates		
Interest Rate Re-estimates	(6,221)	(967)
Technical and Default Re-estimates	30,246	57,077
<b>Total Net Upward Subsidy Re-estimates</b>	<b>24,025</b>	<b>56,110</b>
<b>Total Modifications and Re-estimates</b>	<b>92,303</b>	<b>95,768</b>
<b>Direct Loan Subsidy Expense</b>	<b>\$ 93,891</b>	<b>\$ 100,908</b>

**Subsidy Expense for Direct Loans Disbursed in the Current Year.** The two major components of the total subsidy expense for direct loans disbursed in the current year (subsidy transfers) are Interest Rate Differential and Other components. Interest Rate Differential is attributable to the difference between the borrowers' interest payments due to the Department and the Department's estimated cost to finance the direct loan on a present value basis. The Other components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness.

**Loan Modifications.** Loan modifications for the Direct Loan Program for FY 2021 included the following:

- **Loan Deferral Extension.** In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of \$52.0 billion. There was a net positive \$2.5 billion modification adjustment transfer associated with these modifications, bringing the

total FY 2021 modification cost for the student loan repayment deferrals to \$49.5 billion.

- **Total and Permanent Disability.** The Department recorded an upward modification for costs associated with the regulatory action to clarify that borrowers determined to be eligible for a total and permanent disability discharge based on data that the Secretary obtains from the Department of Veterans Affairs (VA) or the Social Security Administration (SSA) are not required to submit an application to have their federal student loans discharged. These discharges resulted in an upward modification cost of \$18.7 billion.
- **Faith-Based Final Rule.** The Department recorded an upward modification to reflect the cost of updated program regulations that permit borrowers who work for employers that engage in religious instruction, worship services, or proselytizing to qualify for PSLF so long as they meet the applicable standards. These updated regulations resulted in an upward modification cost of \$0.1 billion.

#### **Net Upward Subsidy Re-Estimates for All Prior-Year Loan Cohorts.**

The Direct Loan Program subsidy re-estimate increased subsidy expense in FY 2021 by \$24.0 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2020). The re-estimate reflects the assumption updates and other changes described below.

In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including loan volume, disbursement, and enter repayment rates.

- **Death, Disability, and Bankruptcy (DDB).** The Department updated the data and made a technical change to extend the window for a DDB event to occur from 15 to 30 years. Those claims were included in the estimates of DDB rates previously, but the extended timeframe allows for a more realistic sense of their timing. The combined effect of these updates led to a new upward re-estimate of \$3.2 billion.
- **Income-Driven Repayment (IDR) Model Changes.** The Department completed a standard IDR data update to reflect the immediate prior cycle for interest rates, defaults, prepayments, contract collection costs, and DDB. The DDB update includes adjustments for the Total Permanent Disability (TPD) regulation that resulted in increased disability rates related to the expanded opt-out process with SSA to match borrowers within the IDR model. In addition, actual data on borrower incomes was analyzed using the NSLDS data. The number of actual incomes for 2019 was very low due to impacts from the COVID-19 pandemic, which led to stable income calibration results compared to last year's level of 35 percent. Payments in FY 2020 were adjusted to account for voluntary payments made by students during the payment pause as seen in the FSA data. The combined effect of these updates led to a net upward re-estimate of \$22.4 billion.
- **Deferment and Forbearance.** The Department updated actual deferment and forbearance rates for FY 2020 and calibrated FY 2021 and FY 2022 rates using data from FSA on borrower payments made during the period of repayment deferral. The combined effect of these changes led to a net downward re-estimate of \$4.8 billion.
- **Collections.** The Department updated the data and calibrated FY 2021 collection rates to reflect the extension of the repayment deferral. The combined effect of these changes led to a net upward re-estimate of \$1.5 billion.
- **Default.** In addition to the adjustments for the extension of the student loan repayment deferrals, the Department updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics and projected unemployment rates from OMB. The combined effect of these changes led to a net downward re-estimate of \$6.4 billion.
- **Repayment Plan Selection.** The Department incorporated new repayment plan data that showed a continuing increase in IDR plan usage. This update led to an upward re-estimate of \$0.7 billion.
- **2020 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of \$15.5 billion for these current-year assumption changes attributable to the FY 2020 cohort.
- **Discount Rates.** FCRA requires that for discounting cash flows, financing accounting borrowing and financing account interest earnings be identical and based on the Treasury rates in effect during the period

of loan disbursement. Adjustments to the FY 2019 and FY 2020 cohort discount rates were calculated. The combined effect of these adjustments led to a new downward re-estimate of \$11.1 billion.

- Interest on the Re-Estimate. Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-

estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of \$5.0 billion.

- Interactive Effects. The re-estimate includes a net downward re-estimate of \$1.6 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.

### Direct Loan Subsidy Rates—Cohort 2021

	Interest Differential	Defaults	Fees	Other	Total
Stafford	24.70%	0.92%	-1.06%	-17.16%	7.40%
Unsubsidized Stafford	23.78%	0.48%	-1.06%	-25.03%	-1.83%
PLUS	12.20%	0.37%	-4.23%	-24.27%	-15.93%
Consolidation	14.67%	-1.19%	0.00%	4.45%	17.93%
<b>Weighted Average Total</b>	<b>19.48%</b>	<b>0.08%</b>	<b>-1.33%</b>	<b>-15.90%</b>	<b>2.33%</b>

\*The Other component reflects costs associated with loan cancelations and the interactive effects of payment plans on the components of subsidy.

The subsidy rates disclosed pertain only to the current year’s cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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

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

	2021	2020
<b>Beginning Balance of Allowance for Subsidy</b>	<b>\$ 216,404</b>	<b>\$ 124,438</b>
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	1,588	5,140
Adjustments		
Loan Modifications	68,278	39,658
Fees Received	1,562	1,609
Loans Written Off	(8,354)	(7,833)
Subsidy Allowance Amortization	(29,154)	(1,595)
Other Activities	(485)	(1,123)
<b>Ending Balance of Allowance for Subsidy Before Re-Estimates</b>	<b>249,839</b>	<b>160,294</b>
Net Upward Subsidy Re-Estimates	24,025	56,110
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 273,864</b>	<b>\$ 216,404</b>

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

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

Loans written off result from borrowers having died, becoming disabled, or having a loan approved for discharge in bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated.

**FEDERAL FAMILY EDUCATION LOAN PROGRAM**

FFEL was established in FY 1965 and is a guaranteed loan program. As a result of the *SAFRA Act*, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or canceled.

**FFEL Guaranteed Loans Outstanding**  
(Dollars in Billions)

	2021
Outstanding Principal of Guaranteed Loans, Face Value	\$ 116.9
Amount of Outstanding Principal Guaranteed	\$ 116.9

As of September 30, 2021, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately \$116.9 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2021, the interest balances outstanding for guaranteed loans held by lenders was approximately \$4.4 billion. The Department’s total FFEL Program guarantees (principal and interest) are approximately \$121.3 billion as of September 30, 2021. Of the total guaranteed amount, the Department would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made, and the guaranty agency’s claim experience. For purposes of disclosing the Department’s total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

Defaulted and acquired FFEL loans are accounted for as assets as shown in the following table.

### FFEL Program Loan Receivables

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
<b>2021</b>				
<b>DEFAULTED FFEL GUARANTEED LOANS</b>				
FFEL GSL Program (Pre-1992)	\$ 3,638	\$ 5,739	\$ (8,418)	\$ 959
FFEL GSL Program (Post-1991)	32,612	9,302	(26,735)	15,179
<b>Total Defaulted FFEL Guaranteed Loans</b>	<b>36,250</b>	<b>15,041</b>	<b>(35,153)</b>	<b>16,138</b>
<b>ACQUIRED FFEL LOANS</b>				
Loan Purchase Commitment	15,238	2,716	(4,822)	13,132
Loan Participation Purchase	29,178	5,776	(7,316)	27,638
ABCP Conduit	1,343	369	(374)	1,338
<b>Total Acquired FFEL Loans</b>	<b>45,759</b>	<b>8,861</b>	<b>(12,512)</b>	<b>42,108</b>
<b>FFEL Program Loan Receivables</b>	<b>\$ 82,009</b>	<b>\$ 23,902</b>	<b>\$ (47,665)</b>	<b>\$ 58,246</b>
<b>2020</b>				
<b>DEFAULTED FFEL GUARANTEED LOANS</b>				
FFEL GSL Program (Pre-1992)	\$ 3,627	\$ 5,809	\$ (8,249)	\$ 1,187
FFEL GSL Program (Post-1991)	33,057	9,121	(22,286)	19,892
<b>Total Defaulted FFEL Guaranteed Loans</b>	<b>36,684</b>	<b>14,930</b>	<b>(30,535)</b>	<b>21,079</b>
<b>ACQUIRED FFEL LOANS</b>				
Loan Purchase Commitment	16,009	2,797	(4,102)	14,704
Loan Participation Purchase	30,683	6,005	(6,424)	30,264
ABCP Conduit	1,389	378	(434)	1,333
<b>Total Acquired FFEL Loans</b>	<b>48,081</b>	<b>9,180</b>	<b>(10,960)</b>	<b>46,301</b>
<b>FFEL Program Loan Receivables</b>	<b>\$ 84,765</b>	<b>\$ 24,110</b>	<b>\$ (41,495)</b>	<b>\$ 67,380</b>

## FFEL Program Subsidy Expense

(Dollars in Millions)

	2021	2020
<b>Loan Modification Costs</b>		
FFEL Guaranteed Loan Program		
Net Modification Adjustment Transfer (Gain)/Loss	\$ (302)	\$ (9)
Loan Modifications	3,164	835
<b>Total FFEL Guaranteed Loan Program Loan Modifications</b>	<b>2,862</b>	<b>826</b>
Loan Purchase Commitment		
Net Modification Adjustment Transfer (Gain)/Loss	-	(7)
Loan Modifications	1,069	958
<b>Total Loan Purchase Commitment Loan Modifications</b>	<b>1,069</b>	<b>951</b>
Loan Participation Purchase		
Net Modification Adjustment Transfer (Gain)/Loss	-	(10)
Loan Modifications	1,879	1,658
<b>Total Loan Participation Purchase Loan Modifications</b>	<b>1,879</b>	<b>1,648</b>
<b>Total Loan Modification Costs</b>	<b>5,810</b>	<b>3,425</b>
<b>Upward/(Downward) Subsidy Re-Estimates</b>		
FFEL Loan Guarantee Program	7,226	(3,451)
Loan Purchase Commitment	208	802
Loan Participation Purchase	397	1,376
<b>Total FFEL Program Subsidy Re-Estimates</b>	<b>7,831</b>	<b>(1,273)</b>
<b>FFEL Program Subsidy Expense</b>	<b>\$ 13,641</b>	<b>\$ 2,152</b>

**Loan Modifications.** Loan modifications for the FFEL Loan Program for FY 2021 included the following:

- **Loan Deferral Extension.** In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of \$3.9 billion. There was a net positive \$0.3 billion modification adjustment transfer associated with these modifications, bringing the total FY 2021 modification cost for the student loan repayment deferrals to \$3.6 billion.
- **Total and Permanent Disability.** The Department recorded an upward modification for costs associated with the regulatory action to clarify that borrowers determined to be eligible for a total and permanent disability discharge based on data that the Secretary obtains from the VA or the SSA are not required to submit an application to have their federal student loans discharged. These discharges resulted in an upward modification cost of \$2.2 billion.

**Net Downward Subsidy Re-Estimates.** The FFEL subsidy re-estimate increased subsidy expense in FY 2021 by \$7.8 billion. The net upward re-estimates in these programs were due primarily to updated collection and default rates.

**Reconciliation of Liabilities for Loan Guarantees**

(Dollars in Millions)

	2021	2020
<b>Beginning Balance of Post-1991 FFEL Loan Guarantee Liability</b>	\$ 884	\$ 5,205
<b>Adjustments</b>		
Loan Modifications	2,862	826
Interest Supplements Paid	(348)	(757)
Loan Modifications	(2,613)	(4,285)
Fees Received	1,014	1,215
Interest on Accumulation on the Liability Balance	(863)	(1,064)
Other Activities	(910)	3,195
Net Downward Subsidy Re-Estimates	7,226	(3,451)
<b>Ending Balance of Post-1991 FFEL Loan Guarantee Liability</b>	<b>7,252</b>	<b>884</b>
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	-	1
<b>FFEL Liabilities for Loan Guarantees</b>	<b>7,252</b>	<b>885</b>
HEAL Liabilities for Loan Guarantees	244	238
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 7,496</b>	<b>\$ 1,123</b>

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

**Allowance for Subsidy Reconciliation for Acquired FFEL Loans**

(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
<b>2021</b>				
<b>Beginning Balance of Allowance for Subsidy</b>	\$ 4,102	\$ 6,424	\$ 434	\$ 10,960
<b>Adjustments</b>				
Loan Modifications	1,069	1,879	-	2,948
Subsidy Allowance Amortization	(424)	(952)	(42)	(1,418)
Loans Written Off	(136)	(424)	(16)	(576)
Other Activities	3	(8)	(2)	(7)
<b>Ending Balance of Allowance for Subsidy Before Re-estimates</b>	<b>4,614</b>	<b>6,919</b>	<b>374</b>	<b>11,907</b>
Net Upward Subsidy Re-Estimates	208	397	-	605
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 4,822</b>	<b>\$ 7,316</b>	<b>\$ 374</b>	<b>\$ 12,512</b>
<b>2020</b>				
<b>Beginning Balance of Allowance for Subsidy</b>	\$ 2,531	\$ 3,843	\$ 455	\$ 6,829
<b>Adjustments</b>				
Loan Modifications	951	1,648	-	2,599
Subsidy Allowance Amortization	3	(89)	-	(86)
Loans Written Off	(140)	(271)	(16)	(427)
Other Activities	(45)	(83)	(5)	(133)
<b>Ending Balance of Allowance for Subsidy Before Re-estimates</b>	<b>3,300</b>	<b>5,048</b>	<b>434</b>	<b>8,782</b>
Net Upward Subsidy Re-Estimates	802	1,376	-	2,178
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 4,102</b>	<b>\$ 6,424</b>	<b>\$ 434</b>	<b>\$ 10,960</b>



## OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

## Loans Receivables, Other Credit Programs for Higher Education

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
<b>2021</b>				
Federal Perkins Loans	\$ 708	\$ 197	\$ (212)	\$ 693
TEACH Program Loans	783	70	(256)	597
HEAL Program Loans	388	26	(1)	413
Facilities Loan Programs	181	1	82	264
<b>Total</b>	<b>\$ 2,060</b>	<b>\$ 294</b>	<b>\$ (387)</b>	<b>\$ 1,967</b>
<b>2020</b>				
Federal Perkins Loans	\$ 615	\$ 202	\$ (184)	\$ 633
TEACH Program Loans	764	88	(182)	670
HEAL Program Loans	396	29	(38)	387
Facilities Loan Programs	1,589	54	(226)	1,417
<b>Total</b>	<b>\$ 3,364</b>	<b>\$ 373</b>	<b>\$ (630)</b>	<b>\$ 3,107</b>

**Federal Perkins Loan Program.** Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans canceled.

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were used to make new loans to current students. The Department provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by the Department to reimburse schools for loan cancellations. The above schedule includes only Perkins loans that were assigned to the Department when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled \$79 million and \$38 million for FY 2021 and FY 2020, respectively.

The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by

June 30, 2018. Before the authority for new Perkins loans ended, collections made by the schools would go back into each school's Perkins fund to be used to make more loans. Schools are required to return to the Department the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to the Department on an annual basis. Schools returned \$850 million and \$1,279 million to the Department in FY 2021 and FY 2020, respectively, for the federal share of collected cash.

Schools will continue to service outstanding Perkins loans to recover the money they contributed to their Perkins funds for as long as it is feasible to do so or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to the Department and liquidate any final cash. Most recent data from the 2021–22 reporting year shows a \$3.3 billion outstanding principal balance on Perkins loans held by schools, and the Department's equity interest on this portfolio is \$2.8 billion.

The amounts collected by the Department annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund. (see Note 12)

**TEACH Grant Program.** The Department awards annual grants of up to \$4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is \$16,000 for undergraduate programs and \$8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to direct unsubsidized Stafford Loans. In FY 2021 the outgoing administration extended the student loan repayment

deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of \$21 million. The Department also recorded an upward modification to reflect the cost of updated program regulations to improve the certification process and reduce grant to loan conversions. These updated regulations resulted in an upward modification of \$25 million. There was a positive \$1 million modification adjustment transfer associated with this modification, bringing the total cost of this modification to \$24 million.

**TEACH Subsidy Rates—Cohort 2021**

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	76.33%	-0.04%	0.00%	-44.57%	31.72%

\*The Other component reflects costs associated with loan cancellations and the interactive effects of payment plans on the components of subsidy.

**HEAL Program.** The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed before 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts. In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of \$1 million.

payments. In compliance with HEA, as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The *FAFSA Simplification Act* provided debt relief for most outstanding HBCU Capital Financing program loans as of December 27, 2020. This resulted in an upward loan modification cost of \$1.6 billion.

**Facilities Loan Programs.** The Department also administers the HBCU Capital Financing program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make loans to eligible institutions, charge interest, and collect principal and interest

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately \$372 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and \$547 million obligated to support near term lending as of September 30, 2021.

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

**NOTE 6. Liabilities Not Covered by Budgetary Resources**

(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
<b>Liabilities Not Covered By Budgetary Resources</b>				
Unfunded Leave	\$ -	\$ 52	\$ -	\$ 47
FECA Liabilities	2	14	2	13
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>2</b>	<b>66</b>	<b>2</b>	<b>60</b>
<b>Liabilities Not Requiring Budgetary Resources</b>				
Subsidy Due to Treasury General Fund	1,209	-	1,451	-
Federal Perkins Loan Program	682	-	619	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	38	289	36	239
Custodial Liabilities	4	-	2	-
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>1,933</b>	<b>289</b>	<b>2,108</b>	<b>239</b>
Total Liabilities Covered By Budgetary Resources	1,223,776	20,122	1,255,187	6,859
<b>Total Liabilities</b>	<b>\$ 1,225,711</b>	<b>\$ 20,477</b>	<b>\$ 1,257,297</b>	<b>\$ 7,158</b>

**NOTE 7. Debt Associated with Loans**

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
<b>2021</b>					
<b>Debt to the Bureau of Public Debt</b>					
Direct Loan Program	\$ 1,160,099	\$ 119,950	\$ (137,854)	\$ -	\$ 1,142,195
FFEL Program	88,986	1,630	(12,362)	-	78,254
Other Credit Programs for Higher Education	784	308	(156)	-	936
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,249,869</b>	<b>121,888</b>	<b>(150,372)</b>	<b>-</b>	<b>1,221,385</b>
<b>Debt to the Federal Financing Bank</b>					
Other Credit Programs for Higher Education	1,518	192	(1,551)	1	160
<b>Total Debt Associated with Loans</b>	<b>\$ 1,251,387</b>	<b>\$ 122,080</b>	<b>\$ (151,923)</b>	<b>\$ 1</b>	<b>\$ 1,221,545</b>
<b>2020</b>					
<b>Debt to the Bureau of Public Debt</b>					
Direct Loan Program	\$ 1,192,138	\$ 116,883	\$ (148,922)	\$ -	\$ 1,160,099
FFEL Program	94,671	10,997	(16,682)	-	88,986
Other Credit Programs for Higher Education	702	154	(72)	-	784
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,287,511</b>	<b>128,034</b>	<b>(165,676)</b>	<b>-</b>	<b>1,249,869</b>
<b>Debt to the Federal Financing Bank</b>					
Other Credit Programs for Higher Education	1,482	165	(142)	13	1,518
<b>Total Debt Associated with Loans</b>	<b>\$ 1,288,993</b>	<b>\$ 128,199</b>	<b>\$ (165,818)</b>	<b>\$ 13</b>	<b>\$ 1,251,387</b>

The Department borrows from Treasury's Bureau of the Public Debt and the FFB to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2021, debt decreased 2.4 percent from \$1,251.4 billion in the prior year to \$1,221.5 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 93.5 percent of the Department’s debt, as of September 30, 2021, is attributable to the Direct Loan Program. Most the net borrowing activity (borrowing less repayments) for the year was designated for funding new direct loan disbursements.

During FY 2021, TEACH net borrowing of \$73 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2021, debt in HBCU decreased by \$1,134 million, or 73 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

**NOTE 8. Subsidy Due to Treasury**  
(Dollars in Millions)

	2021		2020	
Credit Program Downward Subsidy Re-estimates				
Direct Loan Program	\$	303	\$	1,773
FFEL Program		1		74
<b>Total Credit Program Downward Subsidy Re-estimates</b>		<b>304</b>		<b>1,847</b>
Future Liquidating Account Collections				
FFEL Program		1,209		1,436
Other Credit Programs for Higher Education		-		15
<b>Total Future Liquidating Account Collections</b>		<b>1,209</b>		<b>1,451</b>
<b>Total Subsidy Due to Treasury General Fund</b>	<b>\$</b>	<b>1,513</b>	<b>\$</b>	<b>3,298</b>

**NOTE 9. Other Liabilities**  
(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Federal Perkins Loan Program	\$	682	\$	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts		38		289
Liability for Advances and Prepayments		3		2
Accrued Funded Payroll and Leave		-		26
Accrued Unfunded Annual Leave		-		52
Employer Contributions and Payroll Taxes Payable		10		1
FECA Liabilities		2		14
Custodial Liabilities		4		-
<b>Total Other Liabilities</b>	<b>\$</b>	<b>739</b>	<b>\$</b>	<b>382</b>
			<b>\$</b>	<b>669</b>
			<b>\$</b>	<b>323</b>

### NOTE 10. Net Cost of Operations

As required by the *GPRA Modernization Act of 2010*, the Department’s programs have been aligned with the goals presented in the Department’s *Strategic Plan* as shown below. Goals 3 and 4 in the *Strategic Plan* are considered crosscutting goals, and therefore costs and revenues associated with these activities are included in the net cost programs associated with Goals 1 and 2. Programs associated with COVID-19 activities are administered by multiple program offices but are summarized separately. (See also Note 11)

Program Offices	Strategic Goal	Net Cost Program
<b>Net Cost Statement Program Alignment with Strategic Plan</b>		
OESE OSERS Other: OCTAE IES OELA OCR	<b>Goal 1:</b> Support state and local efforts to improve learning outcomes for all P-12 students in every community.	Improve learning outcomes for all P-12 students
FSA OSERS Other: OCTAE IES OPE OCR	<b>Goal 2:</b> Expand postsecondary education opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful, and productive citizenry.	Expand postsecondary opportunities, improve outcomes to foster economic opportunity, and promote productive citizenry
All Offices	<b>Goal 3:</b> Strengthen the quality, accessibility, and use of education data through better management, increased privacy protections, and transparency.	Crosscutting Goal
All Offices	<b>Goal 4:</b> Reform the effectiveness, efficiency, and accountability of the Department.	Crosscutting Goal

## Gross Costs and Earned Revenue by Program

(Dollars in Millions)

	2021					
	FSA	OESE	OSERS	COVID-19	Other	Total
<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>						
Gross Cost						
Grants	\$ -	\$ 24,328	\$ 12,685	\$ 20,965	\$ 2,173	\$ 60,151
Other	-	68	-	30	764	862
Earned Revenue	-	-	-	-	(118)	(118)
<b>Net Program Costs</b>	<b>-</b>	<b>24,396</b>	<b>12,685</b>	<b>20,995</b>	<b>2,819</b>	<b>60,895</b>
<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>						
<u>Direct Loan Program</u>						
Gross Cost						
Credit Program Interest Expense	32,957	-	-	-	-	32,957
Subsidy Expense	44,426	-	-	52,181	-	96,607
Administrative Expenses	1,516	-	-	8	-	1,524
Earned Revenue						
Subsidy Expense	(9)	-	-	(2,707)	-	(2,716)
Interest & Administrative Fees	(3,803)	-	-	-	-	(3,803)
Subsidy Amortization	(29,154)	-	-	-	-	(29,154)
<b>Net Cost of Direct Loan Program</b>	<b>45,933</b>	<b>-</b>	<b>-</b>	<b>49,482</b>	<b>-</b>	<b>95,415</b>
<u>FFEL Program</u>						
Gross Cost						
Credit Program Interest Expense	3,538	-	-	-	-	3,538
Subsidy Expense	9,994	-	-	4,006	-	14,000
Subsidy Amortization (Guaranteed Loans)	(863)	-	-	-	-	(863)
Guaranty Agencies	79	-	-	-	-	79
Administrative Expenses	144	-	-	-	-	144
Earned Revenue						
Subsidy Expense	-	-	-	(359)	-	(359)
Interest & Administrative Fees	(1,257)	-	-	-	-	(1,257)
Subsidy Amortization (Acquired FFEL Loans)	(1,418)	-	-	-	-	(1,418)
Guaranty Agencies	(61)	-	-	-	-	(61)
<b>Net Cost of FFEL Program</b>	<b>10,156</b>	<b>-</b>	<b>-</b>	<b>3,647</b>	<b>-</b>	<b>13,803</b>
<u>Other Credit Programs for Higher Education</u>						
Gross Cost						
Credit Program Interest Expense	22	-	-	-	105	127
Subsidy Expense	104	-	-	22	1,393	1,519
Administrative Expenses	1	-	-	-	26	27
Earned Revenue						
Subsidy Expense	(1)	-	-	-	-	(1)
Interest & Administrative Fees	(4)	-	-	-	(49)	(53)
Subsidy Amortization	(18)	-	-	-	(56)	(74)
Other	(932)	-	-	-	-	(932)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>(828)</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>1,419</b>	<b>613</b>
<u>Non-Credit Programs</u>						
Gross Cost						
Grants	29,117	24	3,721	32,015	3,707	68,584
Other	130	-	3	3	274	410
Earned Revenue	(1)	-	-	-	(14)	(15)
<b>Net Cost of Non-Credit Programs</b>	<b>29,246</b>	<b>24</b>	<b>3,724</b>	<b>32,018</b>	<b>3,967</b>	<b>68,979</b>
<b>Net Program Costs</b>	<b>84,507</b>	<b>24</b>	<b>3,724</b>	<b>85,169</b>	<b>5,386</b>	<b>178,810</b>
<b>Total Program Gross Costs</b>	<b>121,165</b>	<b>24,420</b>	<b>16,409</b>	<b>109,230</b>	<b>8,442</b>	<b>279,666</b>
<b>Total Program Earned Revenue</b>	<b>(36,658)</b>	<b>-</b>	<b>-</b>	<b>(3,066)</b>	<b>(237)</b>	<b>(39,961)</b>
<b>Net Cost</b>	<b>\$ 84,507</b>	<b>\$ 24,420</b>	<b>\$ 16,409</b>	<b>\$ 106,164</b>	<b>\$ 8,205</b>	<b>\$ 239,705</b>

**Gross Costs and Earned Revenue by Program**

(Dollars in Millions)

	2020					
	FSA	OESE	OSERS	COVID-19	Other	Total
<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>						
Gross Cost						
Grants	\$ -	\$ 22,544	\$ 12,801	\$ 1,839	\$ 2,145	\$ 39,329
Other	-	67	-	-	749	816
Earned Revenue	-	-	-	-	(129)	(129)
<b>Net Program Costs</b>	<b>-</b>	<b>22,611</b>	<b>12,801</b>	<b>1,839</b>	<b>2,765</b>	<b>40,016</b>
<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>						
<u>Direct Loan Program</u>						
Gross Cost						
Credit Program Interest Expense	34,705	-	-	-	-	34,705
Subsidy Expense	62,348	-	-	38,825	-	101,173
Administrative Expenses	1,425	-	-	-	-	1,425
Earned Revenue						
Subsidy Expense	(2)	-	-	(263)	-	(265)
Interest & Administrative Fees	(33,110)	-	-	-	-	(33,110)
Subsidy Amortization	(1,595)	-	-	-	-	(1,595)
<b>Net Cost of Direct Loan Program</b>	<b>63,771</b>	<b>-</b>	<b>-</b>	<b>38,562</b>	<b>-</b>	<b>102,333</b>
<u>FFEL Program</u>						
Gross Cost						
Credit Program Interest Expense	4,021	-	-	-	-	4,021
Subsidy Expense	(1,145)	-	-	3,325	-	2,180
Subsidy Amortization (Guaranteed Loans)	(1,064)	-	-	-	-	(1,064)
Guaranty Agencies	126	-	-	-	-	126
Administrative Expenses	156	-	-	-	-	156
Earned Revenue						
Subsidy Expense	(1)	-	-	(27)	-	(28)
Interest & Administrative Fees	(2,871)	-	-	-	-	(2,871)
Subsidy Amortization (Acquired FFEL Loans)	(86)	-	-	-	-	(86)
Guaranty Agencies	(123)	-	-	-	-	(123)
<b>Net Cost of FFEL Program</b>	<b>(987)</b>	<b>-</b>	<b>-</b>	<b>3,298</b>	<b>-</b>	<b>2,311</b>
<u>Other Credit Programs for Higher Education</u>						
Gross Cost						
Credit Program Interest Expense	23	-	-	-	59	82
Subsidy Expense	9	-	-	51	-	60
Administrative Expenses	2	-	-	-	-	2
Earned Revenue						
Subsidy Expense	-	-	-	(2)	-	(2)
Interest & Administrative Fees	(26)	-	-	-	(52)	(78)
Subsidy Amortization	1	-	-	-	(5)	(4)
Other	(1,281)	-	-	-	(3)	(1,284)
<b>Net Cost of Other Credit Programs for Higher Education</b>	<b>(1,272)</b>	<b>-</b>	<b>-</b>	<b>49</b>	<b>(1)</b>	<b>(1,224)</b>
<u>Non-Credit Programs</u>						
Gross Cost						
Grants	28,113	25	3,494	9,420	4,304	45,356
Other	348	-	3	10	270	631
Earned Revenue	-	-	-	-	(5)	(5)
<b>Net Cost of Non-Credit Programs</b>	<b>28,461</b>	<b>25</b>	<b>3,497</b>	<b>9,430</b>	<b>4,569</b>	<b>45,982</b>
<b>Net Program Costs</b>	<b>89,973</b>	<b>25</b>	<b>3,497</b>	<b>51,339</b>	<b>4,568</b>	<b>149,402</b>
<b>Total Program Gross Costs</b>	<b>129,067</b>	<b>22,636</b>	<b>16,298</b>	<b>53,470</b>	<b>7,527</b>	<b>228,998</b>
<b>Total Program Earned Revenue</b>	<b>(39,094)</b>	<b>-</b>	<b>-</b>	<b>(292)</b>	<b>(194)</b>	<b>(39,580)</b>
<b>Net Cost</b>	<b>\$ 89,973</b>	<b>\$ 22,636</b>	<b>\$ 16,298</b>	<b>\$ 53,178</b>	<b>\$ 7,333</b>	<b>\$ 189,418</b>

**Credit Program Interest Expense and Revenues**

(Dollars in Millions)

	Gross Interest Expense		Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization		Net Revenue
	Intragovernmental	With the Public		Intragovernmental	With the Public	With the Public		
<b>2021</b>								
Direct Loan Program	\$ 32,957	\$ -	\$ 32,957	\$ 4,230	\$ (427)	\$ 29,154	\$ 32,957	
FFEL Program	3,538	(863)	2,675	1,326	(69)	1,418	2,675	
Other Credit Programs for Higher Education	127	-	127	28	25	74	127	
<b>Total</b>	<b>\$ 36,622</b>	<b>\$ (863)</b>	<b>\$ 35,759</b>	<b>\$ 5,584</b>	<b>\$ (471)</b>	<b>\$ 30,646</b>	<b>\$ 35,759</b>	
<b>2020</b>								
Direct Loan Program	\$ 34,705	\$ -	\$ 34,705	\$ 4,786	\$ 28,324	\$ 1,595	\$ 34,705	
FFEL Program	4,021	(1,064)	2,957	1,435	1,436	86	2,957	
Other Credit Programs for Higher Education	82	-	82	14	64	4	82	
<b>Total</b>	<b>\$ 38,808</b>	<b>\$ (1,064)</b>	<b>\$ 37,744</b>	<b>\$ 6,235</b>	<b>\$ 29,824</b>	<b>\$ 1,685</b>	<b>\$ 37,744</b>	

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

Due to the COVID-19 relief actions to suspend nearly all required federal student loans payments and set borrower interest rates to zero percent until January 31, 2022, no new interest revenues were recognized in FY 2021. However, interest adjustment and reapplication activity is included in the current year's interest with the public in the schedule above. Adjustments and reapplications cause loan activity during the period between the original effective date and the new processing date to be reversed and reposted. As a result, interest accrued in a prior year is reversed and typically reposted. The amount of interest reposted can be different than the original amount depending on the purpose of the adjustment and whether the adjustment or reapplication caused an increase or decrease to the principal balance as of the original effective date. These adjustments and reapplications resulted in net negative FY 2021 interest revenues for the Direct Loan Program and the FFEL Program.



## Grant Expenses by Appropriation

(Dollars in Millions)

	2021	2020
<b>IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS</b>		
COVID-19	\$ 20,965	\$ 1,839
Education for the Disadvantaged	16,171	15,750
Special Education - IDEA Grants	12,685	12,801
School Improvement Programs	6,069	4,755
Impact Aid	1,484	1,466
Innovation and Improvement	928	907
English Language Acquisition	667	676
Career, Technical, and Adult Education	425	383
Hurricane Education Recovery	271	253
Institute of Education Sciences	152	179
Other	334	320
<b>Subtotal</b>	<b>\$ 60,151</b>	<b>\$ 39,329</b>
<b>EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY</b>		
COVID-19	\$ 32,015	\$ 9,420
Student Financial Assistance		
Pell Grants	26,852	25,882
Federal Work-Study Program	1,145	1,203
Federal Supplemental Educational Opportunity Grants	1,120	1,028
Rehabilitation Services	3,347	3,133
Higher Education	1,977	2,738
Career, Technical, and Adult Education	1,440	1,284
Special Education - IDEA Grants	122	118
Hurricane Education Recovery	24	25
Institute of Education Sciences	35	42
Other	507	483
<b>Subtotal</b>	<b>68,584</b>	<b>45,356</b>
<b>Total Grant Costs</b>	<b>\$ 128,735</b>	<b>\$ 84,685</b>

The Department has more than 100 grant programs. Descriptions of COVID-19 grant programs are provided in Note 11. Descriptions of non-COVID-19 major grant program areas are as follows:

### Student Financial Assistance

- **Pell Grant**—Provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell Grants are the single largest source of grant aid for postsecondary education.
- **Federal Work-Study Program**—Provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. This program is administered by the schools that participate in the Federal Work-Study program. Hourly earnings under this program must be at least the federal minimum wage. Federal funding, in most cases, pays 75 percent of a student's hourly wage, with the remaining 25 percent paid by the employer.
- **Federal Supplemental Educational Opportunity Grant**—Provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

**Education for the Disadvantaged**—Primarily consists of 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. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in state-run institutions, attending community day programs, and correctional facilities.

**Special Education**—Consists primarily of IDEA Grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers birth through age 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.

**School Improvement Programs**—Provides funds to SEAs to make competitive subgrants to LEAs that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources to substantially raise the achievement of students in their lowest-performing schools.

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

**Higher Education**—Includes Institutional Service grants designed to improve academic quality, institutional management and fiscal stability, and strengthen physical plants and endowments of IHEs, with an emphasis on institutions that enroll large proportions of minority and financially disadvantaged students. Also includes Student Service grant programs supporting low-income, first-generation students and individuals with disabilities as they progress through the academic pipeline from middle school to graduate school, in addition to programs focused on college readiness, campus-based childcare, and graduate fellowships. Also includes International and Foreign Language Education grant and fellowship programs that strengthen foreign language instruction, area/international

studies teaching and research, professional development for educators, and curriculum development at the K–12, graduate, and postsecondary levels.

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

**Impact Aid**—Provides funds to LEAs to replace the lost local revenue that would otherwise be to educate children of federal workers that live on government property, which is exempt from local property taxes that finance education.

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

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

**Hurricane Education Recovery**—Provides one-time emergency-relief grants, funded by supplemental appropriations acts enacted in response to specific events, to support schools and students directly affected by natural disasters. Assists students displaced or disrupted by such disasters as well as eligible agencies and institutions that require funding to cover unexpected expenses and return to normal operations.

**Institute of Education Sciences**—Provides funding to: support research, development, and dissemination activities that provide parents, teachers, and schools with evidence-based information on effective educational practices; support statistical data collection activities conducted by the National Center for Education Statistics; support the ongoing National Assessment of Educational Progress and the National Assessment Governing Board; support research to build the evidence base on

improving special education and early intervention services and outcomes for infants, toddlers, and children with disabilities; and support studies, evaluations, and assessments related to IDEA.

## NOTE 11. COVID-19 ACTIVITY

Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021 including the following that provided the Department with 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 as described starting on page 84. The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund which included the (1) Elementary and Secondary School Emergency Relief Fund, (2) Higher Education Emergency Relief Fund, (3) Governor's Emergency Education Relief Fund, and (4) funds for outlying areas. The Education Stabilization Fund is being distributed to recipients through various grant programs.

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by suspending nearly all federal loan payments until January 31, 2022, interest free. A *Dear Colleague Letter* released on May 12, 2021, expanded the pause on federal student loan interest and collections on all defaulted loans in the FFEL Program that are managed by guaranty agencies, retroactive to March 2020. The Department authorized guaranty agencies to reimburse themselves from the Federal Fund for lost revenue that they will realize because of these actions. However, that reimbursement will only cover the share of what a guaranty agency might have reasonably collected during the pandemic but for the suspension.

Funding for student loan repayment deferrals was provided through FY 2020 and FY 2021 indefinite appropriations totaling \$42.2 billion and \$56.2 billion, respectively. Cost impacts of the student loan repayment deferrals were recorded as loan modifications in FY 2020 (\$41.9 billion) and FY 2021 (\$53.1 billion). These COVID-19 loan

modifications are a component of a subsidy expense that reduced the overall credit program loan receivable balances. (see Notes 5 and 10)

In addition to suspending student loan repayments, other COVID-19 relief provided to student loan borrowers included the following:

- The Department stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default.
- The Department provided relief for certain borrowers who received student loan discharges due to total and permanent disability. Unless it is through a process with the VA, borrowers receiving this discharge are, by regulation, subject to a three-year monitoring period during which they must provide the Department with information about their earnings from employment. Per regulation, borrowers whose earnings exceed certain thresholds and borrowers who do not meet certain other criteria will have their loans reinstated. The Department provided relief to ensure no borrowers are at risk of having their loans reinstated, meaning they would have to repay their debt—for failure to provide earnings information during the COVID-19 emergency. This change was made retroactive to March 13, 2020, the start of the COVID-19 national emergency.
- The Department requested a waiver from the Small Business Administration to immediately help nearly 30,000 small business owners in the Paycheck Protection program who faced difficulties because they were delinquent or in default on a federal student loan.

Unobligated CARES Act balances as of the end of FY 2020 totaling \$672 million were carried forward to FY 2021 and are reported in the FY 2021 COVID-19 following schedule as Unobligated Balances from Prior Year Budget Authority (Net) together with \$26 million of net downward adjustments to FY 2020 CARES Act unpaid obligations recorded in FY 2021. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end of FY 2020 totaled \$19.6 billion. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end September 30, 2021, totaled \$222.0 billion. (see Note 3)

The tables on pages 82 and 83 provide more detail on the Department's funded COVID-19 activity for FY 2021 and FY 2020, respectively.

**COVID-19 Activity**  
(Dollars in Millions)

	2021							
	Unobligated Balance from Prior Year Budget Authority (Net)	Appropriations	Appropriations Transferred	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
<b>COVID-19 Direct Appropriations</b>								
Education Stabilization Fund								
Elementary and Secondary School Emergency Relief Fund								
Allocations to States	\$ -	\$ 176,286	\$ -	\$ 161,349	\$ 14,937	\$ 19,021	\$ -	\$ 20,035
Assistance for Homeless Children and Youth	-	800	-	799	1	1	-	1
Higher Education Emergency Relief Fund								
Higher Education Funds to Students	113	24,066	-	23,982	197	10,838	-	14,097
Higher Education Funds to Institutions	155	32,157	100	32,084	328	15,225	-	15,226
Proprietary Institutions Grant Funds for Students	-	1,077	-	843	234	473	-	475
HBCUs, and Minority Serving Institutions (MSIs)								
MSIs	5	1,207	-	1,169	43	391	-	397
HBCUs	-	2,576	-	2,575	1	791	-	793
Tribally Controlled Colleges and Universities (TCCUs)	-	225	-	223	2	36	-	36
Strengthening Institutions Program	9	663	-	606	66	231	-	231
Fund for the Improvement of Postsecondary Education	203	-	-	91	112	140	-	140
Supplemental Assistance and Support	-	311	-	226	85	5	-	12
Governor's Emergency Education Relief Fund								
Emergency Education Relief Grants	48	1,303	-	1,351	-	1,055	-	1,061
Emergency Assistance to Non-Public Schools Program	-	5,500	-	3,327	2,173	277	-	280
Outlying Areas	-	1,259	-	1,259	-	114	-	114
Bureau of Indian Education	-	409	(409)	-	-	-	-	-
Discretionary Grants	-	-	-	-	-	16	-	16
<b>Total Education Stabilization Fund</b>	<b>533</b>	<b>247,839</b>	<b>(309)</b>	<b>229,884</b>	<b>18,179</b>	<b>48,614</b>	<b>-</b>	<b>52,914</b>
Individuals with Disabilities Education Act Grants	-	3,030	-	2,991	39	-	-	-
School Improvement Programs	-	170	-	113	57	-	-	-
American Indian Resilience in Education	-	20	-	-	20	-	-	-
Safe Schools & Citizenship Education	100	-	(100)	-	-	-	-	-
Gallaudet University	-	30	-	30	-	16	-	16
Howard University	-	55	-	55	-	44	-	44
National Technical Institute for the Deaf	-	30	-	30	-	6	-	6
HBCU Loan Deferment	30	-	-	-	30	-	-	-
Student Aid Administration	24	121	-	91	54	8	-	8
Program Administration	4	30	-	12	22	11	-	11
Inspector General	7	10	-	4	13	2	-	2
Institute of Education Sciences	-	128	-	27	101	20	-	20
<b>Total COVID-19 Direct Appropriations</b>	<b>698</b>	<b>251,463</b>	<b>(409)</b>	<b>233,237</b>	<b>18,515</b>	<b>48,721</b>	<b>-</b>	<b>53,021</b>
<b>COVID-19 Indirect Appropriations (See Note 5)</b>								
Student Loan Deferrals								
DL Program	-	52,181	-	52,181	-	52,181	2,707	49,474
FFEL Program	-	4,006	-	4,006	-	4,006	359	3,647
HEAL Program	-	1	-	1	-	1	-	1
TEACH Program	-	21	-	21	-	21	-	21
<b>Total Student Loan Deferrals</b>	<b>-</b>	<b>56,209</b>	<b>-</b>	<b>56,209</b>	<b>-</b>	<b>56,209</b>	<b>3,066</b>	<b>53,143</b>
<b>Total COVID-19 Indirect Appropriations</b>	<b>-</b>	<b>56,209</b>	<b>-</b>	<b>56,209</b>	<b>-</b>	<b>56,209</b>	<b>3,066</b>	<b>53,143</b>
<b>Total COVID-19 Activity</b>	<b>\$ 698</b>	<b>\$ 307,672</b>	<b>\$ (409)</b>	<b>\$ 289,446</b>	<b>\$ 18,515</b>	<b>\$ 104,930</b>	<b>\$ 3,066</b>	<b>\$ 106,164</b>

**COVID-19 Activity**  
(Dollars in Millions)

	2020						
	Appropriations	Appropriations Transferred	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
<b>COVID-19 Direct Appropriations</b>							
Education Stabilization Fund							
Elementary and Secondary School Emergency Relief Fund							
Allocations to States	\$ 13,229	\$ -	\$ 13,229	\$ -	\$ 1,552	\$ -	\$ 1,552
Assistance for Homeless Children and Youth	-	-	-	-	-	-	-
Higher Education Emergency Relief Fund							
Higher Education Funds to Students	6,279	-	6,188	91	5,382	-	5,396
Higher Education Funds to Institutions	6,279	-	6,127	152	3,320	-	3,387
Proprietary Institutions Grant Funds for Students	-	-	-	-	-	-	-
HBCUs, and Minority Serving Institutions (MSIs)							
MSIs	270	-	265	5	66	-	66
HBCUs	577	-	577	-	161	-	161
Tribally Controlled Colleges and Universities (TCCUs)	50	-	50	-	17	-	17
Strengthening Institutions Program	149	-	141	8	43	-	43
Fund for the Improvement of Postsecondary Education	349	-	145	204	64	-	65
Supplemental Assistance and Support	-	-	-	-	-	-	-
Governor's Emergency Education Relief Fund							
Emergency Education Relief Grants	2,953	-	2,905	48	535	-	536
Emergency Assistance to Non-Public Schools Program	-	-	-	-	-	-	-
Outlying Areas	154	-	154	-	21	-	21
Bureau of Indian Education	154	(154)	-	-	-	-	-
Discretionary Grants	307	-	307	-	-	-	-
<b>Total Education Stabilization Fund</b>	<b>30,750</b>	<b>(154)</b>	<b>30,088</b>	<b>508</b>	<b>11,161</b>	<b>-</b>	<b>11,244</b>
Individuals with Disabilities Education Act Grants	-	-	-	-	-	-	-
Safe Schools & Citizenship Education	-	-	-	-	-	-	-
School Improvement Programs	-	-	-	-	-	-	-
American Indian Resilience in Education	100	-	-	100	-	-	-
Gallaudet University	7	-	7	-	2	-	2
Howard University	13	-	13	-	13	-	13
National Technical Institute for the Deaf	-	-	-	-	-	-	-
HBCU Loan Deferment	62	-	32	30	32	-	32
Student Aid Administration	40	-	17	23	9	-	9
Program Administration	8	-	4	4	-	-	-
Inspector General	7	-	-	7	-	-	-
Institute of Education Sciences	-	-	-	-	-	-	-
<b>Total COVID-19 Direct Appropriations</b>	<b>30,987</b>	<b>(154)</b>	<b>30,161</b>	<b>672</b>	<b>11,217</b>	<b>-</b>	<b>11,300</b>
<b>COVID-19 Indirect Appropriations (See Note 5)</b>							
Student Loan Deferrals							
DL Program	38,825	-	38,825	-	38,825	263	38,562
FFEL Program	3,325	-	3,325	-	3,325	28	3,297
HEAL Program	3	-	3	-	3	-	3
TEACH Program	16	-	16	-	16	-	16
<b>Total Student Loan Deferrals</b>	<b>42,169</b>	<b>-</b>	<b>42,169</b>	<b>-</b>	<b>42,169</b>	<b>291</b>	<b>41,878</b>
<b>Total COVID-19 Indirect Appropriations</b>	<b>42,169</b>	<b>-</b>	<b>42,169</b>	<b>-</b>	<b>42,169</b>	<b>291</b>	<b>41,878</b>
<b>Total COVID-19 Activity</b>	<b>\$ 73,156</b>	<b>\$ (154)</b>	<b>\$ 72,330</b>	<b>\$ 672</b>	<b>\$ 53,386</b>	<b>\$ 291</b>	<b>\$ 53,178</b>

**Elementary and Secondary School Emergency Relief**

**(ESSER) Fund**—Supports continued learning for K–12 students whose education has been disrupted by COVID-19.

- **Allocations to States**—Provides grants to states based on the same proportion that each state receives under the *Elementary and Secondary Education Act* (ESEA) Title-IA. States must distribute at least 90 percent of funds to local education agencies based on their proportional share of ESEA Title I-A funds. States have the option to reserve 10 percent of the allocation for emergency needs as determined by the state to address issues responding to the COVID-19 pandemic.
- **Assistance for Homeless Children and Youth**—Provides grants to supports the specific needs of homeless children and youth with wraparound services to address the challenges of COVID-19, and to enable homeless children and youth to attend school and fully participate in school activities.

**Higher Education Emergency Relief Fund (HEERF)**

—Provides grants for 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 childcare. The fund is distributed through the following grant programs.

- **Higher Education Funds to Students**—Provides grants to IHEs to give emergency financial aid grants to students whose lives have been disrupted, many of whom are facing financial challenges and struggling to make ends meet. Institutions have the responsibility of determining how grants will be distributed to students, how the amount of each student grant is calculated, and the development of any instructions or directions that are provided to students about the grant.
- **Higher Education Funds to Institutions**—Provides grants to IHEs which can use up to one-half of the total funds to cover any costs associated with significant changes to the delivery of instruction due to COVID-19. Institutions are encouraged to use the funds to expand remote learning programs, build IT capacity to support such programs, and train faculty and staff to operate effectively in a remote learning environment. They are also encouraged to use the funds to expand support for students with the most significant financial needs arising from the COVID-19

pandemic, including eligible expenses under a student's cost of attendance, such as course materials, technology, health care, childcare, food, and housing.

- **Proprietary Institutions Grant Funds for Students**—Provides grants to proprietary IHEs to give emergency financial aid grants to students, which may be used for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19, such as tuition, food, housing, health care (including mental health care) or childcare.
- **Minority Serving Institutions (MSIs)**—Provides grants to MSIs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. MSIs include institutions that are eligible to participate in the following programs: Predominantly Black Institutions, Alaska Native and Native Hawaiian-Serving Institutions, Asian American and Native American Pacific Islander-Serving Institutions, Native American-Serving Nontribal Institutions, Developing Hispanic-Serving Institutions program, and Promoting Postbaccalaureate Opportunities for Hispanic Americans. MSIs are encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.
- **Historically Black Colleges and Universities (HBCUs)**—Provides grants to HBCUs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. HBCUs are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.
- **Tribally Controlled Colleges and Universities (TCCUs)**—Provides grants to TCCUs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. TCCUs are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the

student's cost of attendance, including tuition, course materials, and technology.

- **Strengthening Institutions Program**—Provides grants to institutions that are not participating in the MSI programs but have at least 50 percent of their degree students receiving need-based assistance under Title IV of the *Higher Education Act* or have a substantial number of enrolled students receiving Pell Grants and have low educational and general expenditures. These funds can be used to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. These institutions are encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.
- **Fund for the Improvement of Postsecondary Education (FIPSE)**—Provides grants that support projects to encourage innovative reform and expand education opportunities to underrepresented groups. Institutions can use these additional FIPSE funds to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. Institutions are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.
- **Supplemental Assistance and Support**—Provides discretionary grants to institutions of higher education with unmet needs related to recovery from disruptions in the finances, day-to-day operations, instruction, and student support due to COVID-19.

**Governor's Emergency Education Relief (GEER) Fund**—Provides grants to state governors to ensure education continues for students of all ages impacted by the COVID-19 national emergency. The GEER Fund is a flexible emergency block grant designed to enable governors to decide how best to meet the needs of students, schools (including charter schools and non-public schools), postsecondary institutions, and other education-related organizations.

- **Emergency Education Relief Grants**—Provide grants to state governors for the purpose of providing local educational agencies (LEA), IHEs, and other education-related entities with emergency assistance as a result COVID-19.
- **Emergency Assistance to Non-Public Schools Program**—Provides grants to state governors to provide services or assistance to eligible non-public schools to address COVID-19 impacts.

**Outlying Areas, Bureau of Indian Education, and Discretionary Grants**—Provides funding for outlying areas and states with the highest COVID-19 burdens. These funds are distributed through the following grant programs.

- **Outlying Areas**—Provides grants for the outlying areas of the United States, specifically: the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa. Money made available from these grants will be used in response to COVID-19 and was calculated via formula. Each outlying area received two block grants from the Education Stabilization Fund—one to the governor's offices and one to the SEA.
- **Bureau of Indian Education**—Provides funding for programs operated by the Bureau of Indian Education (BIE), in consultation with the Secretary of Interior. The Department transferred these funds to BIE.
- **Discretionary Grants**—Provides grants to states to use to create adaptable, innovative learning opportunities for K–12 and postsecondary learners in response to the COVID-19 national emergency.

In addition to the Education Stabilization Fund, COVID-19 appropriations also included funding for the following.

**Individuals with Disabilities Education Act Grants**—Provides grants to states to help them recover from the impact of the COVID-19 and to safely reopen schools and sustain safe operations. These grants assist states in providing a free, appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers birth through age 2 and their families.

**School Improvement Programs**—Provides additional funds to SEAs to make competitive subgrants to LEAs that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources to substantially raise the achievement of students in their lowest-performing schools.

**American Indian Resilience in Education**—Provides grants to tribal education agencies for activities authorized under Section 6121(c) of the *Elementary and Secondary Education Act of 1965*. Those activities include a broad range of direct services to Indian children and youth, their teachers, and families.

**Safe Schools and Citizenship Education**—The CARES Act provided additional funding for this program to prevent, prepare for, and respond to COVID-19, including disinfecting affected schools, and assisting in counseling and distance learning. The CRRSAA subsequently authorized these additional funds to be reallocated to the HEERF.

**Gallaudet University**—Provides funding to help address challenges associated with COVID-19.

**Howard University**—Provides funding to help address challenges associated with COVID-19.

**HBCU Loan Deferment**—Provides funding for the deferment of loan repayments for HBCUs that were provided low-cost capital financing for campus maintenance and construction projects. During the period of the deferment, the Department was required to pay the required principal and interest due. At the end of the deferment, the HBCU is required to repay the Department for payments made on its behalf.

**Student Aid Administration**—Provides funding for the additional costs of administering the COVID-19 provisions affecting student financial aid programs.

**Program Administration**—Provides funding to the Department to fund costs of administering the COVID-19 appropriations.

**Inspector General**—Provides funding for salaries and expenses necessary for Office of Inspector General oversight and audit of COVID-19 programs, grants, and projects.

**Institute of Education Sciences**—Provides funding for research to address learning loss caused by the coronavirus and to disseminate findings to SEAs, LEAs, and other others, and for carrying out the *National Assessment of Educational Progress Authorization Act*.

**NOTE 12. Statements of Budgetary Resources**

The SBR compares budgetary resources with the status of those resources. As of September 30, 2021, budgetary resources were \$689.6 billion, and net agency outlays were \$260.5 billion. As of September 30, 2020, budgetary resources were \$473.2 billion, and net agency outlays were \$161.5 billion.

**Net Adjustments to Unobligated Balances Brought Forward, October 1**  
(Dollars in Millions)

	2021		2020	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Prior Year Unobligated Balance, End of Year (Total)</b>	\$ 19,904	\$ 22,726	\$ 16,774	\$ 18,324
Recoveries of Prior Year Unpaid Obligations	1,317	16,676	1,426	18,220
Borrowing Authority Withdrawn	-	(13,566)	-	(15,004)
Actual Repayments of Debt, Prior-Year Balances	-	(5,444)	-	(12,720)
Actual Capital Transfers to the Treasury General Fund	(97)	-	(265)	-
Canceled Authority	(354)	-	(305)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	3	257	128	301
Other Differences	(1)	1	(2)	(2)
<b>Unobligated Balance from Prior Year Budget Authority (Net)</b>	<b>\$ 20,772</b>	<b>\$ 20,650</b>	<b>\$ 17,756</b>	<b>\$ 9,119</b>



During the periods ended September 30, 2021, and September 30, 2020, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2020, and October 1, 2019. These adjustments included, among other things, recoveries of prior year unpaid obligations that result from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

### Unused Borrowing Authority

(Dollars in Millions)

	2021	2020
<b>Beginning Balance - Unused Borrowing Authority</b>	<b>\$ 48,230</b>	<b>\$ 55,845</b>
Current Year Borrowing Authority	129,407	135,589
Funds Drawn from Treasury	(122,093)	(128,200)
Borrowing Authority Withdrawn	(13,566)	(15,004)
<b>Ending Balance - Unused Borrowing Authority</b>	<b>\$ 41,978</b>	<b>\$ 48,230</b>

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

### Undelivered Orders at the End of the Period

(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	\$ 252	\$ 321,379	\$ 180	\$ 138,621
Paid	104	1,287	121	503
<b>Undelivered Orders</b>	<b>\$ 356</b>	<b>\$ 322,666</b>	<b>\$ 301</b>	<b>\$ 139,124</b>

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

Unpaid undelivered orders increased significantly in FY 2021 primarily due to a \$184.5 billion increase in unpaid undelivered COVID-19 fund balances (see Note 3).

**Distributed Offsetting Receipts**

(Dollars in Millions)

	2021	2020
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	\$ 4,809	\$ 5,382
FFEL Program	589	6,865
HEAL Program	25	-
TEACH Program	3	36
Facilities Loan Programs	207	48
<b>Total Negative Subsidies and Downward Re-estimates of Subsidies</b>	<b>5,633</b>	<b>12,331</b>
Repayment of Perkins Loans and Capital Contributions	866	1,317
Other	126	(38)
<b>Distributed Offsetting Receipts</b>	<b>\$ 6,625</b>	<b>\$ 13,610</b>

Distributed offsetting receipts are amounts that the Department collects from the public or from other federal agencies that are used to offset or reduce the Department’s budget outlays. The Department’s outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts.

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

**Explanation of Differences between the SBR and the Budget of the U.S. Government**

(Dollars in Millions)

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
<b>Combined Statements of Budgetary Resources</b>	<b>\$ 473,447</b>	<b>\$ 430,822</b>	<b>\$ 13,610</b>	<b>\$ 204,415</b>
Expired Funds	(2,368)	(733)	-	-
FFEL Guaranty Agency Amounts Included in the President’s Budget	6,125	6,125	-	-
Distributed Offsetting Receipts	-	-	-	13,610
Other	5	-	53	54
<b>Budget of the United States Government<sup>1</sup></b>	<b>\$ 477,209</b>	<b>\$ 436,214</b>	<b>\$ 13,663</b>	<b>\$ 218,079</b>

<sup>1</sup> Amounts obtained from the Appendix, Budget of the United States Government, FY 2022

The FY 2023 President’s Budget, which presents the actual amounts for the year ending September 30, 2021, has not been published as of the issue date of these financial statements. The FY 2023 President’s Budget is scheduled for release in February 2022 and will be made available on OMB’s website. The table above reconciles the FY 2020 SBR to the FY 2022 President’s Budget (FY 2020 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

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

## NOTE 13. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2021			2020		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
<b>Net Cost</b>	\$ 31,606	\$ 208,099	\$ 239,705	\$ 33,158	\$ 156,260	\$ 189,418
<b>Components of Net Cost Not Part of Budgetary Outlays:</b>						
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	(28,399)	(28,399)	-	(52,571)	(52,571)
Loan Modification Adjustment Transfers	-	2,837	2,837	-	(54)	(54)
Property and Equipment Depreciation Expense	-	(1)	(1)	-	(1)	(1)
Property and Equipment Disposals and Revaluations	-	-	-	-	(1)	(1)
Increase/(Decrease) in Assets:						
Loans Receivables, Net (Non-FCRA)	-	(62)	(62)	-	398	398
Other Assets	(13)	22	9	58	(46)	12
(Increase)/Decrease in Liabilities:						
Accounts Payable	(1)	(597)	(598)	-	(137)	(137)
Loan Guarantee Liabilities (Non-FRCA)	-	(2)	(2)	-	(5)	(5)
Other Liabilities	171	(5,728)	(5,557)	(150)	709	559
Financing Sources:						
Imputed Costs	(36)	-	(36)	(30)	-	(30)
<b>Total Components of Net Cost Not Part of Budgetary Outlays</b>	<b>121</b>	<b>(31,930)</b>	<b>(31,809)</b>	<b>(122)</b>	<b>(51,708)</b>	<b>(51,830)</b>
<b>Components of Budget Outlays Not Part of Net Cost:</b>						
Effect of Prior-Year Credit Reform Subsidy Re-estimates	-	52,571	52,571	-	67,225	67,225
Acquisition of Capital Assets	-	1	1	-	-	-
Financing Sources:						
Donated Revenue	-	(1)	(1)	-	-	-
<b>Total Components of Budget Outlays Not Part of Net Cost</b>	<b>-</b>	<b>52,571</b>	<b>52,571</b>	<b>-</b>	<b>67,225</b>	<b>67,225</b>
<b>Miscellaneous Items:</b>						
Other Loan Activities (Non-FCRA)	(89)	-	(89)	(351)	-	(351)
Non-Entity Activity	82	-	82	(37)	-	(37)
Non-Exchange Revenues	(9)	-	(9)	(10)	-	(10)
Other Temporary Timing Differences						
<b>Total Miscellaneous Items</b>	<b>(16)</b>	<b>-</b>	<b>(16)</b>	<b>(398)</b>	<b>-</b>	<b>(398)</b>
<b>Budgetary Agency Outlays, Net</b>			<b>\$ 260,451</b>			<b>\$ 204,415</b>

This reconciliation explains the relationship between the Department’s net cost and its net outlays. Reconciling items result from transactions that did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost.

Disbursements for new FCRA loans and collections of principal and interest on existing FCRA loans are recorded in nonbudgetary credit reform financing accounts. These disbursements and collections are reported on the Statement of Budgetary Resources as disbursements, net, and not as agency outlays, net. Since these disbursements and collections affect neither net cost of operations nor agency outlays, net, they are excluded from this reconciliation as are any increases or decreases in the FCRA loan receivable balances.

The two major reconciling differences, both associated with the Department’s FCRA loan programs, are for Year-End Credit Reform Subsidy Accrual Re-Estimates (current-year subsidy accrual costs) and Effect of Prior-Year Credit Reform Subsidy Re-Estimates (current-year budget subsidy costs).

- Current-year subsidy accrual costs are the portion of the current-year loan subsidy re-estimates not impacting the current year outlays.
- Current-year budget subsidy costs are current year indirect appropriations provided to fund subsidy costs accrued in the prior year. This includes the portion of the current year’s executed President’s Budget re-estimates not included in this year’s net cost subsidy expense.

## NOTE 14. Commitments and Contingencies

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

### Future Minimum Lease Payments (Dollars in Millions)

2021		2020	
2022	\$ 69	2021	\$ 72
2023	71	2022	75
2024	71	2023	77
2025	72	2024	74
2026	73	2025	75
After 2026	75	After 2025	77
<b>Total</b>	<b>\$ 431</b>	<b>Total</b>	<b>\$ 450</b>

The Department leases from the GSA all or a portion of 14 privately owned and 12 publicly owned buildings in 20 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings.

### GUARANTY AGENCIES

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in FY 2021 or FY 2020 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

### LITIGATION AND OTHER CLAIMS

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on the Department’s financial position. As appropriate, the Department would seek recovery from Treasury’s Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2021. The final disposition of claims filed and those yet to be filed from loans originated before September 30,

2021, is not expected to have a material impact on these financial statements.

#### OTHER MATTERS

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

#### NOTE 15. Subsequent Event

The Department announced in October 2021 significant changes to some of the eligibility criteria and potential forgiveness of loans as part of the PSLF program. The PSLF program provides debt relief to teachers, nurses, firefighters, service members and others serving their communities. By canceling loans after 10 years of public service, PSLF removes the burden of student debt on public servants. Policy changes to be implemented in FY 2022 will result in 22,000 borrowers who have consolidated loans—including previously ineligible loans—being immediately eligible for \$1.74 billion in forgiveness without the need for further action on their part. Another 27,000 borrowers could potentially qualify for an additional \$2.82 billion in forgiveness if they certify additional periods of employment. All told, the Department estimates that over 550,000 borrowers who have previously consolidated their loans will see an increase in qualifying payments with the average borrower receiving another two years of progress toward forgiveness. Many more will also see progress as borrowers consolidate into the Direct Loan Program and apply for PSLF, and as the Department rolls out other changes during FY 2022. The Department's financial statements do not include an estimate for impacts of the announced changes to the PSLF program eligibility criteria and potential forgiveness of loans.

#### NOTE 16. Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process

To prepare the Financial Report (FR) of the U.S. government, Treasury requires agencies to submit an adjusted trial balance, which is a listing of accounts that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Operations and Changes in Net Position for each agency, all of which show how agency amounts are related to particular FR statement line items. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The two schedules in this note show the Department's financial statements and the Department's reclassified statements before elimination of intragovernmental balances and before aggregation of repeated FR line items. The term "Non-Federal" is used in this note to refer to federal government amounts that result from transactions with non-federal entities. These include transactions with individuals, businesses, nonprofit entities, and state, local, and foreign governments.

A copy of the September 30, 2020, FR can be found on Treasury's website and a copy of the September 30, 2021, FR will be posted to this site as soon as it is released.

**Reclassification of Statement of Net Cost to Line Items Used for the Governmentwide Statement of Net Cost for the Period Ending September 30, 2021**  
(Dollars in Millions)

FY 2021 Department Statement of Net Cost		Line Items Used to Prepare FY 2021 Governmentwide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
<b>Total Gross Cost</b>	\$ 279,666	\$ 242,470	Non-Federal Gross Cost
		141	Benefit Program Costs
		36	Imputed Costs
		381	Buy/Sell Cost
		36,547	Borrowing and Other Interest Expense
		75	Borrowing Losses
		16	Other Expenses (Without Reciprocals)
<b>Total Gross Cost</b>	<b>\$ 279,666</b>	<b>\$ 279,666</b>	<b>Department Total Gross Cost</b>
<b>Total Earned Revenue</b>	\$ (39,961)	\$ (34,371)	Non-Federal Earned Revenue
		(6)	Buy/Sell Revenue (Exchange)
		(5,572)	Borrowing and Other Interest Revenue (Exchange)
		(12)	Borrowing Gains
<b>Total Earned Revenue</b>	<b>(39,961)</b>	<b>(39,961)</b>	<b>Department Total Earned Revenue</b>
<b>Net Cost</b>	<b>\$239,705</b>	<b>\$ 239,705</b>	<b>Net Cost</b>

**Reclassification of Statement of Changes in Net Position to Line Items Used for the Governmentwide Statement of Operations and Changes in Net Position for the Period Ending September 30, 2021**  
(Dollars in Millions)

FY 2021 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2021 Governmentwide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	\$ 99,314	\$ 99,314	Net Position, Beginning of Period
Appropriations Received	477,507	476,400	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(1,107)		
Appropriations Transferred	(409)	(409)	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources
Appropriations Used	(273,507)	(273,507)	Appropriations Used
<b>Unexpended Appropriations, Ending Balance</b>	<b>301,798</b>	<b>301,798</b>	
Cumulative Results of Operations			
Beginning Balance	(54,383)	(54,383)	Net Position, Beginning of Period
Appropriations Used	273,507	273,507	Appropriations Expended
Nonexchange Revenue	8	8	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Donations and Forfeitures of Cash and Cash Equivalents	1	1	Other Taxes and Receipts
Imputed Financing from Costs Absorbed by Others	36	36	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(8,168)	(9,751)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		1,732	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		5	Other Taxes and Receipts
		(154)	Other Budgetary Financing Sources
Net Cost	(239,705)	(239,705)	Net Cost
<b>Cumulative Results of Operations, Ending Balance</b>	<b>\$ (28,704)</b>	<b>\$ (28,704)</b>	
<b>Net Position</b>	<b>\$ 273,094</b>	<b>\$ 273,094</b>	<b>Net Position, End of Period</b>

# Required Supplementary Information (Unaudited)

**U.S. Department of Education Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2021**  
(Dollars in Millions)  
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	\$ 16,988	\$ 20,473	\$ 1,999
Appropriations (Discretionary and Mandatory)	172,332	239	24,760
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	128,739	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	142	42,050	-
<b>Total Budgetary Resources</b>	<b>\$ 189,462</b>	<b>\$ 191,501</b>	<b>\$ 26,759</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total) (Note 12)	\$ 171,476	\$ 169,693	\$ 24,910
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	14,397	-	1,778
Unapportioned, Unexpired Accounts	1,930	21,808	-
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 16,327</b>	<b>\$ 21,808</b>	<b>\$ 1,778</b>
Expired Unobligated Balance, End of Year	1,659	-	71
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 17,986</b>	<b>\$ 21,808</b>	<b>\$ 1,849</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 189,462</b>	<b>\$ 191,501</b>	<b>\$ 26,759</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Discretionary and Mandatory)	\$ 170,470		\$ 23,027
Distributed Offsetting Receipts (-) (Note 12)	(6,296)		(1)
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 &amp; 13)</b>	<b>\$ 164,174</b>		<b>\$ 23,026</b>
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ (38,680)</b>	



Office of Special Education and Rehabilitative Services		Education Stabilization Fund		Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts			
\$ 346	\$ 633	\$ 806	\$ 177	\$ 20,772	\$ 20,650	\$ 41,422		
21,022	247,839	10,567	-	476,520	239	476,759		
-	-	-	668	-	129,407	129,407		
-	(409)	61	174	(206)	42,224	42,018		
<b>\$ 21,368</b>	<b>\$ 248,063</b>	<b>\$ 11,434</b>	<b>\$ 1,019</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>	<b>\$ 689,606</b>		
\$20,941	\$229,884	\$10,017	\$575	\$457,228	\$170,268	\$627,496		
220	18,179	1,241	-	35,815	-	35,815		
-	-	1	444	1,931	22,252	24,183		
<b>\$ 220</b>	<b>\$ 18,179</b>	<b>\$ 1,242</b>	<b>\$ 444</b>	<b>\$ 37,746</b>	<b>\$ 22,252</b>	<b>\$ 59,998</b>		
207	-	175	-	2,112	-	2,112		
<b>\$ 427</b>	<b>\$ 18,179</b>	<b>\$ 1,417</b>	<b>\$ 444</b>	<b>\$ 39,858</b>	<b>\$ 22,252</b>	<b>\$ 62,110</b>		
<b>\$ 21,368</b>	<b>\$ 248,063</b>	<b>\$ 11,434</b>	<b>\$ 1,019</b>	<b>\$ 497,086</b>	<b>\$ 192,520</b>	<b>\$ 689,606</b>		
\$ 15,939	\$ 48,614	\$ 9,026		\$ 267,076		\$ 267,076		
-	-	(328)		(6,625)		(6,625)		
<b>\$ 15,939</b>	<b>\$ 48,614</b>	<b>\$ 8,698</b>		<b>\$ 260,451</b>		<b>\$ 260,451</b>		
			\$ (1,201)		\$ (39,881)	\$ (39,881)		

**U.S. Department of Education**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2020**  
(Dollars in Millions)  
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	\$ 14,938	\$ 8,939	\$ 2,103
Appropriations (Discretionary and Mandatory)	163,672	349	24,379
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	135,300	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	272	65,625	-
<b>Total Budgetary Resources</b>	<b>\$ 178,842</b>	<b>\$ 210,213</b>	<b>\$ 26,482</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total) (Note 12)	\$ 162,465	\$ 187,667	\$ 24,680
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	13,386	-	1,736
Unapportioned, Unexpired Accounts	1,819	22,546	-
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 15,205</b>	<b>\$ 22,546</b>	<b>\$ 1,736</b>
Expired Unobligated Balance, End of Year	1,172	-	66
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 16,377</b>	<b>\$ 22,546</b>	<b>\$ 1,802</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 178,842</b>	<b>\$ 210,213</b>	<b>\$ 26,482</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Discretionary and Mandatory)	\$ 160,912		\$22,656
Distributed Offsetting Receipts (-) (Note 12)	(13,606)		-
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 &amp; 13)</b>	<b>\$ 147,306</b>		<b>\$ 22,656</b>
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ (42,956)</b>	

Office of Special Education and Rehabilitative Services		Education Stabilization Fund		Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
\$ 274	\$ -	\$ 441	\$ 180	\$ 17,756	\$ 9,119	\$ 26,875		
17,676	30,750	8,203	1	244,680	350	245,030		
-	-	-	289	-	135,589	135,589		
-	(154)	113	137	191	65,762	65,953		
<b>\$ 17,950</b>	<b>\$ 30,596</b>	<b>\$ 8,757</b>	<b>\$ 607</b>	<b>\$ 262,627</b>	<b>\$ 210,820</b>	<b>\$ 473,447</b>		
\$ 17,571	\$ 30,088	\$ 7,290	\$ 4,310	\$ 242,724	\$ 188,098	\$ 430		
138	508	678	176	16,446	-	16,446		
-	-	3	176	1,822	22,722	24,544		
<b>\$ 138</b>	<b>\$ 508</b>	<b>\$ 681</b>	<b>\$ 176</b>	<b>\$ 18,268</b>	<b>\$ 22,722</b>	<b>\$ 40,990</b>		
241	-	156	-	1,635		1,635		
<b>\$ 379</b>	<b>\$ 508</b>	<b>\$ 837</b>	<b>\$ 176</b>	<b>\$ 19,903</b>	<b>\$ 22,722</b>	<b>\$ 42,625</b>		
<b>\$ 17,950</b>	<b>\$ 30,596</b>	<b>\$ 8,757</b>	<b>\$ 607</b>	<b>\$ 262,627</b>	<b>\$ 210,820</b>	<b>\$ 473,447</b>		
\$ 16,268	\$ 11,160	\$ 7,029		\$ 218,025		\$ 218,025		
-	-	(4)		(13,610)		13,610		
<b>\$ 16,268</b>	<b>\$ 11,160</b>	<b>\$ 7,025</b>		<b>\$ 204,415</b>		<b>\$ 204,415</b>		
			\$ 10		\$ (42,946)	\$ 42,946		

# Report of the Independent Auditors



## UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 19, 2021

The Honorable Miguel Cardona  
Secretary of Education  
Washington, D.C. 20202

Dear Secretary Cardona:

The enclosed Independent Auditors' Report (report) presents the results of the audit of the U.S. Department of Education's (Department) financial statements for fiscal years 2021 and 2020 to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of the Department as of September 30, 2021, and 2020, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements*.

### Results of the Independent Audit

KPMG found:

- The fiscal years 2021 and 2020 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- One material weakness in internal control over financial reporting:
  - Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement.
- Three significant deficiencies in internal control over financial reporting:
  - Information Technology Controls Need Improvement,
  - Monitoring Controls over Service Organizations Need Improvement, and
  - Entity Level Controls Need Improvement.

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

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

Page 2 – The Honorable Miguel Cardona

In connection with the contract, we reviewed KPMG’s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Department’s financial statements or internal control over financial reporting, or conclusions on whether the Department’s financial management systems complied substantially with the three FFMI requirements, or on compliance with laws and other matters. KPMG is responsible for the auditor’s report dated November 19, 2021, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Sincerely,



Sandra D. Bruce

Deputy Inspector General Delegated the Duties  
of Inspector General

Enclosure



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

**Independent Auditors’ Report**

Deputy Inspector General Delegated the Duties of Inspector General  
 United States Department of Education

Secretary  
 United States Department of Education:

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

*Management’s Responsibility for the Financial Statements*

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

*Auditors’ Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Education as of September 30, 2021 and 2020, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



### *Other Matters*

#### *Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the FY2021 Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

#### *Required Supplementary Information*

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

#### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on pages i through iii, Message from the Secretary, the information on page vii, Message from the Chief Financial Officer, About the Financial Section, Other Information section, Appendices, and Acknowledgments is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

#### *Internal Control over Financial Reporting*

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2021, we considered the Department's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in



internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Exhibit A, *Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement*, to be a material weakness.

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

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04.

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

#### *Department's Responses to Findings*

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

#### *Purpose of the Other Reporting Required by Government Auditing Standards*

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

**KPMG LLP**

Washington, D.C.  
November 19, 2021



## Exhibit A

**Material Weakness****Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement**

Under the *Federal Credit Reform Act of 1990* (FCRA), the United States Department of Education (Department) is required to perform periodic interest rate and technical re-estimates of the subsidy costs of its direct loan and guaranty programs. These re-estimates are calculated using an internally developed cash flow model. The cash flow model utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The future cash flow outputs generated from the Department's cash flow model, the Student Loan Model (SLM), are then input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs. These procedures are necessary to generate subsidy re-estimates in accordance with the FCRA, as required by U.S. generally accepted accounting principles.

**Condition:**

The Department and Federal Student Aid (FSA) did not design and implement effective controls to ensure that the data used to develop the re-estimate is reliable, considering the elevated risk associated with such data caused by the IT control deficiencies discussed in Exhibit B of this report. Specifically, the Department and FSA management did not perform sufficient procedures to ensure that the data elements transmitted to and extracted from the various systems and used in the cash flow model are complete and accurate.

**Cause/Effect:**

The Department's and FSA's risk assessment process did not identify completeness and accuracy of the underlying data resulting from the IT system control deficiencies as a risk that required additional compensating controls. Inadequate controls over the completeness and accuracy of the underlying data used to develop the re-estimate increases the risk that the financial statements could be materially misstated.

**Criteria:**

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

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 10, *Design Control Activities*; Principle No. 11, *Design Activities for the Information System*; Principle No. 13, *Use Quality Information*.
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 20 and 40.

**Recommendations:**

We recommend that the Department and FSA:

1. Strengthen the risk assessment process by considering the impact of IT control deficiencies on internal controls over the reliability of information in the Department's IT systems. Such considerations should be documented.
2. Design and implement additional review controls that operate at a sufficient level of precision over the completeness and accuracy of the underlying data used to develop the re-estimate.
3. Ensure proper documentation of controls identified to evidence the review, the conclusion and actions to be taken to address outstanding differences and/or matters to be researched.

**Significant Deficiencies****A. Information Technology Controls Need Improvement**

The following control deficiencies in the areas of IT logical access, security management, segregation of IT duties, and application change management are related to both the Department and FSA systems.

**Conditions:**

In FY 2020, we reported a significant deficiency related to FSA's IT controls due to persistent unmitigated IT control deficiencies. During FY 2021, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies such as background investigations. However, management has not fully remediated prior-year deficiencies related to logical access administration, separated/transferred user access removal, user access reviews and recertification, and configuration management. We noted new and existing IT control deficiencies related to security management, access controls, segregation of IT duties, and application change management for three of FSA's financial and mixed systems and two access control support systems. In addition, we noted deficiencies related to Department-level logical access for its core financial management system. Specifically, we noted the following:

## Department:

1. Weakness in IT logical access controls: New and separated contractors were not consistently and accurately tracked resulting in the inconsistent reporting of start and termination dates and system access that was not always removed upon separation from the Department.

## FSA:

1. Weakness in IT security management controls: Plan of Action and Milestone (POA&M) closure documentation for FSA systems did not always address the root cause of the deficiencies, thereby not preventing future reoccurrences.
2. Weakness in IT logical access controls: The account management and access control processes were not consistently followed for three FSA systems and two access control support systems. We noted evidence supporting new, modified, or separated users could not be provided or was provided and missing required information and/or approvals. Additionally, we noted evidence supporting complete and accurate access reviews and recertifications was not provided or retained. Finally, we noted the Department's requirement for two-factor authentication was not met for all internal system users.
3. Weaknesses in IT controls related to the segregation of IT duties: For one FSA system, users with developer access had access to the system's production environment or update access to the production and development environments.
4. Weakness in IT application change management controls: The application change management process was not consistently followed for one FSA system. FSA was unable to provide a complete and accurate population of application changes. We also noted the documentation for a selection of changes contained inaccuracies in recorded testing and migration dates.

**Cause/Effect:**

There was a lack of effective monitoring controls by the Department and FSA to ensure:

1. Systems and support processes consistently adhered to documented agency-wide policies and procedures for the financially and mixed systems hosted and managed by FSA and the Department.

Additionally, there was a lack of effective IT controls implemented by FSA to ensure:

1. Corrective actions to remediate prior-year conditions and associated causes are fully implemented, as well as verifying and validating that these corrective actions were effectively addressing the weakness with adequate documented supporting evidence.
2. The established logical access control process is followed and requests for new, modified, or separated users were retained, documented completely and accurately, and approved.
3. Segregation of duties and least privilege principles are followed and enforced.
4. The established change process is followed and application change tickets accurately document the testing and migration dates.

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

**Criteria:**

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

- The Departmental Directive OCIO 3-112, Cybersecurity Policy.
- Department Baseline Cybersecurity Standard, OCIO-STND-01, dated April 1, 2020, Section 3.13. Personnel Access.
- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV3.08 *Effect of Deficiencies on the Internal Control System*, Principle 3 *Establish Structure, Responsibility, and Authority, Documentation of the Internal Control System*, Principle No. 3.08 *Assignment of Responsibility and Delegation of Authority*, Principle No. 8.07 *Response to Fraud Risks*, Principle No. 10.3 *Design of Appropriate Types of Control Activities*, Principle No.10.12 *Segregation of Duties*, Principle No. 11, *Design Activities for the Information System*, and Principle No. 13, *Use Quality Information*, Principle No.17, *Evaluate Issues and Remediate Deficiencies*.
- National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, dated April 2013, specifically security control requirements PM-4 Plan of Action and Milestone, AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, CM-3 Configuration Change Control, and CM-5 Access Restrictions for Change.

**Recommendations:**

We recommend that the Department:

1. Evaluate, develop, and implement a formal process to track and report all new and separated contractors.
2. Ensure separated contractors are off-boarded and system personnel are notified in a timely manner to disable or remove access to IT resources.
3. Provide training and oversight to Education personnel with on/off-boarding responsibilities to help ensure new/separated contractors are properly tracked.

We recommend that FSA:

4. Implement a process to evaluate the significance of a deficiency by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency and tailor the corrective actions to remediate the risk and address the root cause. Further, update guidance to ensure that quality reviews over the POA&M closure documentation are conducted to confirm the noted deficiencies are fully addressed to help prevent future reoccurrences.
5. Formally develop and implement a quality control review process to ensure that logical access control processes are followed completely and accurately to validate logical access requests, reviews, and recertifications.
6. Ensure segregation of duties and least privilege principles are adhered to when granting user access to prevent users with the ability to develop and/or change application code from having update access to the environment where the final tested and approved changes are staged prior to migration to the financial and mixed systems' production environment; and prevent users with access to develop code from having update access to the production environment.
7. Ensure a complete and accurate population of application changes can be provided. Formally develop and implement a quality control review process to ensure that the application change control process is followed and consistently and accurately documented.

**B. Monitoring Controls over Service Organizations Need Improvement**

The Department and FSA rely on a certain IT system to store data for student loan programs. The Cost Estimation and Analysis Division (CEAD) within the Department also uses the data in the system for the development and update of the assumptions used in the re-estimation of subsidy allowance, a critical component of management's financial reporting process. The IT system is owned and controlled by FSA, who is responsible for the application-level internal controls, and is hosted by a service organization, who is responsible for internal controls at the data center.

**Condition:**

The Department and FSA did not have effective monitoring controls in place to ensure that the scope of the System and Organization Controls (SOC) 1, Type 2 report for the service organization and/or management's internal control processes sufficiently cover the relevant key controls to support the reliability and integrity of the data stored in the IT system. For example, we noted that there were no sufficient relevant controls identified and tested for data transmission/batch job processing at the host level for one FSA system to ensure the completeness and accuracy of the data used in the re-estimate.

**Cause/Effect:**

FSA did not perform a comprehensive assessment of key relevant controls to appropriately assess the risks in the financial reporting process.

Ineffective monitoring controls over the service organization increase the risk of disruption, modification, or destruction of information that could impact the integrity and reliability of information processed in the associated application which may lead to misstatements of the financial statements.

**Criteria:**

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

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV4.01 *Additional Consideration, Service Organizations*, Principle 16.08 - *Perform Monitoring Activities*.
- National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, dated April 2013, specifically security control requirements SA-9 External Information System Services.

**Recommendations:**

We recommend that FSA:

1. Enhance their risk assessment to identify risks impacting financial reporting processes.
2. Identify the controls at the service organization for the systems that are responsive to risks and that are relevant to FSA's financial statements.
3. Regularly monitor and meet with the service organization to communicate and ensure that controls that are relevant to FSA for financial reporting are adequately tested for design, implementation, and operating effectiveness.
4. Assess the need to implement compensating controls for financial reporting in the event relevant controls at the service organization are not within the scope of the SOC 1 report.

B-4

**C. Entity Level Controls Need Improvement**

The Department and FSA are continually seeking ways to improve accountability in achieving the entity’s mission. A key factor in improving accountability in achieving an entity’s mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department and FSA need to address weaknesses in its entity-wide control environment as we have observed two entity-wide control environment conditions through our procedures that have a pervasive influence on the effectiveness of controls. These common themes, which contributed to the deficiencies noted above, are related to the entity’s risk assessment and monitoring activities.

**Conditions:**

1. Risk Assessment- The Department and FSA’s entity level controls were not designed and implemented appropriately in order to define objectives related to the financial reporting process to enable the identification of risks, define risk tolerances and identified processes and controls responsive to those risks.
2. Monitoring Activities- The Department and FSA’s entity level controls were not designed and implemented appropriately in order to remediate identified internal control deficiencies in a timely manner.

**Cause/Effect**

1. Risk Assessment considerations address the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Specifically, inadequate risk assessment throughout the Department and FSA, prevented the proper identification and analysis of risks related to the financial reporting process at the Department and FSA, and from designing appropriate risk responses. For example, the Department did not identify the risk objectives that should have been either addressed by the SOC1, Type 2 report or through compensating controls at the Department and FSA, to support the reliability and integrity of the data used in the financial reporting process.
2. Monitoring Activities considerations address management’s processes to establish and implement operations that assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Specifically, insufficient monitoring has prevented the Department and FSA from ensuring that corrective action plans are implemented, and control deficiencies are remediated timely.

**Criteria**

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

- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 6, *Management should define objectives clearly to enable the identification of risks and define risk tolerances.*
- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 17, *Management should remediate identified internal control deficiencies on a timely basis*

**Recommendations**

We recommend that management implement the following to improve the effectiveness of entity-level controls:

1. Improve the risk assessment process at the financial statement assertion level and at the process level to ensure the department is appropriately defining objectives to enable the identification of risks and define risk tolerances.
2. Implement key monitoring controls to ensure that corrective action plans are implemented to timely remediate control deficiencies identified. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department and FSA.

Exhibit C

***Management's Response***

**UNITED STATES DEPARTMENT OF EDUCATION**  
**OFFICE OF FINANCE AND OPERATIONS**

November 16, 2021

**MEMORANDUM**

TO:

Bryon S. Gordon  
 Assistant Inspector General for Audit

FROM:

Denise L. Carter Denise Carter Digitally signed by Denise Carter  
Date: 2021.11.16 15:38:29 -0500  
 Delegated the authority to perform the functions and duties  
 of the position of Chief Financial Officer

Jason Gray JASON GRAY Digitally signed by JASON GRAY  
Date: 2021.11.16 15:40:36 -0500  
 Chief Information Officer

SUBJECT: **DRAFT INDEPENDENT AUDITORS' REPORT**  
 Fiscal Years 2021 and 2020 Financial Statements  
 U.S. Department of Education  
 ED-OIG/A21FS0021

Please convey the Department's sincere thanks to everyone on your staff who worked diligently on this financial statement audit. The Department reviewed the draft Fiscal Year 2021 Financial Statement Audit Report. We concur and agree with the Independent Auditors' Report, including the Opinion on the Financial Statements, Internal Control over Financial Reporting, and Compliance and Other Matters.

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

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

Please contact Gary Wood, Deputy Assistant Secretary, Office of Financial Management, Office of Finance and Operations, and Acting Deputy Chief Financial Officer, at 202-453-7631 with any questions or comments.

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202  
[www.ed.gov](http://www.ed.gov)

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

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OTHER  
INFORMATION



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# About the Other Information Section

The Other Information section includes:

## OFFICE OF INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

The Management and Performance Challenges Report provides a summary of what the Office of Inspector General (OIG) believes are the Department's biggest challenges for FY 2022. The OIG identified the following five challenges: (1) Implementing the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), (2) Oversight and Monitoring, (3) Data Quality and Reporting, (4) Improper Payments, and (5) Information Technology Security. The full report is available at the **OIG website**.

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the Department or through the audit process.

## PAYMENT INTEGRITY INFORMATION ACT REPORTING

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

## CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

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

## THE GRANTS OVERSIGHT AND NEW EFFICIENCY ACT OF 2016 (GONE ACT) AND EDUCATION'S GRANT CLOSEOUT PROCESS

This section provides a high-level summary of the Department's expired, but not closed, federal grants and cooperative agreements.



**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL**

THE INSPECTOR GENERAL

TO: The Honorable Miguel Cardona  
Secretary of Education

FROM: Bryon Gordon *Bryon S Gordon*  
Assistant Inspector General for Audit

SUBJECT: Management Challenges for Fiscal Year 2022

In compliance with the Reports Consolidation Act of 2000, the U.S. Department of Education (Department) Office of Inspector General (OIG) reports annually on the most serious management and performance challenges faced by the Department. In addition to the challenges themselves, these reports include a brief assessment of the Department's progress in addressing the challenges and identify further actions that, if properly implemented, could enhance the effectiveness of the Department's programs and operations.

The Government Performance and Results Modernization Act of 2010 identifies major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse and mismanagement and where a failure to perform well could seriously affect the ability of the Department to achieve its mission or goals. To identify management challenges, the OIG routinely examines past audit, inspection, and investigative work; reviews corrective actions that have not been completed; assesses ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyzes new programs and activities that could pose significant challenges because of their breadth and complexity. Our assessment also considers the accomplishments reported by the Department as of September 30, 2021.

Our FY 2022 report identifies five management challenges facing the Department as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. We specifically retained all five management challenges from our FY 2021 report. Although the Department made progress in addressing these challenges, our work continues to identify vulnerabilities within each of these areas. Additional challenges may exist in areas that we have not recently reviewed.

We provided our draft report to Department officials and considered their comments in developing the final report. This report will be posted to our website at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>. We look forward to working with the Department to address the FY 2022 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6051.

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

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

# Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2021

## MANAGEMENT CHALLENGE 1— IMPLEMENTING PANDEMIC RELIEF LAWS

The U.S. Department of Education (Department) was provided with more than \$280 billion under three major pandemic relief laws to assist States, schools, school districts, and institutions of higher education (IHEs) in meeting their needs and the needs of students impacted by the pandemic. This included the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted in March 2020; the Coronavirus Response and Relief Supplemental Appropriations Act, 2021, enacted in December 2020; and the American Rescue Plan (ARP), enacted in March 2021. Collectively, these laws established and funded new emergency relief programs, allowed the Department to provide State educational agencies (SEA) and local educational agencies (LEA) with waivers of certain statutory or regulatory requirements, and included provisions intended to provide borrowers with emergency relief.

### Why This Is a Challenge

Implementation of the pandemic relief laws poses challenges for the Department as it must effectively oversee and monitor new grant programs and additional Federal education funds, implement additional student financial assistance program requirements, and ensure that quality data are reported. While these laws provide more than \$161 million to the Department for student aid administration and \$38 million for program administration, the Department must design and implement related processes timely and effectively to help ensure the overall success of its pandemic relief activities. In addition to the programs funded by the pandemic relief laws, the Department must oversee more than 100 other grant and loan programs, including a Federal student loan portfolio of about \$1.5 trillion.

### New Grant Programs and Additional Federal Education Funds

As shown in Table 4, the pandemic relief laws included funding for State and local agencies, higher education, nonpublic schools, and other education-related entities.

Table 4

Education Stabilization Fund Summary

Program	Funding	Overview
Elementary and Secondary School Emergency Relief Fund (ESSER)	\$190 billion	ESSER funds are awarded to SEAs to provide formula-based subgrants to LEAs. ESSER funds can be used to support a wide range of activities, including purchasing and using technology for online learning, coordinating efforts with public health departments, addressing the needs of underrepresented student subgroups, planning for both school closures and reopenings, purchasing cleaning supplies, providing mental health services, and implementing summer learning and supplemental after-school programs.
Higher Education Emergency Relief Fund (HEERF)	\$76.2 billion	HEERF funds are awarded to IHEs. HEERF funds can be used to assist students with expenses related to the disruption of campus operations due to the pandemic, such as tuition, food, housing, healthcare, childcare, technology, and course materials; and to help IHEs, including Historically Black Colleges and Universities and Minority Serving Institutions, cover costs associated with significant changes to the delivery of instruction due to the pandemic, reimburse themselves for lost revenue resulting from the pandemic, and defray other expenses, such as those for faculty and staff trainings, payroll, campus safety measures and protocols, and student support activities.
Emergency Assistance to Nonpublic Schools (EANS)	\$5.5 billion	Awarded to Governor's offices. EANS funds can be used to provide services or assistance to nonpublic schools.
Governor's Emergency Education Relief Fund (GEER)	\$4.3 billion	GEER funds are awarded to Governors' offices to provide to LEAs, IHEs, or other education-related entities that each Governor determines to be most impacted by the pandemic or deems essential. GEER funds can be used to support these entities' ongoing operations and efforts to provide educational services to students.

The pandemic relief laws also provided about \$2.8 billion in funds for the Outlying Areas, Tribal education agencies and programs operated or funded by the Bureau of Indian Education, and homeless children and youth. The ARP provided an additional \$3 billion to States to support infants, toddlers, children, and youth with disabilities served under the Individuals with Disabilities Education Act.

Each of these programs must be effectively implemented and monitored by the Department to ensure that the legislation is followed, and that States, elementary and secondary schools, and postsecondary institutions and students receive support in response to the pandemic. Effective oversight and monitoring of pandemic relief funds are critical to ensure that they are used for the purposes intended. Because these programs have different purposes, allowable uses of funds, and grant recipients, it is vital that the Department provides effective guidance, training, technical assistance, and outreach. These additional responsibilities pose a significant challenge to the Department given the large amount of funding involved, the number of entities receiving funds, and the need to administer its existing programs. Additionally, the Department must ensure that the primary recipients, such as Governors' offices and SEAs, effectively fulfill their critical role in overseeing and monitoring subrecipients, such as LEAs.

### **Student Financial Assistance Program Requirements**

The CARES Act included student financial assistance provisions intended to provide emergency relief to borrowers and to allow institutions to meet student needs more easily. These provisions included borrower and teacher assistance provisions, waivers of student financial assistance refunds and loan cancellations, and

adjustments to lifetime Federal Pell Grant (Pell) and subsidized William D. Ford Federal Direct Loan (Direct Loan) usage. The Department had to provide guidance to and rely on postsecondary institutions, contracted servicers, collection agencies, guaranty agencies, and accrediting agencies to effectively implement these and other provisions. The Department may be challenged to provide adequate oversight of existing student aid program participants while it implements and oversees the student aid provisions in the CARES Act. Additionally, the Department faces the challenge of ensuring that postsecondary institutions continue to meet financial responsibility requirements, as the pandemic may negatively impact the enrollment and financial health of many institutions.

### **Data Quality**

The pandemic relief laws included several reporting provisions that were intended to provide transparency regarding the use of funds to alleviate the impact of the Coronavirus Disease 2019 (COVID-19). The Department also established additional reporting requirements for programs authorized under these laws. Grantees must report monthly on subcontracts and subgrants exceeding a certain threshold and submit annual performance reports. Administering the programs and operations funded by the pandemic relief laws requires the Department to collect, analyze, and report on data for many purposes, such as evaluating programmatic performance, assessing fiscal compliance, and informing management decisions. For this reason, the Department, its grant recipients and subrecipients, and other program participants must have effective systems, processes, and procedures in place to ensure that the reported data are accurate and complete. The Office of Inspector General's (OIG) recent audit work within this area is shown in Table 5.

**Table 5**

**OIG's Recent Reports Relating to Pandemic Relief Laws**

Activities Reviewed	Review Results
HEERF	<p>We have issued three reports relating to HEERF funds.</p> <p>In the first two audits from a series of work on postsecondary schools' use of HEERF funds, we found that two schools generally used the Student Aid portion of their HEERF funds for allowable and intended purposes but did not always use the Institutional portion of their funds in accordance with Federal requirements. We also found that both schools did not minimize the time between drawing down and disbursing HEERF funds nor deposit excess funds in an interest-bearing account, contrary to Federal regulations.</p> <p>We issued a flash report on HEERF-related risks that shared observations on closed schools that received or had access to HEERF funds. We found that 17 schools that had closed on or before December 31, 2020, applied for and were awarded more than \$4.9 million in HEERF funds. We also noted that eight of those schools had drawn about \$1.26 million from these grants after closure dates listed in a Department system.</p>
Student Financial Assistance Program Requirements	<p>We found that Federal Student Aid (FSA) took quick action to implement processes that generally achieved positive results in suspending and refunding most involuntary collections on defaulted Department-held loans. We specifically determined that that FSA suspended administrative wage garnishments and the Treasury offsets for over 96 percent of the borrowers that FSA collected payments for within 90 days of the start of the suspension period. We also found that FSA refunded 99 percent of administrative wage garnishments and Treasury offsets that were collected from March 13, 2020, through September 30, 2020. Although FSA refunded most administrative wage garnishments and Treasury offsets collected for the period of our review, it did not reprocess all refunds that were subsequently returned to Treasury and did not refund all wage garnishments and Treasury offsets collected. In addition, FSA did not develop procedures to obtain and track the U.S. Department of Justice's progress on suspending and refunding involuntarily collections on defaulted Department-held loans.</p>
Data Quality and Reporting	<p>We issued a flash report on Education Stabilization Fund reporting in the Federal Audit Clearinghouse regarding the inconsistent reporting of subprogram expenditures by grantees and subgrantees. This included instances where subprograms were not identified and variations in the information that was used to identify subprograms.</p> <p>In our work relating to HEERF reporting requirements, we found that 81 of the 100 recipients included in our nonstatistical sample complied with HEERF Institutional portion reporting requirements. However, we were unable to locate Institutional portion reports on the websites of the 19 other recipients. As of September 30, 2020, those 19 recipients had drawn down over \$5.5 million of the almost \$29 million awarded to them.</p> <p>Our work on postsecondary schools' use of HEERF funds also reviewed the timeliness and quality of the data that two schools reported on their use of HEERF funds. We found that the information in both school's required HEERF reports were generally accurate, complete, and timely.</p>
Department Operations	<p>Our assessment of the Department's reconstitution plans following COVID-19 found the Department generally incorporated available guidance, which was intended to provide for a safe and gradual return to Federal offices, in its Workplace Reconstitution Transition Plan. However, we noted that the Department did not address anti-retaliation, including practices for ensuring that no adverse or retaliatory action is taken against an employee who adheres to guidelines or raises workplace safety and health concerns, and did not periodically reassess and update self-screening questions as suggested by available guidance.</p> <p>We issued a Management Information Report that identified challenges that the Department may face as it implements and oversees the CARES Act. These included grantee oversight and monitoring, student financial assistance oversight and monitoring, and data quality and reporting. We noted that the Department should consider these persistent challenges and the lessons learned from its administration of the Recovery Act as it implements and administers the programs and provisions authorized under the CARES Act to reduce vulnerabilities to fraud, waste, abuse, noncompliance, and other issues that could impact a grantee's or subgrantee's ability to achieve intended programmatic results.</p>

**Ongoing and Planned Work**

Our ongoing work in this area includes reviews of one State's use of ESSER funds, LEAs' use of ESSER funds for technology, the Department's award of duplicate HEERF grants, a third school's use of HEERF funds, the Department's oversight of HEERF funds, States' plans for using GEER funds, three States' awarding and monitoring of GEER funds, and the Department's processes for implementing flexibilities to Teacher Education Assistance for College and Higher Education grant service obligations.

Our planned projects relating to State and local programs within this area for fiscal year (FY) 2022 include reviews of additional States' uses of ESSER funds, the Department's oversight of ESSER funds, recipients processes for awarding and monitoring GEER funds, and recipients' allocation and use of ARP homeless children and youth funds.

Our planned projects relating to student financial assistance and higher education programs within this area for FY 2022 include reviews of FSA's transition of Federal student loan borrowers back into repayment after the relief measures implemented in response to the pandemic expire, FSA's processes for the return of Title IV funds, cancellation of borrower loans, and exclusion of subsidized loan usage and Pell lifetime usage, and school's compliance with the return of Title IV waiver requirements.

We also plan to perform work relating the Department's use or planned use of its supplemental pandemic-related program administration funding.

### Progress in Meeting the Challenge

Regarding new grant programs, additional Federal education funds, and related data quality, the Department stated that it took comprehensive steps to ensure appropriate interpretation of the legislative requirements and subsequent policy and operational implications. The Department noted that the Office of Finance and Operations and the Office of Planning, Evaluation, and Policy Development coordinated Department efforts to make COVID-19 relief awards on expedited grantmaking timelines on top of the ongoing administration of the agency's more than \$70 billion annual portfolio of existing programs. The Department further added that it leveraged the COVID-19 excepted service hiring authority to help address the additional administrative, monitoring, and oversight workload associated with administering the pandemic relief funding.

The Department identified strategies it had taken to provide support to grantees that included (1) establishing structured processes for data collection and reporting; (2) implementing preventative internal controls, (3) adopting risk-based approaches to administering funds and monitoring, (4) providing training, guidance, and technical assistance to new grantees, and (5) working to ensure relevant programs were included in guidance used by independent third-party auditors. The Department added that it issued early and comprehensive communications to grantees outlining data quality and timing expectations. It further noted that lessons learned from the initial ESF grantee data collection experience significantly informed the processes for the year two collection and that that these collections will enable it to better assess the use of funds and provide visibility into the equitable recovery of schools and students.

Regarding student financial assistance program requirements, the Department stated that it worked to implement COVID-19-related relief that included suspending Federal loan payments and stopping Federal wage garnishments and collection actions for borrowers with Federally held loans in default. The Department added that FSA worked with loan servicers to ensure all eligible borrowers received personalized communications informing them of these changes. With respect to the suspension of loan payments, the Department stated that it placed all borrowers in administrative forbearance status, which allowed them to temporarily stop making monthly loan payments. The Department added that once the payment suspension period ends, all non-defaulted borrowers in the Federal student loan portfolio will be in a current repayment status. With respect to stopping wage garnishments and collection actions, the Department stated that FSA refunded more than 99 percent of involuntary payments.

### What the Department Needs to Do

To effectively oversee the Pandemic Relief programs, the Department should assess the results of its monitoring efforts and information reported back from recipients to identify potential problem areas or areas that could benefit from additional guidance or technical assistance. Given the importance of spending these funds quickly and appropriately, it is important for the Department to obtain timely and accurate information and to respond quickly to emerging challenges identified by its monitoring and oversight, or work performed by Federal and non-Federal auditors. Continuing to use a lessons-learned approach, like the one cited above on its change to 2-year data collection strategy, is a good way for the Department to continue to learn from and act on emerging issues.

To implement the student financial assistance related statutory provisions, waivers, and flexibilities, the Department needs to continue to provide guidance to and work with postsecondary institutions, contracted servicers, collection agencies, guaranty agencies, and accrediting agencies. The Department also needs to monitor and oversee these entities to ensure that the provisions are implemented effectively. Importantly, when these provisions expire, the Department will need to carefully reinstate the student loan provisions for which the relief was temporarily provided.



**MANAGEMENT CHALLENGE 2—OVERSIGHT AND MONITORING**

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

**Oversight and Monitoring—Student Financial Assistance Programs**

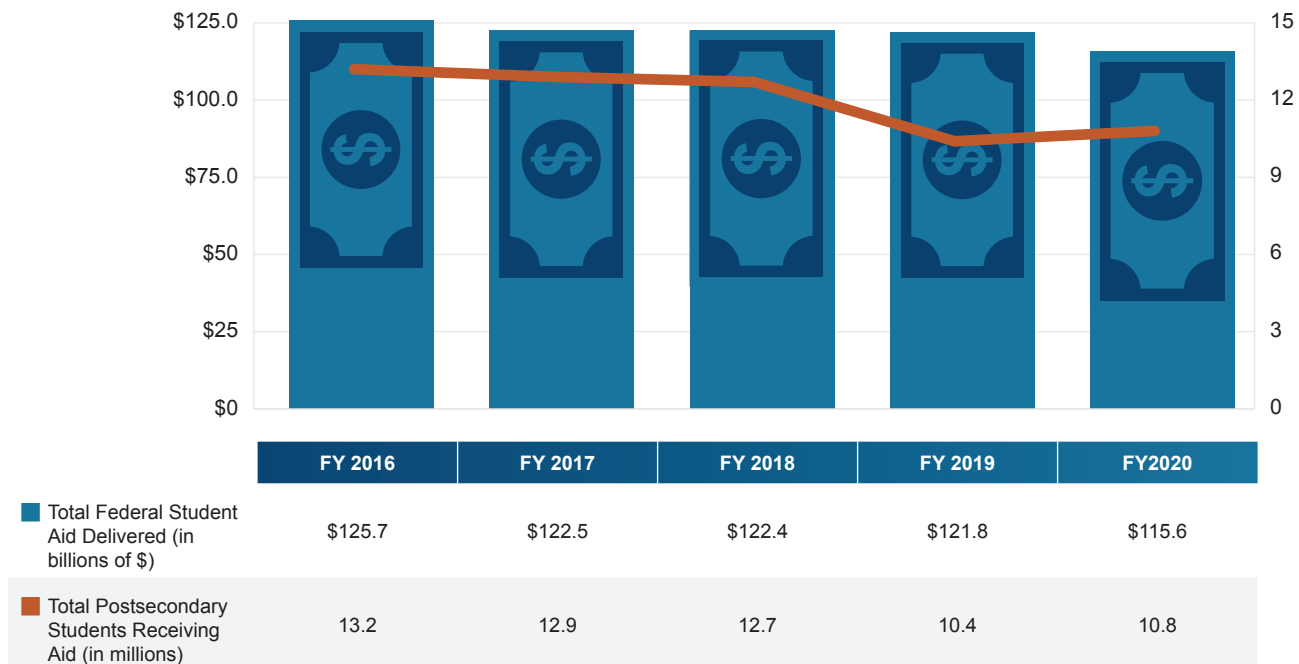
FSA, a principal office of the Department, seeks to ensure that all eligible individuals can benefit from Federal financial assistance for education beyond high school. FSA is the nation's largest provider of student financial aid

and is responsible for implementing and managing the Federal student financial assistance programs authorized under Title IV of the Higher Education Act of 1965, as amended. These programs provide grants, loans, and work-study funds to students attending colleges or career schools. FSA directly manages or oversees a loan portfolio of over \$1.5 trillion, representing about 212 million student loans to more than 45 million borrowers. FSA also oversees more than 5,600 postsecondary institutions that participate in the Federal student aid programs.

In FY 2020, FSA performed these functions with an administrative budget of \$1.8 billion and about 1,400 employees, along with contractors that provide outsourced business operations. From FY 2016 to FY 2020, FSA delivered an average of \$121.6 billion in Federal student aid to an average of 12.0 million students.

**Figure 13**

**Student Aid Delivered and Postsecondary Students Receiving Aid FYs 2016–2020**



Source: Federal Student Aid Annual Report FY 2020

Within the Department, FSA administers the Federal student assistance programs, and the Office of Postsecondary Education develops Federal postsecondary education policy and regulations for the Federal student assistance programs. The Office of Postsecondary Education also administers the review process for accrediting agencies to ensure that the Department recognizes only agencies that are reliable authorities for evaluating the quality of education and training postsecondary institutions and programs offer.

**Why This Is a Challenge**

The Department must provide effective oversight and monitoring of the student financial assistance programs to ensure that the programs are not subject to fraud, waste, and abuse. The Department’s responsibilities include coordinating and monitoring the activity of many Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department. These entities include lenders, guaranty agencies, postsecondary institutions, contracted servicers, collection agencies, and accrediting agencies.

**Audits Relating to Student Financial Assistance Programs**

Our audits involving the oversight and monitoring of student financial assistance programs continue to identify instances of noncompliance as well as opportunities for the Department to further improve its processes. The OIG’s recent work within this area has covered a wide range of activities, as shown in Table 6.

**Table 6**

**OIG’s Recent Reports Relating to the Oversight and Monitoring of Student Financial Assistance Programs**

Activities Reviewed	Review Results
Accreditation	<p>In an audit of the Department's processes for accessing the Accrediting Council for Independent Colleges and School's compliance with Federal regulatory criteria for recognition from 2016 through 2018, we determined that the Department did not comply with all regulatory requirements during its 2016 review of the Accrediting Council for Independent Colleges and School's petition for recognition renewal because its process did not consider all available relevant information during its review as required. We also determined that the Department implemented a process for assessing the Accrediting Council for Independent Colleges and School's compliance with recognition criteria following a court remand in 2018 that was permitted under applicable policies and regulations as well as the court's remand order.</p>
Contractor Oversight	<p>In our audit of FSA's oversight of loan servicers, we found that FSA did not track all identified instances of loan servicer noncompliance and rarely held loan servicers accountable for noncompliance with requirements. We also noted that the information FSA collected was not always sufficient to ensure that loan servicers complied with requirements for servicing Federally held student loans.</p> <p>In an audit of FSA's contractor personnel security clearance process, we found that FSA had not effectively implemented Department requirements to ensure that all contractor employees had appropriate security screening.</p>
Heightened Cash Management	<p>We found that FSA consistently administered its heightened cash monitoring payment methods when utilizing this process for one of the top five reasons. We also concluded that FSA's use of heightened cash monitoring was an effective oversight tool. However, we noted opportunities for FSA to improve its controls to better ensure that it (1) consistently places schools on a heightened cash monitoring payment status when they submitted late annual financial statements or had composite scores that fell below the minimum financial responsibility score, (2) tracks a school's method of payment status from the time of recommendation for heightened cash monitoring placement until the placement was made, and (3) retains all required documentation.</p>
Professional Judgment	<p>In the first of a series of audit work in this area, we found that a school did not adequately document special circumstances for more than 90 percent of the students in our nonstatistical random sample for whom it applied professional judgment. Because the school did not adequately document special circumstances, its application of professional judgment was not in accordance with the Higher Education Act of 1965, as amended.</p>

Activities Reviewed	Review Results
Sales of Postsecondary Schools	<p>We found that the Department did not take actions sufficient to mitigate significant financial responsibility and administrative capability risks posed by buyer and the 13 for-profit postsecondary schools that were purchased in transactions occurring in November 2017 and February 2018. We also found that the Department did not follow several of its procedures relating to subsequent activities involving those schools. For example, the Department retroactively approved temporary interim nonprofit statuses for 2 of the 13 schools, to avoid a lapse in their eligibility to participate in the Title IV programs, without following its own procedures for ensuring that schools meet the regulatory definition of a nonprofit school. The Department also did not follow FSA's financial analysis procedures when it limited a letter of credit requirement despite lacking certain documentation for a transaction involving the resale of 4 of the 13 schools in 2019. We also found that the Department did not follow FSA policy when it extended the temporary provisional program participation agreements for the four schools without receiving evidence that the accrediting agencies and all State authorizing agencies had approved the changes in ownership. We also determined that the Department allowed the use of surety funds to pay the operating expenses of schools that were planned to close in December 2018. Allowing surety funds to be used for such purposes was unprecedented, and neither the Department nor FSA had policies or procedures for such a situation. Finally, we found that the Department's standard procedures were not rigorous enough to ensure the purchaser's compliance with requirements for drawing down and disbursing Title IV funds, including the payment of credit balances.</p>
Satisfactory Academic Progress	<p>We found that FSA did not always ensure that schools completed corrective actions related to satisfactory academic progress findings that independent public accountants identified in compliance audits and FSA identified in program reviews.</p>
Total and Permanent Disability (TPD) Discharges	<p>We found that FSA appropriately approved and rejected TPD applications and its contractor generally serviced TPD accounts in accordance with Federal program requirements. However, we identified design weaknesses in FSA's control activities for the TPD discharge application review process that may negatively affect the operating efficiency and effectiveness of the process and increase the risk that FSA approves applications that are inaccurate or incomplete. We also found weaknesses in FSA's documented procedures and its quality control review for its TPD discharge application review process, as well as weaknesses in FSA's monitoring of the TPD discharge process.</p>
Verification of Free Application for Federal Student Aid (FAFSA) Data	<p>We completed a series of eight audits within this area.</p> <p>In our review of FSA's controls over the school verification process, we found that FSA implemented five significant control activities over schools' processes for completing verification procedures and reporting verification results. However, we determined that FSA did not monitor 4 of those control activities on a regular basis and did not address all of the control issues identified in a separate internal evaluation of its processes to ensure schools performed verification. In a separate audit, we found that FSA did not evaluate its process for selecting Free Application for Federal Student Aid data elements that schools were required to verify and generally did not effectively evaluate and monitor its processes for selecting students for verification.</p> <p>We also performed a series of external audits of selected schools to assess their compliance with Federal verification and reporting requirements. Of six schools covered by these audits, three did not always complete verification of applicant data in accordance with Federal requirements, and two did not always accurately report verification results to FSA.</p>

## Investigations of Student Financial Assistance Program Participants

The OIG's investigative recent work continues to identify fraud, waste, and abuse of student financial assistance program funds. This includes each of the areas in Table 7.

**Table 7**

### OIG's Recent Investigative Activity Relating to the Student Financial Assistance Programs

Area	Example of Related Investigative Activity
Institutions	OIG investigations have identified instances where schools violated the Federal ban on incentive compensation. Title IV of the Higher Education Act prohibits any institution that receives Federal student aid from compensating student recruiters with a commission, bonus, or other incentive payment based on the recruiters' success in securing student enrollment. The incentive compensation ban protects students against admissions and recruitment practices that serve the financial interests of the recruiter rather than the educational needs of the student.
School Officials	OIG investigations identified improper activities of school officials that included falsifying student eligibility information, embezzling portions of student's Federal student financial assistance awards, using a corporate credit card for personal benefit, and overriding academic holds on students' financial aid records to allow improper award and disbursement of Federal student assistance.
Program Participants	OIG investigations identified instances where program participants gave kickback payments in exchange for unjustified financial aid payments, used fraudulently obtained social security numbers to obtain direct loans, and made false claims of earning a high school diploma to receive student financial assistance.
Distance Education Fraud Rings	Fraud rings are large, loosely affiliated groups of criminals who seek to exploit vulnerabilities in distance education programs. The OIG has investigated numerous instances where these groups use the identities of others (with or without their consent) to fraudulently obtain Federal student aid.

## Ongoing and Planned Work

Our ongoing work in this area includes reviews of three additional school's use of professional judgment, FSA's transition to the Next Generation Loan Servicing Environment, and a school's compliance with career pathways and ability to benefit provisions. Additional planned projects for FY 2022 include reviews of FSA's processes for overseeing proprietary school compliance with 90/10 revenue requirements, FSA's oversight of its contractor's acceptability review process for proprietary school annual audits, FSA outreach to individuals who belong to underserved communities, and the Department's reporting on experimental sites initiatives.

## Progress in Meeting the Challenge

The Department identified actions it had taken or plans to take to improve its activities relating to the oversight and monitoring of the student financial assistance programs. This included items relating to IHEs participating in Title IV programs, accrediting agencies, and the FAFSA verification process. The Department also noted that recent legislation will allow it to better verify financial data and oversee the Pell program.

With respect to the oversight and monitoring of IHEs, the Department stated that FSA worked to address weaknesses in the single audit process to improve its use as an oversight and monitoring tool for IHEs' disbursements of Pell Grants and Direct Loans. The Department also noted that FSA deployed an analytical model to continually monitor partner data and performance that improved its ability to identify IHEs most at-risk and allow more effective use of oversight resources.

Regarding accrediting agencies, the Department stated that it planned to implement additional risk-based procedures to evaluate an agency's ability to effectively determine IHE compliance with standards and to identify agencies at higher risk of failing to meet statutory and regulatory requirements. These evaluations would allow FSA to prioritize the oversight of higher-risk agencies.

The Department added that FSA implemented an improved model for verification selection and evaluation of data elements from the FAFSA that allows the Department to better identify applicants for whom errors will result in a change in their Federal aid award, potentially reducing improper payments.

The Department also stated that the Fostering Undergraduate Talent by Unlocking Resources for Education Act will help it ensure the accuracy of income information used for determining Pell Grant eligibility. The Department noted that the Act allows it to receive income tax data more easily from the Internal Revenue Service and related processes will be implemented in stages through FY 2023.

### What the Department Needs to Do

The Department's reported progress and actions are responsive to suggestions we have made in previous reports and indicate that it has made progress to improve oversight of its student financial assistance programs, participants, and partners. While there has been progress, this continues to be a challenge area as evidenced by our audit work. We reiterate that the Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. Also, while FSA's Next Gen initiative has significant potential to improve FSA's ability to oversee and hold accountable its key contractors servicing Federal student aid, it will be important for FSA to ensure that this initiative is effectively implemented, and once in place that it follows through to hold its contractors accountable for effectively administering their responsibilities. As the Department continues to make improvement in its oversight efforts, it will be important for it to assess the effectiveness of its initiatives by setting goals for and measuring results that demonstrate progress of its efforts.

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

### Oversight and Monitoring—Grantees

The Department is responsible for administering education programs that Congress authorized and the President signed into law. This responsibility includes awarding program funds to eligible recipients and monitoring their progress in meeting program objectives, ensuring that programs are administered fairly, ensuring grants are executed in conformance with both authorizing statutes and laws prohibiting discrimination in Federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance. The funding for many grant programs flows through primary recipients, such as SEAs, to subrecipients, such as LEAs or other entities. The primary recipients must oversee and monitor the subrecipients' activities to ensure compliance with Federal requirements.

The Department's early learning, elementary, and secondary education programs annually serve about 17,000 school districts and more than 56 million students attending more than 98,000 public schools and 32,000 private schools. The Department awards discretionary grants using competitive processes and priorities and formula grants using formulas established by Congress. In all cases, the Department's activities are governed by the program authorizing legislation and implementing regulations. One of the key programs the Department administers is Title I, Part A, which provided about \$16.5 billion in FY 2021 for local programs that provide extra academic support to help an estimated 25 million students in high-poverty schools meet State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States. This program provided more than \$12.9 billion in FY 2021 to help States and school districts meet the special educational needs of an estimated 7.6 million students with disabilities.

### Why This Is a Challenge

Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our recent audits related to several grant programs identified weaknesses in grantee oversight and monitoring that included concerns with SEA and LEA controls and Department oversight processes.

### Audits Relating to Federal Education Grant Programs

Our recent audits at the SEA and LEA levels identified weaknesses that could have been limited through more effective oversight and monitoring. The internal control issues identified within these areas could impact the effectiveness of the entities reviewed and their ability to achieve intended programmatic results. This included work related to the programs and activities identified in Table 8.

**Table 8**

#### OIG's Recent Reports Relating to SEA or LEA Implementation of Federal Education Grant Programs

Activities Reviewed	Review Results
Charter Schools	<p>We have issued two audit reports relating to Charter Schools Program Grants for the Replication and Expansion of High-Quality Charter Schools. We found that two nonprofit charter management organizations did not fully comply with Federal grant reporting requirements and did not charge only adequately documented and allowable expenditures to their grants.</p>
Disaster Recovery	<p>We have issued seven reports relating to disaster recovery funding authorized under the Bipartisan Budget Act of 2018.</p> <p>Our work at two SEAs relating to internal controls over the Immediate Aid to Restart School Operations (Restart) program identified weaknesses in programmatic monitoring processes, internal audit division staffing, processes to assess fraud risks, internal controls over procurement, and segregation of duties.</p> <p>Our work at two SEAs relating to Restart allocations and uses of funds found that one SEA established and implemented effective controls over Restart allocations and uses of funds. However, we identified instances of noncompliance that included one district inappropriately charging unallowable personnel expenditures to the program and failure by another entity to obtain control and ownership of materials at nonpublic schools funded by the Restart program. We found that another SEA also established and implemented effective controls over Restart allocations and uses of funds but could better maintain and manage its records for the Restart program.</p> <p>Our work at two SEAs relating to the Temporary Emergency Impact Aid for Displaced Students (EIA) program found that both SEAs did not ensure that the displaced student count data provided to the Department were accurate and complete or that LEAs accounted for EIA program funds received for students reported as children with disabilities in accordance with Federal requirements. We also found that one SEA did not ensure that LEAs used Emergency Impact Aid program funds to pay salaries only for employees who supported schools with displaced students.</p> <p>We issued a Flash Report on the risk of a SEA's unallowable use of EIA funds. We found that the SEA may have charged up to \$1.3 million in payrolls costs to the EIA program for employees who were not employed by the SEA during the accrual periods applicable to the payments.</p>
Individuals with Disabilities Education Act	<p>We have issued two audit reports relating to SEAs' and selected LEAs' development and implementation of individualized education programs (IEP) for children with disabilities who attend virtual charter schools. We found that both SEAs generally had sufficient internal controls to ensure that LEAs developed IEPs in accordance with Federal and State requirements for children with disabilities who attend virtual charter schools and that these students were provided with the services described in their IEPs. However, we identified weaknesses at selected LEAs that included insufficient written procedures for IEP development and documenting the delivery of services, not ensuring that they maintained IEPs that included all of the required information describing the services that students needed, and not maintaining sufficient documentation to support that all special education services that were outlined in IEPs were provided.</p>

Our recent audits of the Department's oversight and monitoring processes over several grant programs identified internal control weaknesses and opportunities for improvement. These weaknesses could limit the Department's ability to ensure that grantees demonstrated progress towards meeting programmatic objectives and properly safeguarded and used Federal education funds. As noted in Table 9, our work included audits within several areas.

**Table 9**

### OIG's Recent Reports Relating to the Department's Oversight and Monitoring of Federal Education Grant Programs

Area Reviewed	Review Results
Disaster Recovery	We found that the Department designed policies and procedures that should have provided reasonable assurance that it awarded and monitored Defraying Costs of Enrolling Displaced Students in Higher Education Program and Emergency Assistance to Institutions of Higher Education Program funds in accordance with applicable guidance. However, we found that the Department did not implement all processes and risk mitigation strategies as designed. As a result, the Department inappropriately awarded funds to some of the grantees whose applications we reviewed.
Every Student Succeeds Act	We found that the Department designed processes that would provide reasonable assurance of identifying and resolving potential instances of State plans' noncompliance with applicable requirements and complying with Department policy. However, the Department did not always implement these processes as designed. As a result, we could not determine why the Department selected certain peer reviewers, could not ensure that the Department considered conflict of interest information it collected from peer reviewers before assigning them to panels, and could not always determine whether the Department considered the results of the peer review process when providing States feedback to strengthen the technical and overall quality of their plans.

### Investigations of Federal Education Grant Program Participants

The OIG's recent investigative work continues to identify fraud relating to Federal education grant programs. This includes the areas identified in Table 10.

**Table 10**

### OIG's Recent Investigative Activity Relating to Federal Education Grant Programs

Subject Area	Example of Related Investigative Activity
Contractors	OIG investigations identified instances where contractors invoiced for services that it did not perform, fraudulently obtained contracts, committed bribery, and made kickback payments.
LEA Officials	OIG investigations identified instances where LEA officials allowed fraudulent credit card use in exchange for kickbacks, embezzled cash, and executed a scheme to obtain funds for personal use by creating false invoices and issuing fraudulent checks.
Charter School Officials	OIG investigations identified instances involving charter school founders and senior officials who participated in conspiracy, fraud, theft, money laundering, false bankruptcy declarations, and other scams, abusing their positions of trust for personal gain.

### Ongoing and Planned Work

Ongoing work in this area includes reviews of two additional SEAs' administration of the EIA program, a SEA's allocation and use of Restart funds, selected schools' use of Emergency Assistance to Institutions of Higher Education program funds, the effectiveness of Charter School Program grants, and the Department's oversight of Charter School Program Grants for Replication and Expansion of High-Quality Charter Schools. Planned projects for FY 2022 include reviews of selected SEAs' implementation of Statewide accountability systems and the Department's implementation of its rule concerning equity in the Individuals with Disabilities Education Act.

### Progress in Meeting the Challenge

The Department stated that it has continued to prioritize enhancing its processes related to grant oversight and monitoring to achieve positive program outcomes. The Department noted that it has strengthened and modernized the grants administration process through recent innovation, process overhauls, and technology improvements. The Department noted that these efforts emphasized capacity building and collaboration across grants staff to improve oversight and monitoring.

The Department identified several strategic efforts within this area that included: identifying opportunities for coordination and information sharing across offices to improve efficiency and effectiveness, establishing new virtual monitoring and support approaches for discretionary and formula grant programs, developing and implementing in-house training resources, and leveraging contract support to increase online training resources for grantees.

The Department also noted that a grants management system modernization initiative was underway to better meet stakeholder needs throughout the grant lifecycle. The Department further stated that it has partnered with the Department of Health and Human Services to pilot emerging solutions that could further strengthen and streamline future risk-based monitoring strategies.

### What the Department Needs to Do

The Department continues to report progress in enhancing its grantee oversight processes, citing numerous actions it has taken to address risks, including those identified in a number of OIG audit reports, and to improve outcomes across multiple program offices. Given our ongoing findings under this challenge area, we reiterate that the Department should continue its efforts to offer common training, encourage collaboration and communication

within and across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients—to include both technical assistance and monitoring. The Department should especially focus on the actions taken by pass-through entities to provide oversight of their subrecipients. Lastly, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight, including those conducting single audits under the Office of Management and Budget (OMB) 2 Code of Federal Regulations 200, Subpart F, given its generally limited staffing in relation to the amount of Federal funding that it oversees.

### MANAGEMENT CHALLENGE 3—DATA QUALITY AND REPORTING

The Department collects, analyzes, and reports on data for many purposes that include enhancing the public's ability to access high-value education-related information, reporting on programmatic performance, informing management decisions, and improving education in the United States. The Department collects data from numerous sources, including States, which compile information relating to about 17,000 public school districts and 98,000 public schools; about 6,000 postsecondary institutions, including universities and colleges, as well as institutions offering technical and vocational education beyond the high school level; and surveys of private schools, public elementary and secondary schools, students, teachers, and principals.

### Why This Is a Challenge

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.



## Audits and Inspections Involving Data Quality and Reporting

Our recent audit work identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department and at SEAs and LEAs. This included the following areas, as shown in Table 11.

**Table 11**

### OIG's Recent Data Quality Related Reports

Area Reviewed	Review Results
Charter Schools	We have issued two audit reports relating to Charter Schools Program Grants for the Replication and Expansion of High-Quality Charter Schools. We found that both recipients did not include complete and accurate information for all performance measures on which they were required to report in three annual performance reports. We also found that both recipients did not always retain records that supported the performance measures that they reported to the Department.
Clery Act	We found that two postsecondary institutions did not have effective controls to ensure they reported complete and accurate Clery Act crime statistics. We concluded that both school's Clery Act crime statistics were not complete and accurate and as a result neither school provided reliable information to current and prospective students, their families, and other members of the campus community for making decisions about personal safety and security.
Disaster Recovery	We found that two SEAs did not ensure that the displaced student count data provided to the Department under the EIA program were accurate and complete. This included instances where students who did not change schools or not did not transfer from a disaster area were included in displaced student counts.
Pandemic Relief	We found inconsistent reporting of subprogram expenditures by grantees and subgrantees in the Federal Audit Clearinghouse. This included instances where subprograms were not identified and variations in the information that was used to identify subprograms. As a result, Federal award expenditure data at the subprogram level cannot be reliably used by the Department and associated data on areas such as audit results, audit findings, and corrective action plans are not consistently reported at the subprogram level.  In our work relating to HEERF reporting requirements, we were unable to locate Institutional Portion reports on the websites of the 19 percent of the recipients included in our nonstatistical sample. We also found that 22 percent of the recipients in our sample that reported expenditures in the 'Other Uses' category did not follow Department instructions or did not provide sufficient detail.

## Ongoing and Planned Work

Ongoing work in this area includes reviews of two additional SEAs' reported displaced student count data under the EIA program, an SEA's allocation and use of Restart funds, State plans for using GEER funds, the effectiveness of Charter School Program grants, and the Department's compliance under the Digital Accountability and Transparency Act. Planned projects for FY 2022 include reviews of selected SEAs' implementation of Statewide accountability systems.

## Progress in Meeting the Challenge

The Department stated that it is committed to improving the access, use, and dissemination of meaningful education data to inform decision making. The Department also noted numerous activities that it has taken to address this challenge and emphasized its commitment to protecting students' education data.

The Department's actions included multiple internal activities such as formalizing data management functions through data governance policies, implementing data maturity assessments, and developing a data workforce plan. The Department identified additional activities such as developing a Data Quality Playbook that outlined authorities, tools, and resources for grant program managers. The Department further identified activities to collaborate and engage with external entities that included work with the IRS to implement programmatic changes to ensure accuracy of income data used for determining Pell Grant eligibility.

The Department stated that the National Center for Education Statistics continues to focus on models for data quality improvement to support Department-wide program data collections. This included efforts to improve the completeness and accuracy of ED Facts data and the timeliness of SEA's submissions. The Department noted specific accomplishments that included the refinement of data collection guidance and the publication of a Business Rules Single Inventory.

### What the Department Needs to Do

The Department continues to take actions to improve the quality of data. While the Department has made progress in strengthening grantees' data quality processes, we continue to report findings in this area. The Department should continue its efforts to promote strong data management practices across its program offices, from the development of sound data collection protocols to the implementation of comprehensive data verification processes.

As discussed in its response, the Department should ensure that it uses the results of its data maturity assessments to measure progress and growth toward its data quality goals. The Department should also continue performing outreach to States and other entities that report data to the Department to reinforce requirements and expectations around good data quality practices—of particular importance given the substantial amount of funding for new programs and emphasis on transparency and accountability under pandemic relief programs. Lastly, the Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by its grantees and subgrantees.

#### MANAGEMENT CHALLENGE 4— IMPROPER PAYMENTS

“Improper payments” are payments the government makes to the wrong person, in the wrong amount, or for the wrong reason. Although not all improper payments are fraudulent or represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens' trust in government. To reduce instances of improper payments, agencies must properly identify the cause of the improper payment, implement effective mitigation strategies to address the cause, and regularly assess the effectiveness of those strategies, refining them, as necessary.

The Payment Integrity Information Act of 2019 (PIIA), reorganized and revised several existing improper payments statutes, including the Improper Payments Elimination and Recovery Act of 2010 (IPERA). PIIA requires Federal agencies to reduce improper payments

and to report annually on their efforts. It specifically requires that each agency, in accordance with guidance prescribed by OMB, periodically review all programs and activities that the agency administers and identify those that may be susceptible to significant improper payments. For each program and activity identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate (or an estimate that is otherwise appropriate using a methodology that OMB approved) of the improper payments made by each program and activity. The agency must include those estimates in the accompanying materials to its annual Agency Financial Report.

PIIA also requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year. To be considered compliant with PIIA, an agency must (1) publish an Agency Financial Report; (2) conduct a program-specific risk assessment; (3) publish improper payment estimates; (4) publish corrective action plans to reduce improper payments; (5) publish improper payment reduction targets, demonstrate improvements, and develop a plan to meet reduction targets; and (6) report improper payment rates of less than 10 percent.

#### Why This Is a Challenge

The Department must ensure that the billions of dollars entrusted to it reach the intended recipients. In FY 2020, the Pell and the Direct Loan programs continued to be susceptible to significant improper payments. In FY 2020, the Department also identified the EIA, Restart, and Emergency Assistance to Institutions of Higher Education programs as susceptible to improper payments because each of the programs met OMB criteria as disaster-related programs with \$10 million or more in outlays in a given fiscal year. We found that the Department's estimates for all five programs that required an estimate in FY 2020 were unreliable. It is important for the Department to develop statistically valid and reliable estimates so that it can identify the root causes and take actions to prevent and reduce improper payments.

## Audits and Inspections Involving Improper Payments

The OIG's review of the Department's compliance with improper payment reporting requirements for FY 2020 found that the Department did not comply with PIIA because it did not meet two of the six compliance requirements. Specifically, the Department did not demonstrate improvement in reducing improper payments in the Direct Loan program. In addition, the Department reported improper payment rates that exceed 10 percent for the EIA and Restart programs. As shown in Table 12, our recent improper payment audits identified opportunities for improvement in multiple areas.

**Table 12**

### Results of Recent OIG Statutorily Required Improper Payment Audits

FY of Department's Reporting	Complied with Reporting Requirements	Identified Concerns
2020	No	<p>The Department published improper payment estimates for all five required programs. However, its estimates were unreliable because they were not statistically valid. We found that the development of these estimates included the use of nonrandom samples, unsuitable sample weighting, or inaccurate and incomplete population sampling frames.</p> <p>We also found that the Department's improper payment risk assessment process needs strengthening. Specifically, the risk assessment performed for one program did not adequately support the Department's conclusion regarding its level of improper payment risk and the risk assessment the Department conducted on its contracts management activity was incomplete.</p>
2019	Yes	The Department published improper payment estimates for the Pell, Direct Loan, EIA, Restart, and Emergency Assistance to Institutions of Higher Education programs as required by IPERA. However, we found that the published estimates for three of these programs were unreliable because the methodologies used to develop them were not statistically valid.
2018	Yes	The Department reported inaccurate and incomplete information regarding the amounts of identified and recaptured improper payments in its FY 2018 Agency Financial Report. As a result, we could not accurately evaluate the Department's performance in recapturing improper payments for its programs and activities.

Other audit work has identified potential improper payments in the student financial assistance programs and by SEAs and LEAs. Our semiannual reports to Congress from April 1, 2018, through March 31, 2021, included more than \$20 million in questioned costs from audit activity and more than \$81 million in restitution payments ordered from investigative activity. These examples demonstrate that there may be other potential opportunities for the Department to identify and prevent improper payments.

### Ongoing and Planned Work

Planned projects include our annual review of the Department's compliance with the improper payment reporting requirements and its efforts to prevent and reduce improper payments. We will also complete the required risk assessment of the Department's purchase card program and, if deemed necessary, conduct an audit of Department purchase card transactions. Our planned activities for FY 2022 include multiple projects involving grant recipients where improper payments could be identified.

### Progress in Meeting the Challenge

The Department stated that it continued to prioritize efforts to ensure payment integrity and minimize improper and unknown payments across all programs in FY 2021. The Department noted that collaboration between financial management and grants administration staff facilitated its implementation of PIIA compliance activities. According to the Department, increased sophistication in estimation, detection, and data collection activities helped it to expeditiously identify and resolve improper payments.

The Department identified numerous activities in response to this challenge that included improvements relating to its improper payment estimate for the EIA program. The Department further noted that it implemented enhanced quality control procedures over FSA's improper payment estimation process to ensure the completeness and accuracy of data and calculations used in the estimates. The Department also stated that it developed improper payment training for staff and refined its Payment Integrity Monitoring Application, a digital tool used to detect anomalies in grants payment data.

### What the Department Needs to Do

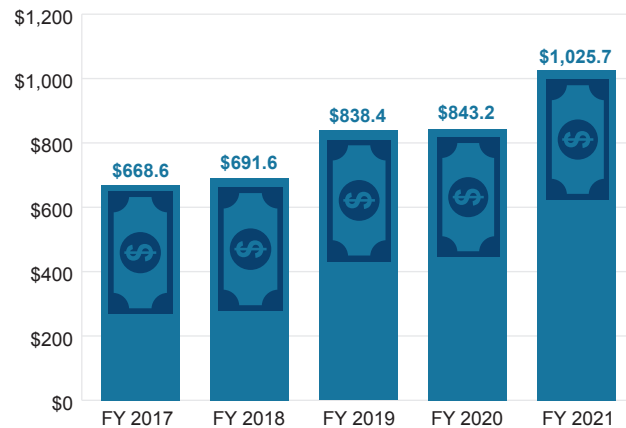
As the Department continues to work to improve its payment integrity initiatives, it is important that the Department ensures that its estimation methodologies for the programs deemed susceptible to significant improper payments produce statistically valid improper payment estimates. In addition, the Department needs to properly implement its enhanced quality control procedures over its improper payment estimation process. The OIG has not assessed the Department's FY 2021 estimation methodologies or the accuracy and validity of the Department's estimates. The OIG will review the accuracy and validity of these measurements as part of the FY 2021 PIIA audit. This is an annual focus of the OIG's work, and we will continue to monitor and report on the Department's progress on this Management Challenge Area.

### MANAGEMENT CHALLENGE 5— INFORMATION TECHNOLOGY SECURITY

The Department's systems house millions of sensitive records on students, their parents, and others, and are used to process billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized people (including Department employees, contractor employees, and other third parties such as school financial aid administrators). As shown in Figure 14, as of September 30, 2021, the Department reported more than \$1 billion in total information technology (IT) spending for FY 2021.

**Figure 14**

### Department Total IT Spending FY 2019–2021 (Dollars in Millions)



Source: Department of Education IT Agency Summary, ITDashboard.gov, as of September 30, 2021.

Through the Office of the Chief Information Officer (OCIO), the Department monitors and evaluates the contractor-provided IT services through a service-level agreement framework and develops and maintains common business solutions required by multiple program offices. OCIO is responsible for implementing the operating principles established by legislation and regulation, establishing a management framework to improve the planning and control of IT investments, and leading change to improve the efficiency and effectiveness of the Department's operations. In addition to OCIO, FSA has its own chief information officer, whose primary responsibility is to promote the effective use of technology to achieve FSA's strategic objectives through sound technology planning and investments, integrated technology architectures and standards, effective systems development, and production support.

The Federal Information Security Modernization Act of 2014 (FISMA) requires the OIG to assess the effectiveness of the agency's information security program. FISMA mandates that this evaluation includes (1) testing of the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems and (2) an assessment of the effectiveness of the information security policies, procedures, and practices of the agency.

### Why This Is a Challenge

In light of increased occurrences of high-profile data breaches (public and private sector), the importance

of safeguarding the Department's information and information systems cannot be understated. Protecting this complex IT infrastructure from constantly evolving cyber threats is an enormous responsibility and challenge. Without adequate management, operational, and technical security controls, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability. For the last several years, IT security audits and financial statement audits have identified security controls that need improvement to adequately protect the Department's systems and data.

### Audits Involving IT Security

Our recent reports on the Department's compliance with FISMA, performed by the OIG with contractor assistance, noted that the Department and FSA made progress in strengthening their information security programs. However, as shown in Table 13, our recent FISMA audits included audit findings across all five cybersecurity framework security functions developed by the Council of the Inspectors General on Integrity and Efficiency, OMB, and the Department of Homeland Security and within each security function's related metric domains. Our FY 2018 through FY 2020 FISMA audits concluded that the Department and FSA were not effective in any of the five security functions (Identify, Protect, Detect, Respond, and Recover) and we had findings in all eight metric domains.

**Table 13**

#### Results of OIG FISMA Audits—Cybersecurity Framework Security Functions and Metric Domains with Audit Findings

FY	Identify: Risk Management	Protect: Configuration Management	Protect: Identity and Access Management	Protect: Data Protection and Privacy	Protect: Security Training	Detect: Information Security Continuous Monitoring	Respond: Incident Response	Recover: Contingency Planning
2020	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding
2019	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding
2018	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding	Audit Finding

Each of our recent FISMA reports recommended ways the Department and FSA could increase the effectiveness of their information security program so that they fully comply with all applicable requirements. Our FY 2020 FISMA audit specifically noted that the Department and FSA could strengthen their controls in several areas, examples of which are identified in Table 14.

**Table 14**

#### Results of the OIG's FY 2020 FISMA Audit—Examples of Areas where Controls can be Strengthened

Metric Domain	Areas Where Controls can be Strengthened
Risk Management	<ul style="list-style-type: none"> <li>Remediation process for Plan of Action and Milestones.</li> <li>IT inventory reporting.</li> <li>Required IT security clauses for contracts.</li> </ul>
Configuration Management	<ul style="list-style-type: none"> <li>Use of unsecure connections and appropriate application connection protocols.</li> <li>Reliance on unsupported operating systems, databases, and applications in its production environments.</li> </ul>
Identify and Access Management	<ul style="list-style-type: none"> <li>Removing access of terminated users to the Department's network and database management.</li> </ul>
Incident Response	<ul style="list-style-type: none"> <li>Timely reporting of incidents.</li> <li>Ensuring data loss prevention tools work accordingly.</li> </ul>

We noted that until the Department improves in these areas, it cannot ensure that its overall information security program adequately protects its systems and resources from compromise and loss. We made recommendations to help the Department and FSA fully comply with all applicable requirements.

Recent audits of the Department's financial statements, performed by an independent public accountant with OIG oversight, have repeatedly identified IT controls as a significant deficiency. In its FY 2020 report, the independent public accountant noted that the Department and FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies. However, they reported that management had not fully remediated prior-year deficiencies in areas such as logical access administration, separated or transferred user access removal, user access reviews and recertification, and configuration management. In addition, control deficiencies were reported for FY 2020 covering security management, segregation of IT duties, application change control, and logical access. As a result, the independent public accountant also reported that entity level controls were not designed and implemented appropriately to remediate identified internal control deficiencies in a timely manner. The independent public accountant concluded that ineffective IT controls increase the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications.

Our investigative work in this area identified a fraud scheme targeting borrowers of Federal student financial assistance funds. The participants in this scheme feigned associated with the Department and, without authority to do so, guaranteed the borrowers enrollment in programs that would lower their monthly payments and result in loan forgiveness. The participants obtained and used borrowers' personal identifying information to access and make changes to their FSA accounts without their consent. The impacted borrowers paid—or were scheduled to pay—upfront fees and additional monthly fees to the participants for services that Federal loan servicers provide at no cost. We also found that most borrowers believed that their payments to the participants would be applied toward their student loan debt, but they were not. This caused many of the borrowers to stop making monthly payments on their student loans, which resulted in late

payment notifications, increased loan balances, and sometimes, defaulting on their student loans.

Planned projects in this area will determine whether the Department's and FSA's overall IT security programs and practices were generally effective as they relate to Federal information security requirements.

### Progress in Meeting the Challenge

The Department identified numerous advancements in its IT security program in response to this challenge. The Department stated that it took a comprehensive approach to addressing this area and cited improvements in areas that included its technological capabilities and internal controls.

With respect to its technological capabilities the Department noted activities that included a major infrastructure upgrade that enhanced the security posture of its hosting environments. The Department also stated that took steps to improve its email security, expanded its Virtual Private Network capacity to effectively support its remote workforce during the pandemic, and delivered an alternative multi-factor authentication solution to provide continuity of critical business functions.

Regarding internal controls, the Department stated that it enhanced quality control standard operating procedures and checklists to ensure security incidents are consistently reported within required timeframes, consistently categorized, and include correct elements. The Department also noted that it worked to ensure its security assessment activities continue to align with Department of Homeland Security standards and conducted proactive outreach to employees regarding increased phishing and other cybercriminal scams.

The Department cited additional improvements that included establishing an Information Communications Technology Supply Chain Risk Management program, a Zero Trust strategic implementation plan, and Vulnerability Disclosure Policy that provides an open channel and legal safe harbor to engage external partners in discovering and reporting vulnerabilities.

### What the Department Needs to Do

Managing IT security programs and practices to effectively reduce risk to the Department's operations is a clear and ongoing management challenge. The Department relies on IT to manage its core business operations and deliver

products and services to its many stakeholders. The OIG has consistently reported concerns regarding the overall effectiveness of the Department's IT security program through our annual FISMA audits, financial statement audits, and management challenges reports.

While we commend the Department for its efforts to address weaknesses and improve its IT security program, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations. It is critical that the Department focus on the timely and successful implementation of corrective actions in response to our audit work. The Department also needs to continue its efforts to develop and implement an effective system of IT security controls, particularly in the areas of configuration management, identity and access management, data protection and privacy, and incident response.

The Fiscal Year 2021 Inspector General metrics include a new Supply Chain Risk Management domain within the Identify function area. However, since the new domain

references Supply Chain Risk Management criteria in the National Institute of Standards and Technology Special Publication 800-53, revision 5, to provide agencies with sufficient time to fully implement it, the new metric was not considered for the purposes of the Identify framework function rating and was included for informational purposes only. However, past audit work identified deficiencies in this security area, and it presents a significant challenge to the Department as they address critical weaknesses.

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

DEPARTMENT COMMENTS



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF FINANCE AND OPERATIONS

November 2, 2021

TO: Sandra D. Bruce  
Acting Inspector General  
U.S. Department of Education

FROM: Denise L. Carter  
*Denise L. Carter*  
Acting Assistant Secretary  
Office of Finance and Operations

SUBJECT: Response to Office of Inspector General Draft Report, "U.S. Department of Education FY 2022 Management Challenges"

Thank you for the opportunity to provide input on the Office of Inspector General (OIG) draft report, *U.S. Department of Education (Department) Fiscal Year (FY) 2022 Management Challenges*.

The Department values the OIG's perspective on risks and vulnerabilities related to programs and operations. Similar to last year's report, the inclusion of five challenges in areas of Implementing Pandemic Relief Laws; Oversight and Monitoring; Data Quality and Reporting; Improper Payments; and Information Technology Security are well-aligned with the Department's own assessment of enterprise risks and respective targeted management efforts.

The Department continues to navigate the challenges of serving the public through a pandemic, and we are pleased to report several significant steps to address the identified challenges. This memo contains a summary of the Department's progress in meeting each of the five challenges, organized by challenge title.

Attached, you will find a supplemental document that provides proposed technical corrections to other sections of the draft report.

We look forward to continued communication and collaboration on these issues.

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## DEPARTMENT COMMENTS

**CHALLENGE 1: IMPLEMENTING PANDEMIC RELIEF LAWS****New Grant Programs and Additional Federal Education Funds; Data Quality**

Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021 (i.e., the Coronavirus Aid, Relief, and Economic Security Act of 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, and the American Rescue Plan Act of 2021 that provided a total of \$282.3 billion in education-related assistance to prevent, prepare for, and respond to the COVID-19 emergency. The Department took comprehensive steps to ensure appropriate interpretation of the legislations' requirements and subsequent policy and operational implications.

The Office of Finance and Operations and the Office of Planning, Evaluation, and Policy Development coordinated Department efforts to successfully award an extraordinary number and size of COVID-19 relief awards on expedited grantmaking timelines on top of the ongoing administration of the agency's \$70+ billion annual portfolio of existing programs. Additional collaborations with Congressional Appropriations Committee staff and the Office of Management and Budget (OMB) helped ensure statutory requirements and program implementation priorities were met. The Department also participated in several accountability engagements with the OIG and the Government Accountability Office regarding the implementation of the pandemic relief laws, the programs that manage and execute the requirements, and the overall stewardship of the appropriations.

To address the additional administrative, monitoring, and oversight workload associated with administering the pandemic relief funding, the Department strategically leveraged the COVID-19 excepted service hiring authority, per the Office of Personnel Management, to augment staffing resources for the Office of Postsecondary Education and the Office of Elementary and Secondary Education.

To ensure effective and timely support to eligible applicants, grantees, and stakeholders while also balancing the need for high quality data collection and reporting processes, the Department implemented several strategies including:

- Establishing structured processes for data collection and reporting;
- Implementing preventative funds control measures for accurate tracking and reporting of funds in real time;
- Adopting risk-based approaches to administering program funding and comprehensive monitoring;
- Providing regulatory flexibilities, training, written guidance, webinars, direct technical assistance to new grantees;
- Reducing burdensome data collections, thorough progress reviews, and clear and transparent reporting (via the Education Stabilization Fund (ESF) Transparency Portal launched in November 2020). The Public Transparency Portal allows the Department to track performance, hold grantees accountable, and provide transparency to taxpayers and oversight bodies;
- Issuing early and comprehensive communications to grantees outlining clear data quality and timing expectations; and
- Working with OMB to ensure relevant programs were included in the 2021 Compliance Supplement, which issues guidance relied upon by independent third-party auditors who review or audit federal programs and negotiate "high-risk" designations for these programs.

Lessons learned from the initial ESF grantee data collection experience significantly informed the processes for the year two annual collection. Through these collections, the Department will be better able to assess the use of funds, providing visibility into the equitable recovery of schools and students as well as the capacity to promote learning.

**Student Financial Assistance Program Requirements; Data Quality**

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by suspending nearly all federal loan payments until January 31, 2022, interest free. The Department also stopped all federal wage garnishments and collection actions, as well as interest accrual, for borrowers with federally held loans in default.

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In addition to COVID-19 relief, the Department provided targeted relief to thousands of borrowers by cancelling \$11.5 billion of loans using authority previously authorized by Congress. The targeted beneficiaries include those who were:

- Qualified for total and permanent disability discharge.
- Defrauded by failed for-profit schools.
- Deployed to war zones (soldiers).
- Denied eligibility previously for forgiveness under the Public Service Loan Forgiveness Program.

The Department automatically placed all borrowers in administrative forbearance status, which allowed them to temporarily stop making monthly loan payments. Once the payment suspension period ends on January 31, 2022, all non-defaulted borrowers in the federal student loan portfolio will be in a current repayment status. Federal Student Aid (FSA) closely tracks data related to repayments to identify the impact of borrowers' decisions regarding repayment to understand current revenue and cost to the federal government. FSA refunded more than 99% of involuntary payments made by borrowers with defaulted loans who were subject to having certain Treasury payments offset or wages garnished. Additionally, FSA worked with loan servicers to ensure all eligible borrowers received personalized communications informing them of the changes.

## CHALLENGE 2: OVERSIGHT AND MONITORING

### Student Financial Assistance Programs

FSA improved oversight and monitoring of institutions of higher education (IHEs) participating in Title IV programs. In doing so, FSA worked to address weaknesses in the single audit process to improve its use as an oversight and monitoring tool for IHEs' disbursements of Pell Grants and Direct Loans. They additionally deployed an analytical model to continually monitor partner data and performance, thus improving the ability to identify IHEs most at-risk and allow more effective use of oversight resources by informing and prioritizing support for IHEs.

Over the next several years, the Department will implement additional risk-based procedures to evaluate an accrediting agency's ability to effectively determine and

measure IHE compliance with accreditation standards and to identify accrediting agencies at higher risk of failing to meet statutory and regulatory requirements and additional procedures to prioritize oversight of those higher-risk agencies.

FSA implemented an improved model for verification selection and evaluation of data elements from the FAFSA that allows the Department to better identify applicants for whom errors will result in a change in their federal aid award, potentially reducing improper payments.

The President signed the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act in December 2019, which will help ensure the accuracy of income information used for determining Pell Grant eligibility. One of the primary causes of improper payments in the Pell Grant program is failure to accurately verify financial data. The FUTURE Act provides an exception to the Department of Education from restrictions of Section 6103 of the Internal Revenue Code to allow the Department to receive income tax data more easily from the Internal Revenue Service (IRS). Implementation of the FUTURE Act began in FY 2020 and will continue through FY 2023. FSA has organized implementation into three phases:

1. Establishing FSA's ability to request and receive certain Federal Tax Information from the Internal Revenue Service through the FUTURE Act Direct Data Exchange;
2. Updating FSA systems and processes to enable the provisions of the FUTURE Act; and,
3. Working with FSA's partners—schools, state agencies, and designated scholarship organizations—as they update their systems and processes to fully implement the FUTURE Act.

### Grantee Oversight

The Department continued to prioritize enhancing processes related to grant oversight and monitoring to achieve positive program outcomes. Recent innovative initiatives, process overhauls, and technology improvements further strengthened and modernized the grants administration process. During FY 2021, the Department continued to expand these efforts with a

## DEPARTMENT COMMENTS

critical emphasis on capacity building of and collaboration across grants staff to boost oversight and monitoring practices and effective stewardship of taxpayer funded investments. Several strategic efforts facilitated the swift response to the COVID-19 pandemic and associated administration of relief funding:

- Assessing the standard grantmaking process to identify opportunities to create operating efficiencies and increase program effectiveness through cross-POC coordination and information sharing;
- Establishing new virtual monitoring and support approaches for discretionary and formula grant programs;
- Developing and implementing comprehensive in-house training resources;
- Enhancing pre-award risk assessments by adding contextual information on individual grantees relative to parent institutions;
- Implementing a grants management acquisition program that includes post-award monitoring support;
- Leveraging contract support to increase online training resources for grantees, including key areas of risk such as Subrecipient Monitoring;
- Ensuring data systems effectively collect grantee data, analyze performance, detect risk, report progress, and serve as a catalyst for continuous improvement to all aspects of grant operations and program monitoring;
- Awarding a contract for the G5 Modernization Initiative to develop a modern, modular, secure, and user-friendly G5 grants management system to support the range of stakeholder needs throughout the grant lifecycle; and,
- Partnering with the Department of Health and Human Services to pilot emerging solutions that could further strengthen and streamline future risk-based monitoring strategies.

## CHALLENGE 3: DATA QUALITY AND REPORTING

The Department is committed to improving access, use, and dissemination of meaningful education data while protecting privacy. Doing so enables the Department to provide education stakeholders with timely and accurate information to inform decisions.

In FY 2021, the Department took numerous steps to address this challenge and emphasize a strong commitment to protecting student's education data both within the agency and at educational institutions by:

- Establishing a holistic agencywide framework that formalized data management functions through new Data Governance Policies to support data maturation across the Department (Data Governance Board);
- Implementing annual Data Maturity Assessments to evaluate office data strategies, data quality assessments, and data cleansing to help determine growth and gaps, identify priority areas for improvement, and drive relevant budgetary decisions and investments that support overall data management capabilities;
- Developing a Data Quality Playbook which outlined authorities, tools, and resources for grant program managers;
- Developing a comprehensive data workforce plan to better align the workforce with functional data needs;
- Implementing process improvements related to program performance and accountability measures;
- Collaborating with the IRS to implement programmatic changes to ensure accuracy of income data used for determining Pell Grant eligibility (see Challenge #2, above).
- Engaging with nearly 1,000 schools to build capacity to improve security of student financial and privacy data;
- Conducting more than 20 outreach activities in response to breach incidents, to improve compliance with cybersecurity safeguards; and,

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- Conducting outreach to more than 500 IHEs in response to Microsoft Exchange Vulnerability to ensure awareness of the vulnerability and provide guidance for remediation or management of potential exposure.

Apart from FSA, the National Center for Education Statistics (NCES) operates the largest data collections within the agency and continues to focus on models for data quality improvement to support Department-wide program data collections. ED Facts, which contains both the statistical Common Core of Data release and data required for multiple ED programs, sought to improve the completeness and accuracy of data as well as the timeliness of submissions by K-12 state education agencies. Select FY 2021 accomplishments include the refinement of NCES data collection guidance to establish reasonable due dates and timelines for state grantees and the publication of a Business Rules Single Inventory (available to all grantees and regularly reviewed by NCES staff).

The inception of ED's OIG Management Challenges report in 2008 identified data quality as a significant challenge area, and it has remained one ever since. In August of 2021, the Department released its first Annual Evaluation Plan for FY 2022, as required by The Evidence Act, to delineate these activities. In addition to the continued deployment of the above initiatives, other foci for FY 2022 include updating the Department's Information Quality Act Guidelines and the establishment of data quality plans.

### CHALLENGE 4: IMPROPER PAYMENTS

The Department continued to prioritize efforts to ensure payment integrity and minimize improper and unknown payments across all programs in FY 2021, including monitoring disaster-related programs in accordance with OMB Memorandum M-18-14. Collaborations between financial management and grants administration staff aimed to facilitate successful implementation of Payment Integrity Information Act compliance activities (e.g., improper payment estimations, as well as qualitative and quantitative improper payment risk assessments for programs and activities in scope). Increased sophistication in estimation, detection, and data collection activities helped expeditiously identify and resolve improper payments. Improvement action items included:

- Updating the methodology for the Emergency Impact Aid program and implementing written procedures regarding the processes of obtaining and validating population data including quality assurance steps to ensure the results of the test sample are calculated correctly to yield a reliable improper payment estimate;
- Establishing a process to introduce subject matter expert (SME) reviews of improper payment cases to make final determination when they cannot be resolved by the program offices;
- Developing and delivering improper payment training for staff;
- Refining the Payment Integrity Monitoring Application, a digital tool to detect anomalies in grants payment data (i.e., case management files for payment anomalies are established within the application for follow-up investigation by the Department's grants program officials to validate improper payments and determine root causes);
- Implementing enhanced quality control procedures over FSA's improper payment estimation process to ensure the completeness and accuracy of compliance audit data and calculations used in the estimates; and,
- Coordinating with OMB and the independent audit community to recommend and advocate for changes to the OMB Compliance Supplement to strengthen the quality of data used in improper payment estimates.

### CHALLENGE 5: INFORMATION TECHNOLOGY SECURITY

FY 2021 advancements in the information technology security program encompass both technological capabilities as well as improvements in knowledge management and internal controls. The Department took a comprehensive approach to addressing this management challenge including:

- Establishing an Information Communications Technology (ICT) Supply Chain Risk Management (SCRM) program;

## DEPARTMENT COMMENTS

- Releasing a strategic roadmap designed to provide a vision and action plan for the planning, preparation, implementation, and execution of ED's ICT SCRM Program;
- Establishing a Zero Trust strategic implementation plan, addressing current issues with access, including unauthorized, and siloed single point solutions for data protection;
- Publishing a Vulnerability Disclosure Policy that provides an open channel and legal safe harbor to engage external partners in discovering and reporting vulnerabilities;
- Completing a major infrastructure upgrade to improve performance, dependability, capacity, and security to enhance the security posture of our hosting environments;
- Enhancing quality control standard operating procedures and checklists to ensure incidents are consistently submitted to United States Computer Emergency Readiness Team and the OIG within the required timeframes, and are consistently categorized, and include the correct vector elements as required;
- Deploying and monitoring the Office 365 email Data Loss Prevention (DLP) capability to bolster the Department's email security;
- Ensuring the Department's security assessment activities continue to align with DHS standards;
- Mitigating operational impacts of the COVID-19 pandemic through delivery of Personal Identity Verification authentication as alternative multi-factor authentication solution providing continuity of critical business functions;
- Identified, analyzed, and recommended cloud-based solutions to provide rapid expansion of the Department's Virtual Private Network capacity to effectively support our remote workforce during the pandemic; and,
- Conducting proactive outreach to employees regarding increased phishing and other cybercriminal scams yielding a 7% average reporting rate increase this year.

# Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department’s financial statement audit and its management assurances. For more details, the auditors’ report can be found beginning on page 98 and the Department’s management assurances on page 23.

## SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<b>Total Material Weaknesses</b>	1	0	0	0	1

## SUMMARY OF MANAGEMENT ASSURANCES

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

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>Total Material Weaknesses</b>	0	0	0	0	0	0

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

### Effectiveness of Internal Control Over Operations—*FMFIA 2*

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>Total Material Weaknesses</b>	0	0	0	0	0	0

### Conformance With Financial Management System Requirements—*FMFIA 4*

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

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>Total Nonconformances</b>	0	0	0	0	0	0

### Compliance with *Federal Financial Management Improvement Act of 1996 (FFMIA)*

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

# Payment Integrity Information Act Reporting

All program outlays can be categorized into one of three payment type categories: proper payments, improper payments, and unknown payments. OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, defines an improper payment as a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; any payment that is not authorized by law; and any payment that does not account for credit for applicable discounts. OMB Circular A-123, Appendix C, also defines an unknown payment as a payment that could either be proper or improper, but it cannot be determined whether the payment was proper or improper because of insufficient or lack of documentation.

The Department places a high value on maintaining the integrity of all types of payments made to ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. The Department ensures payment integrity by establishing effective policies, business processes, systems, and controls over key payment activities, including those pertaining to payment data quality, cash management, banking information, third-party oversight, assessments of audit reports, and financial reporting. The number and dollar value of improper and unknown payments are key indicators of payment integrity. Accordingly, the Department maintains a robust internal control framework that includes internal controls designed to help prevent, detect, and recover improper and unknown payments. In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and

institutions, because they further distribute funds they receive from the Department to subordinate organizations and individuals. Due to these third-party controls being outside of the Department's operational management, they present a higher risk to the Department, as evidenced by its root cause analysis. When control deficiencies are detected, either within the Department or at external entities, the Department seeks to identify their root causes, develop corrective action plans, and track corrective actions through to completion.

To further promote payment integrity, the Department continues to develop its Payment Integrity Monitoring Application (PIMA), which detects anomalies in grants payment data. Case management files for payment anomalies are established within the application for follow-up investigation by the Department's grants program officials to validate improper payments and determine root causes. Additionally, the Department continues to develop its internal control framework to address gaps, strengthen internal control processes, and align assessments with enterprise risk management. Both efforts reflect the Department's recognition of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer.

## DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2021, the Federal Pell Grant and William D. Ford Federal Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high-high priority programs. Also, in FY 2021, the Department continued monitoring outlays of grant programs receiving funding for disaster relief. According to OMB Memorandum M-18-14, *Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations*, any disaster-related program with \$10 million or more in outlays in a given fiscal year is deemed susceptible to significant improper payments. The Department identified three programs that met this criterion: the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid), Immediate Aid to Restart School Operations (Restart) and the Emergency Assistance to Institutions of Higher Education (EAI) program. Additionally, at the conclusion

of FY 2020's improper payment risk assessment, the Department identified the Title I, Part A (Title I) as being susceptible to significant improper payments.

The Department continues to place additional emphasis to ensure payment integrity and minimize improper and unknown payments in these important programs as required by OMB guidance. Readers can obtain a detailed breakdown of information on improper and unknown payment estimates, root causes, and corrective actions for the programs at <https://paymentaccuracy.gov>.

### PELL GRANT

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

### DIRECT LOAN

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

### TEMPORARY EMERGENCY IMPACT AID FOR DISPLACED STUDENTS

The Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program awards emergency impact aid funding to state educational agencies (SEA). SEAs provide subgrants to local educational agencies (LEA) to reimburse the costs of educating students enrolled in public schools (both traditional and charter) and nonpublic elementary and secondary schools, who were displaced by a covered disaster or emergency.

### IMMEDIATE AID TO RESTART SCHOOL OPERATIONS

The Immediate Aid to Restart School Operations (Restart) program awards grants to eligible SEAs to assist eligible LEAs and nonpublic schools with expenses related to the restart of elementary schools and secondary schools in areas impacted by a covered disaster or emergency. Funds may be used to assist school administrators and personnel in restarting school operations, reopening schools, and reenrolling students.

### EMERGENCY ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION

The Emergency Assistance to Institutions of Higher Education (EAI) program awards grants for emergency assistance to eligible Institutions of Higher Education (IHE) for which a major disaster or emergency has been declared. Funds awarded assist activities directly related to mitigating the effects of a covered disaster or emergency on students and institutions. To the extent possible, EAI prioritizes projects that support students who are homeless or who are at risk of becoming homeless as a result of displacement related to a covered disaster or emergency; and IHEs that have sustained extensive damage by a covered disaster or emergency.

### TITLE I, PART A

Title I, Part A (Title I) of the *Elementary and Secondary Education Act*, as amended by the *Every Student Succeeds Act* (ESEA) provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards. Federal funds are currently allocated through four statutory formulas that are based primarily on census poverty estimates and the cost of education in each state.

In FY 2021, the Department used statistically valid sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, Emergency Impact Aid, Restart, EAI and Title I programs. The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

For detailed information on Pell Grant, Direct Loan, Emergency Impact Aid, Restart, EAI, and Title I improper payment estimates in FY 2021 and prior years, please visit <https://paymentaccuracy.gov>.

### ACTIONS TAKEN TO ADDRESS AUDITOR RECOVERY RECOMMENDATIONS

Agencies are required to conduct recovery audits for all programs and activities that expend more than \$1 million in a fiscal year, if conducting such audits would be cost-effective. The Department determined that payment recapture audits would not be cost effective for any of its loan and grant programs or for contracts. A comprehensive



report on the cost effectiveness of the various recapture audit programs can be found in the Department's **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

The Department identifies and recovers improper payments through sources other than payment recapture audits and works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in compliance audits, OIG audits, and Department-conducted program reviews. The Department also analyzes the return of grant funds from recipients to determine if they are due to improper payments. When an improper payment is detected and deemed collectable, the Department establishes an account receivable and pursues collection. Recoveries are also made through grant program, payroll, and other offsets. Recipients of Department funds can appeal management's decisions regarding funds to be returned to the Department

or they may go bankrupt before the Department can collect, thereby delaying or decreasing the amounts the Department is able to collect. Additionally, the Department has wide discretion to decide not to collect improper payments from grantees in cases where it determines that pursuing collections would cause more harm to the federal interest. For these and other reasons, not all identified improper payments will ultimately be collected and collections will not necessarily be made in the same year the improper payments were identified.

The Department continues to work to improve its methods to identify, collect, and report on improper payment collections. For detailed information on identified and recovered improper payments in FY 2021, readers can visit <https://paymentaccuracy.gov>.

# Civil Monetary Penalty Adjustment for Inflation

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

## Location for Penalty Update Details:

<https://www.federalregister.gov/documents/2021/02/03/2021-02231/adjustment-of-civil-monetary-penalties-for-inflation>

Table 15

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	1-14-20	2-03-21	\$ 39,693
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	1-14-20	2-03-21	33,062
Violation of Title IV of the HEA	20 USC 1082(g)	1-14-20	2-03-21	59,017
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	1-14-20	2-03-21	59,017
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	1-14-20	2-03-21	1,742
Improper lobbying for government grants and contracts	31 USC 1352(c)(1) and c(2)(A)	1-14-20	2-03-21	20,731 to 207,314
False claims and statements	31 USC 3802(a)(1) and (a)(2)	1-14-20	2-03-21	11,803

# The Grants Oversight and New Efficiency (Gone) Act of 2016 and Education’s Grant Closeout Process

The goal of the *Grants Oversight and New Efficiency (GONE) Act of 2016* (Pub. L. No. 114-117) was to close out grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances and whose period of performance has exceeded two years. Although the Grants Oversight and New Efficiency Act reporting requirements have expired, the Office of Management Circular A-136, Section II.4.9, Grants Programs (August 10, 2021) requires similar information to be reported in the Other Information section. See Table 16 below.

Starting with an October 3, 2016, baseline of 8,948 grants and cooperative agreements totaling approximately \$2 billion in various statuses of the closeout process, the Department succeeded in closing out 100 percent of the required grants and cooperative agreements during FY 2018. As of September 30, 2021, the Department had 165 grants and cooperative agreements totaling approximately \$59.7 million in various statuses of the closeout process. See Table 16 below.

In FY 2020, the Department’s Office of Inspector General (OIG) performed a risk assessment of the Department’s grant closeout process and issued their results via memorandum. They identified risks with the reliability of grant data and related GONE Act reporting, as well as the Department’s grant closeout policies and procedures, including a policy allowing older grants to be closed in compliance without required reports being provided by the grantee. In addition, the OIG found that both the volume of expired grants and amount of undisbursed grant funds significantly increased between the date of initial *GONE Act* reporting (September 30, 2017) and January 30, 2020, indicating that grant closeout is less of a focus now that *GONE Act* reporting is over. The memorandum is available at <https://www2.ed.gov/about/offices/list/oig/auditreports/fy2020/s19u0002.pdf>.

Overall, the Office of Finance and Operations (OFO) agreed with the OIG assessment and noted its intention to move forward with grant policy deliberation consistent with the results of the assessment. Approved in July 2020, the Handbook for the Discretionary Grants Process (Handbook) includes policy requiring program officials to provide to the Deputy Assistant Secretary of the Office of Acquisition and Grants Administration (OAGA) a report on the status of Federal grants or cooperative agreements in the Department’s grant management system, G5, that have been in manual closeout status for two years or more. The report will include a narrative of the challenges leading to delays in grant and cooperative agreement award closeout and the planned corrective action to address these challenges. OAGA is now receiving reports from the program officials and will monitor progress on the proposed corrective actions.

During the summer of 2020, OAGA offered a financial monitoring curriculum for formula and discretionary grants aligned with the *Standards for Financial Management* in 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, addressing cash management and drawdown activity of grantees’ utilization of funds consistent with an approved scope of work aimed at reducing issues associated with grant closeouts. The content of the sessions included the Handbook policy referencing grants and cooperative agreements in manual closeout status for two years or more and the submission of reporting with corrective actions to the Deputy Assistant Secretary of OAGA.

**Table 16**

Category	2–3 Years FY 2018–19	3–5 Years Years FY 2017–18	> 5 Years before FY 2016
Number of Grants/Cooperative Agreements with Zero Dollar Balances	53	2	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	110	-	-
Total Amount of Undisbursed Balances	\$59,675,808	-	-

Source: G5, grants management system linked to the Department’s general ledger system. Data is based on the performance end date of September 30, 2019.

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# APPENDICES



# Appendix A: Selected Department Web Links and Education Resources

## COLLEGE COMPLETION TOOLKIT

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

## COLLEGE COST LISTS

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

## COLLEGE FINANCING PLAN

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

## COLLEGE NAVIGATOR

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

## COLLEGE PREPARATION CHECKLIST

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

These additional resources within the checklist assist students in finding scholarships and grants:

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

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

## COLLEGE SCORECARD

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

## CONDITION OF EDUCATION AND DIGEST OF EDUCATION STATISTICS

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

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

### EDUCATION RESOURCES INFORMATION CENTER

The Department offers Education Resources Information Center (ERIC)—the world’s largest free, digital library of education research. It is composed of 1.8 million bibliographic records and 400,000 full-text materials indexed from 1966 to the present. Each ERIC bibliographic record contains an abstract of a journal article or grey literature document (for example, a technical report or conference paper), along with such indexed information as author, title, and publication date. <https://eric.ed.gov>

### FEDERAL PROGRAM INVENTORY

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

Since that time, Congress passed the *Digital Accountability and Transparency Act (DATA Act)* requiring new public reporting requirements, which impact the definition of programs used in this guidance. OMB is currently working with agencies to merge the implementation of the DATA Act and the Federal Program Inventory requirements to the extent possible to avoid duplicate efforts. In December 2020 OMB launched an exploratory pilot as the next step towards creating a coherent and comprehensive inventory. This site provides the history of the Federal government’s efforts to create an inventory as well as key insights, data from the pilot, and planned next steps. <https://fpi.omb.gov/>

### GOVERNMENT ACCOUNTABILITY OFFICE

The Government Accountability Office (GAO) supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people. <https://www.gao.gov/agencies/department-education>

### GRANTS INFORMATION AND RESOURCES

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

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

### NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS

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

### OFFICE OF INSPECTOR GENERAL

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

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

### ONE-STOP SHOPPING FOR STUDENT LOANS

The Department provides a site where students can manage their loans. <http://studentloans.gov/>

## PERFORMANCE DATA

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

## PROJECTIONS OF EDUCATION STATISTICS TO 2028

For the 50 states, jurisdictions, and the District of Columbia, the tables, figures, and text in this report contain data on projections of public elementary and secondary enrollment and public high school graduates to the year 2028. The report includes a methodology section that describes the models and assumptions used to develop national and state-level projections. <https://nces.ed.gov/pubs2020/2020024.pdf>

## REGIONAL EDUCATIONAL LABORATORY PROGRAM

The Department administers the Regional Education Laboratory (REL) program to support the use of research and evidence to help states and school districts improve their education programs and, ultimately, student performance. To do this, each regional REL contractor works with teachers, administrators, and policy makers to identify “high-leverage” problems of practice and to build the research capacity of local stakeholders. Each REL develops partnerships with state- and local-level education agencies to gather and analyze data, conduct evaluations, and provide technical assistance that addresses these “high-leverage” problems. <https://ies.ed.gov/rels>

## RESOURCES FOR ADULT, CAREER, AND TECHNICAL EDUCATION

The Department continues to support state and local efforts to implement high-quality secondary and postsecondary career and technical education programs under the nation’s \$1.3 billion investment in funding under the Carl D. Perkins Career and Technical Education Act (Perkins V). Among the Department’s efforts is hosting the Perkins Collaborative Resource Network (PCRN) website that provides a one-stop shop for information, resources, and data pertaining to

Perkins V CTE programs. The PCRN Website provides individual state profiles containing Perkins V State Plans, fiscal information, and accountability data; tools and resources from Department-sponsored national activities investments; and a Perkins V data explorer where users can run reports on trends in student participation and outcomes in CTE programs. <http://cte.ed.gov>

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

## WHAT WORKS CLEARINGHOUSE PRACTICE GUIDES FOR EDUCATORS

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



# Appendix B: Glossary of Acronyms and Abbreviations

<b>ABCP</b>	Asset-Backed Commercial Paper	<b>Direct Loan</b>	William D. Ford Federal Direct Loan
<b>AFR</b>	<i>Agency Financial Report</i>	<b>DL</b>	Direct Loan
<b>AP</b>	Acquisition Plan	<b>DLP</b>	Data Loss Prevention
<b>APG</b>	Agency Priority Goals	<b>DMA</b>	Data Maturity Assessment
<b>APR</b>	Annual Performance Reports	<b>DOL</b>	U.S. Department of Labor
<b>ARP</b>	<i>American Rescue Plan Act of 2021</i>	<b>DQP</b>	Data Quality Plan
<b>BIE</b>	Bureau of Indian Education	<b>EAI</b>	Emergency Assistance to Institutions of Higher Education
<b>BOD</b>	Binding Operational Directive	<b>ECASLA</b>	<i>Ensuring Continued Access to Student Loans Act of 2008</i>
<b>BPO</b>	Business Process Operations	<b>EDCAPS</b>	Education Central Automated Processing System
<b>BPR</b>	Business Processing Re-Engineering	<b>EDGMSS-BPA</b>	Education Grants Management Support Services-Blanket Purchase Agreement
<b>CARES</b>	<i>Coronavirus Aid, Relief, and Economic Security Act of 2020</i>	<b>EDMAPS</b>	Enterprise Data Management and Analytics Platform Services
<b>CEAR</b>	Certificate of Excellence in Accountability Reporting	<b>EIA</b>	Emergency Impact Aid
<b>CISA</b>	Cybersecurity and Infrastructure Security Agency	<b>ELG</b>	Evidence Leadership Group
<b>CIT</b>	Central Information Technology	<b>Emergency Impact Aid</b>	Temporary Emergency Impact Aid for Displaced Students
<b>COVID-19</b>	Coronavirus Disease 2019	<b>EO</b>	Executive Order'
<b>CPSS</b>	Contracts and Purchasing Support System	<b>EPM</b>	Enterprise Performance Management
<b>CRRSAA</b>	<i>Coronavirus Response and Relief Supplemental Appropriation Act of 2021</i>	<b>ERIC</b>	Education Resources Information Center
<b>CSF</b>	Cyber Security Framework	<b>ERR</b>	Entity Risk Review
<b>CSRS</b>	Civil Service Retirement System	<b>ERMWG</b>	Enterprise Risk Management Working Group
<b>CTE</b>	Career and Technical Education	<b>ESEA</b>	<i>Elementary and Secondary Education Act</i>
<b>DATA Act</b>	<i>Digital Accountability and Transparency Act of 2014</i>	<b>ESF</b>	Education Stabilization Fund
<b>DCC</b>	Digital and Customer Care	<b>ESSA</b>	<i>Every Student Succeeds Act</i>
<b>DCIA</b>	<i>Debt Collection Improvement Act of 1996</i>	<b>ESSER</b>	Elementary and Secondary School Emergency Relief
<b>DDB</b>	Death, Disability, and Bankruptcy	<b>FAFSA®</b>	Free Application for Federal Student Aid
<b>Department</b>	U.S. Department of Education		
<b>DGB</b>	Data Governance Board		
<b>DHS</b>	U.S. Department of Homeland Security		

<b>FASAB</b>	Federal Accounting Standards Advisory Board	<b>HEAL</b>	Health Education Assistance Loans
<b>FCRA</b>	<i>Federal Credit Reform Act of 1990</i>	<b>HEERF</b>	Higher Education Emergency Relief Fund
<b>FECA</b>	<i>Federal Employees' Compensation Act</i>	<b>HHS</b>	U.S. Department of Health and Human Services
<b>FERS</b>	Federal Employees Retirement System	<b>HTTPS</b>	Hypertext Transfer Protocol Secure
<b>FFB</b>	Federal Financing Bank	<b>HVA</b>	High Value Asset
<b>FFEL</b>	Federal Family Education Loan	<b>ICT</b>	Information Communication Technology
<b>FFMIA</b>	<i>Federal Financial Management Improvement Act of 1996</i>	<b>IDEA</b>	<i>Individuals with Disabilities Education Act</i>
<b>FIPSE</b>	Fund for the Improvement of Postsecondary Education	<b>IDR</b>	Income-Driven Repayment
<b>FISMA 2014</b>	<i>Federal Information Security Modernization Act of 2014</i>	<b>IEP</b>	Individualized Education Program
<b>FMFIA</b>	<i>Federal Managers' Financial Integrity Act of 1982</i>	<b>IES</b>	Institute of Education Sciences
<b>FMSS</b>	Financial Management Support System	<b>IET</b>	Integrated Education and Training
<b>FR</b>	Financial Report of the U.S. Government	<b>IHE</b>	Institutions of Higher Education
<b>FSA</b>	Federal Student Aid	<b>IPP</b>	Invoice Processing Platform
<b>FUTURE Act</b>	<i>Fostering Undergraduate Talent by Unlocking Resources for Education Act</i>	<b>IPERA</b>	<i>Improper Payments Elimination and Recovery Act of 2010</i>
<b>FY</b>	Fiscal Year	<b>IPERIA</b>	<i>Improper Payments Elimination and Recovery Improvement Act of 2012</i>
<b>G5</b>	Grants Management System	<b>IRS</b>	Internal Revenue Service
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>IT</b>	Information Technology
<b>GAO</b>	Government Accountability Office	<b>LEA</b>	Local Educational Agency
<b>GEER</b>	Governor's Emergency Education Relief	<b>LINCS</b>	Literacy Information and Communication System
<b>GONE Act</b>	<i>Grants Oversight and New Efficiency Act of 2016</i>	<b>MSI</b>	Minority Serving Institutions
<b>GPO</b>	Grants Policy Office	<b>NAEP</b>	National Assessment of Educational Progress
<b>GPRA</b>	<i>Government Performance and Results Act of 1993</i>	<b>NES</b>	National Engagement Strategy
<b>GSA</b>	General Services Administration	<b>Next Gen FSA</b>	Next Generation Federal Student Aid
<b>HBCU</b>	Historically Black Colleges and Universities	<b>NIST</b>	National Institute of Standards and Technology
<b>HEA</b>	<i>Higher Education Act of 1965</i>	<b>NSLDS®</b>	National Student Loan Data System
		<b>OAGA</b>	Office of Acquisition and Grants Administration
		<b>OCDO</b>	Office of the Chief Data Officer
		<b>OCIO</b>	Office of the Chief Information Officer
		<b>OCR</b>	Office for Civil Rights
		<b>OCTAE</b>	Office of Career, Technical, and Adult Education

<b>ODP</b>	Open Data Platform	<b>POA&amp;M</b>	Plan of Actions & Milestones
<b>OEDARM</b>	Office of Enterprise Data Analytics and Risk Management	<b>President's Budget</b>	<i>Budget of the United States Government</i>
<b>OELA</b>	Office of English Language Acquisition	<b>PSLF</b>	Public Service Loan Forgiveness
<b>OESE</b>	Office of Elementary and Secondary Education	<b>QSMO</b>	Quality Service Management Offices
<b>OFM</b>	Office of Financial Management	<b>REL</b>	Regional Educational Laboratory
<b>OFO</b>	Office of Finance and Operations	<b>Report and Plan</b>	Annual Performance Report and Annual Performance Plan
<b>OGC</b>	Office of the General Council	<b>RESTART</b>	Immediate Aid to Restart School Operations
<b>OHR</b>	Office of Human Resources	<b>SBR</b>	Statement of Budgetary Resources
<b>OIG</b>	Office of Inspector General	<b>SCRM</b>	Supply Chain Risk Management
<b>OMB</b>	Office of Management and Budget	<b>SEA</b>	State Education Agency
<b>OPD</b>	Open Data Platform	<b>SFS</b>	Scholarship for Services
<b>OPE</b>	Office of Postsecondary Education	<b>SLA</b>	Service-Level Agreement
<b>OPEN</b>	Open, Public, Electronic and Necessary	<b>SSA</b>	Social Security Administration
<b>OPEPD</b>	Office of Planning, Evaluation, and Policy Development	<b>STEM</b>	Science, Technology, Engineering, and Mathematics
<b>OPM</b>	Office of Personnel Management	<b>TBMS</b>	Technology Business Management Solutions
<b>OS</b>	Office of the Secretary	<b>TCCU</b>	American Indian Tribally Controlled Colleges and Universities
<b>OSERS</b>	Office of Special Education and Rehabilitative Services	<b>TEACH</b>	Teacher Education Assistance for College and Higher Education Grant
<b>P-12</b>	Prekindergarten Through 12th Grade	<b>TEPSLF</b>	Temporary Expanded Public Service Loan Forgiveness
<b>PAYE</b>	Pay as You Earn	<b>Title I</b>	Title I, Part A
<b>Pell</b>	Federal Pell Grant	<b>TOP</b>	Treasury Offset Program
<b>Pell Program</b>	Pell Grant Program	<b>TPD</b>	Total and Permanent Disability
<b>PIIA</b>	<i>Payment Integrity Information Act of 2019</i>	<b>TPDR</b>	Third-Party Debt Relief
<b>PIMA</b>	Payment Integrity Monitoring Application	<b>Treasury</b>	U.S. Department of Treasury
<b>PIV</b>	Personal Identity Verification	<b>VDP</b>	Vulnerability Disclosure Policy
<b>PIV-A</b>	Personal Identity Verification Alternative Solution	<b>VPN</b>	Virtual Private Network
<b>PLUS</b>	Parent Loan for Undergraduate Students	<b>WIOA</b>	<i>Workforce Innovation and Opportunity Act</i>
<b>PO</b>	Principal Office		

# Acknowledgments

This *Agency Financial Report* was produced with the energies and talents of our employees and contract partners.

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

Also, within OFO, the Office of Budget Service has lead responsibility for multiple functions, including developing and implementing the Department's Budget. The Office of Acquisition and Grants Administration (OAGA) leads the Department toward effective, efficient, and accountable acquisition management, as well as develops, manages, and provides policy guidance and oversight of the Department's grant management activities and operations.

The Contracts and Acquisitions Management Division, within OAGA, is responsible for the solicitation, award, administration, and closeout of all contracts and other acquisition instruments for the Department.

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## OTHER CONTRIBUTORS

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Office of Communications and Outreach

Office of Planning, Evaluation, and Policy Development

Office of the Chief Information Officer

Office of the Inspector General

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