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**.

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**. For more details on performance, please refer to the Department's budget and performance web page at **www.Performance.gov**.

FINANCIAL HIGHLIGHTS

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

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

FORWARD-LOOKING INFORMATION

The Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on 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:

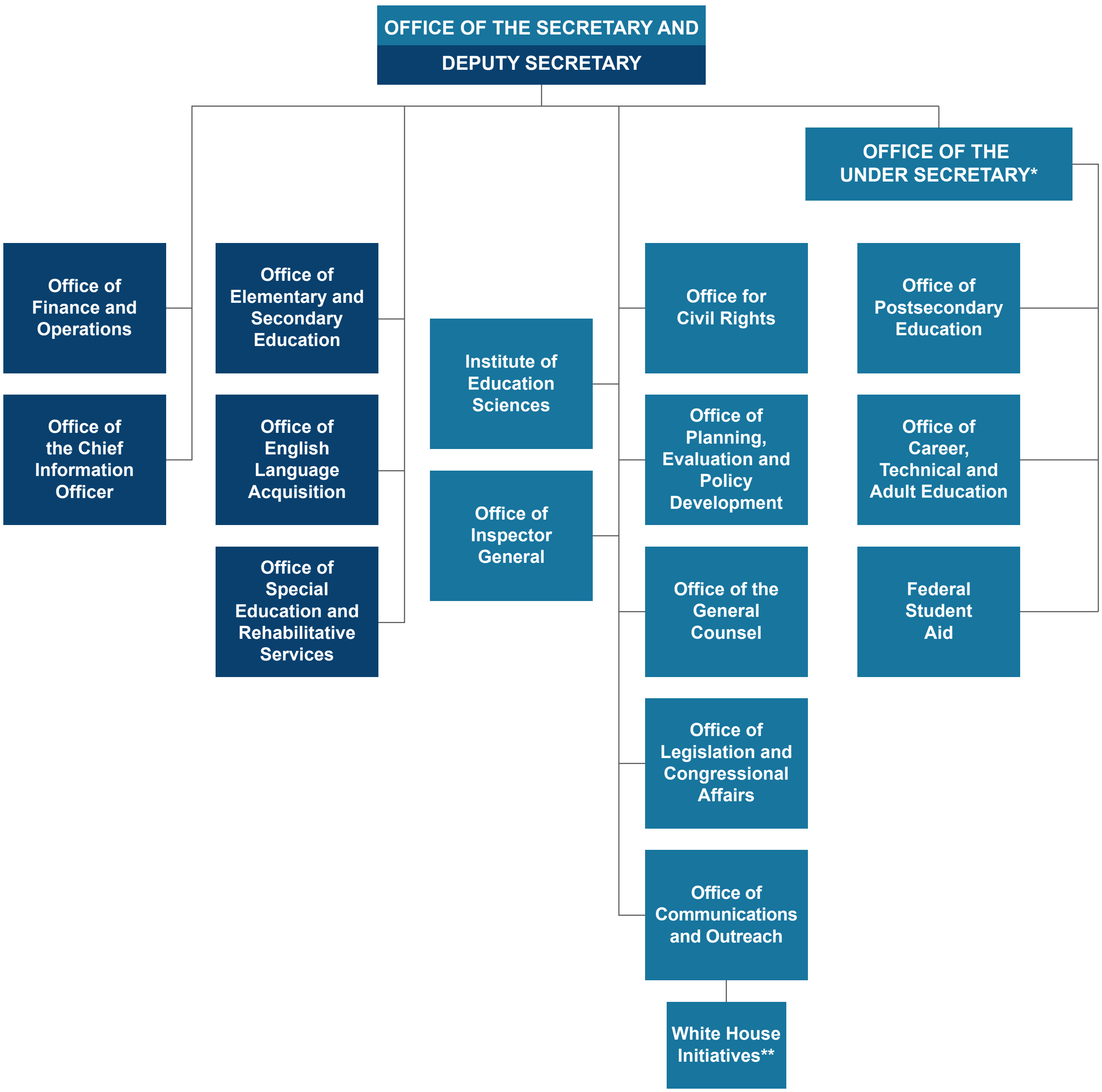
- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds.
- Supporting data collection and research on America's schools.
- Identifying major issues in education and focusing national attention 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*[1], 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**.

FY 2018–22 Strategic Goals and Strategic Objectives

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

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

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[1] *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	**Education Freedom: Improve awareness of and access to high-quality K-12 education opportunities for students and families.** By September 30, 2021, the Department will increase both the number and percentage of total charter school students and total scholarship students nationwide. • Charter school enrollment will increase from 3.29 million to 3.51 million (6.90 percent of all students in public schools). • 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). • The number of parents who receive support and engagement through technical assistance and other resources will increase by 5 percent per year.
Related Strategic Objective	**Strategic Objective 1.1:** Increase high-quality educational options and empower students and parents to choose an education that meets their needs.
APG	**Multiple Pathways to Success: Improve nationwide awareness of and access to career pathways that support job skills development and career readiness.** By September 30, 2021, the Department will, through programs such as the Career and Technical Education and Adult Education State Grants: • Support the creation and expansion of integrated education and training (IET) programs in all 50 states, Puerto Rico, and the District of Columbia. • Increase enrollment of participants in IET programs to 56,000. • Support the enrollment of Career and Technical Education concentrators in science, technology, engineering, and mathematics (STEM) fields. • Increase by 25,000 the number of federal financial aid recipients who earn a postsecondary credential in STEM.
Related Strategic Objective	**Strategic Objective 1.3:** Prepare all students for successful transitions to college and careers by supporting access to dual enrollment, job skills development and high-quality science, technology, engineering and mathematics (STEM).
Related Strategic Objective	**Strategic Objective 2.3:** Support agencies and educational institutions as they create or expand innovative and affordable paths to relevant careers by providing postsecondary credentials or job-ready skills.
APG	**FSA Customer Service: Leverage the Next Generation Financial Services Environment (Next Gen FSA) to improve and personalize customers' experience with Federal Student Aid (FSA)**. 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: • The number of individuals submitting a Free Application for Federal Student Aid® (FAFSA®) through a mobile device will increase to 2.6 million. • The overall customer satisfaction level throughout the student aid life cycle, as measured by the FSA Customer Satisfaction score*, will increase.
Related Strategic Objective	**Strategic Objective 2.4:** Improve quality of service for customers across the entire student aid life cycle.
APG	**Student Privacy and Cybersecurity: Improve student privacy and cybersecurity at institutions of higher education (IHEs) through outreach and compliance efforts.** 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.
Related Strategic Objective	**Strategic Objective 3.2:** Improve privacy protections for, and transparency of, education data both at the Department and in the education community.
APG	**Regulatory Reform: Provide regulatory relief to education stakeholders as necessary and appropriate**. (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.
Related Strategic Objective	**Strategic Objective 4.1:** Improve regulatory processes.

* 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
Balance Sheets						
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%
Statements of Net Cost						
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%
Statements of Budgetary Resources						
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.

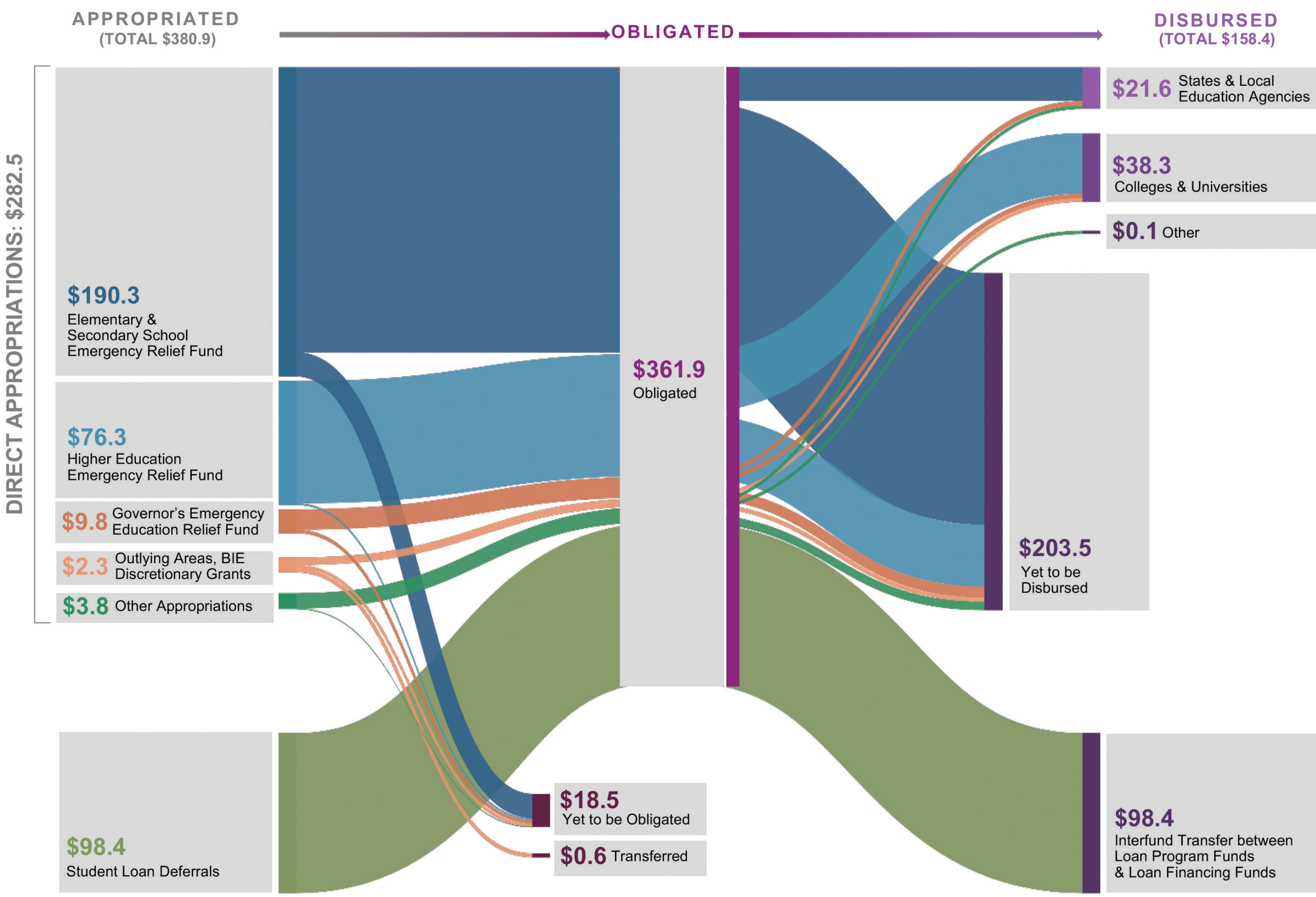
In addition to COVID-19 relief, the Department provided targeted relief to thousands of borrowers by canceling $11.5 billion of loans using authorities previously provided by Congress. The targeted beneficiaries include those qualifying for total and permanent disability discharge, those who were defrauded 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

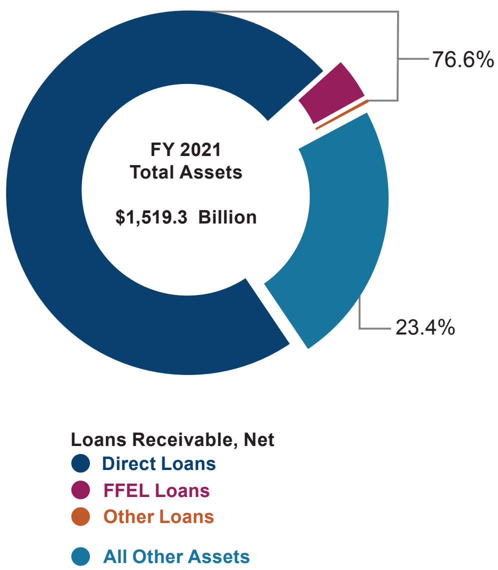
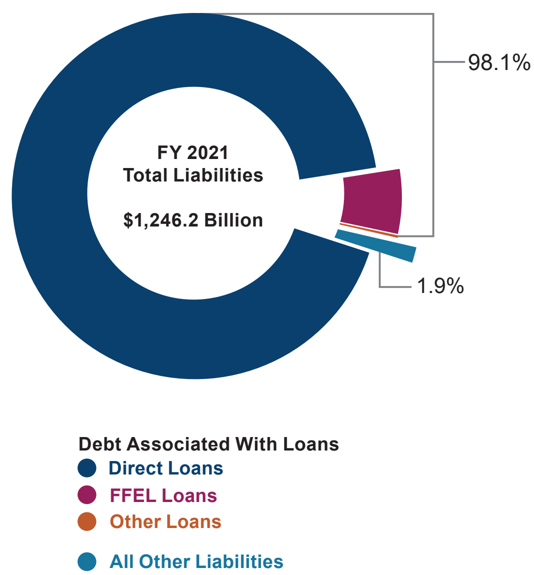


Figure 3.

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.

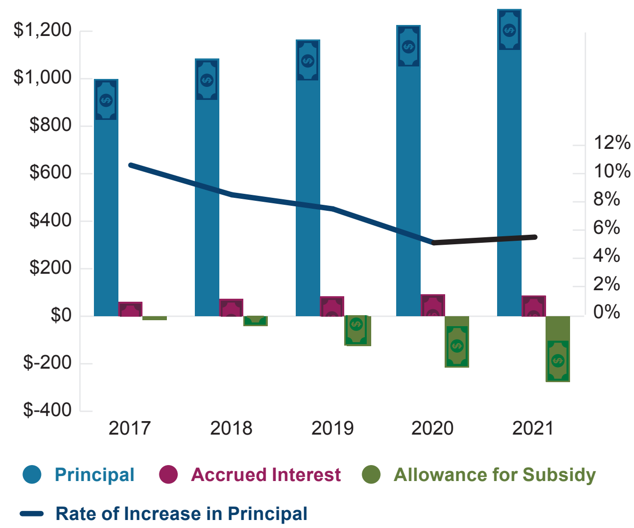
The rate of increase in principal has slowed in recent years as the Direct Loan program has disbursed fewer than $95 billion in new loans each year since FY 2016 as a result of stagnant and in some cases declining enrollment. Even so, new loan disbursements continue to exceed overall loan principal repayments—student 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)
Total No. of Direct Loan Borrowers (in Millions)	**33.0**	**34.2**	**35.1**	**35.9**	**37.0**

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
Total Dollar Amount of Direct Loans Outstanding	**1,058.4**	**1,155.7**	**1,248.1**	**1,316.9**	**1,378.7**
Current Repayment[1]	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%

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

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

**Student loan payment pause in effect from March 2020.

Table 2 shows the payment status of the direct loan principal and interest balances outstanding over the past five years. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans being repaid pursuant to IDR plans. Loans in the Delinquent category are past due anywhere from 31 to 360 days. Default/Bankruptcy/Other includes loans that are more than 360 days delinquent (default status), loans in a nondefaulted bankruptcy status, and loans in disability status.

While technical default is 271 days delinquent, default is defined as 361 days delinquent for reporting purposes.

The balances reported for Current Repayment and Delinquent in FY 2020 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)

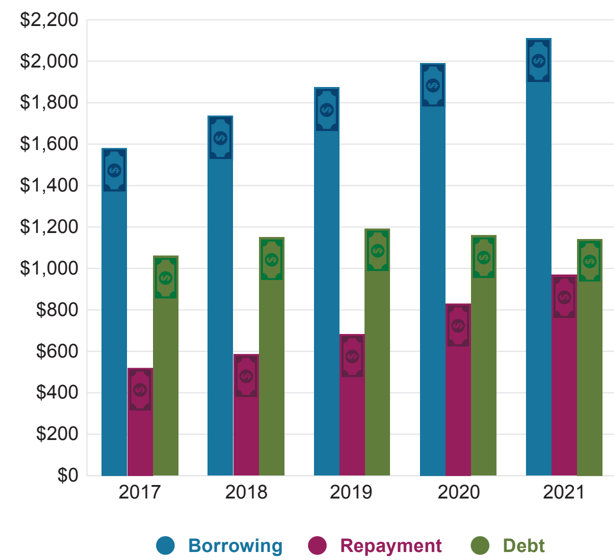
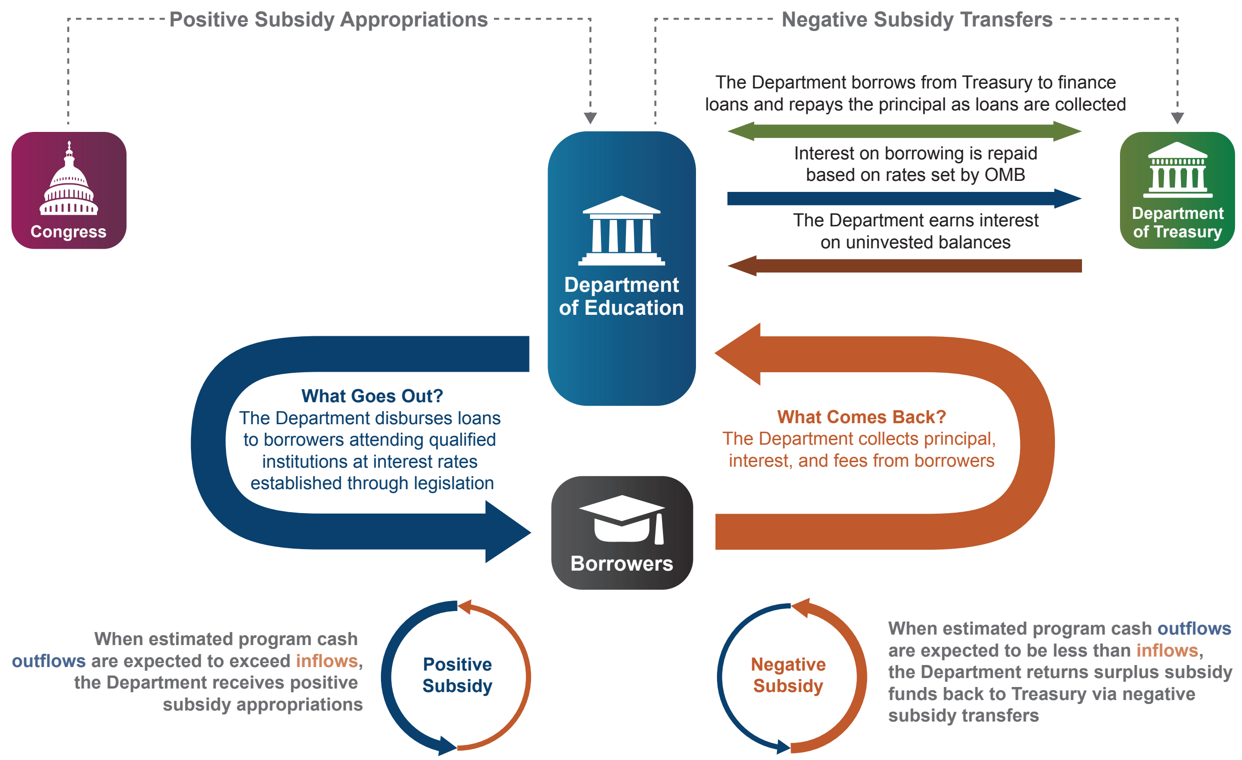


Figure 6.

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
Net Borrowing	**$ 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
Loan Disbursements	**$ 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[1]	49.0	41.6	39.8	30.4	21.5
Loan Collections[2]	**82.0**	**84.9**	**91.3**	**69.9**	**37.2**
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.

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

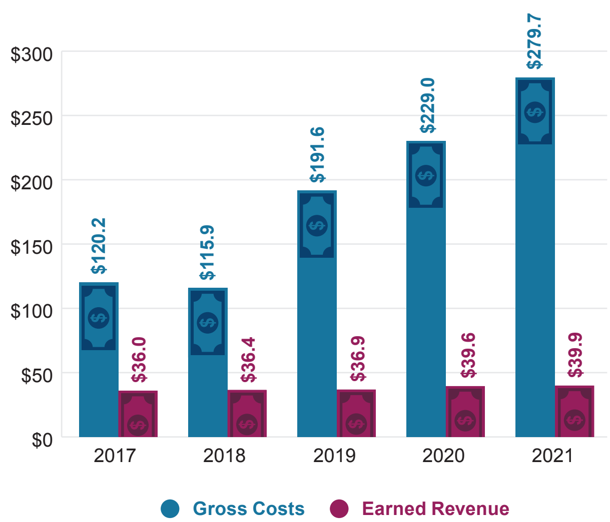
2 Loan collections include prepayments, including prepayments in full due to consolidation of underlying Direct Loans.

STATEMENTS OF NET COST

The consolidated statements of net cost report the Department's components of the net cost of operations for a given fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the cost of credit and grant programs, and operating costs.

Figure 7.

Gross Costs & Earned Revenue
(Dollars in Billions)



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.

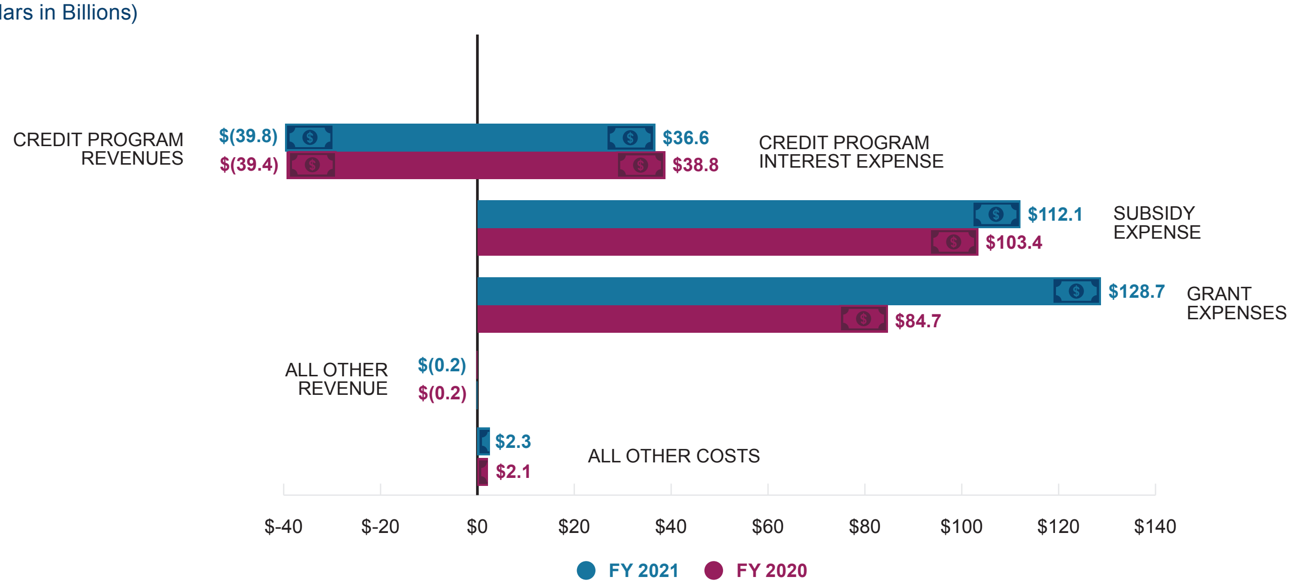
GROSS COSTS AND EARNED REVENUE BY TYPE

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.

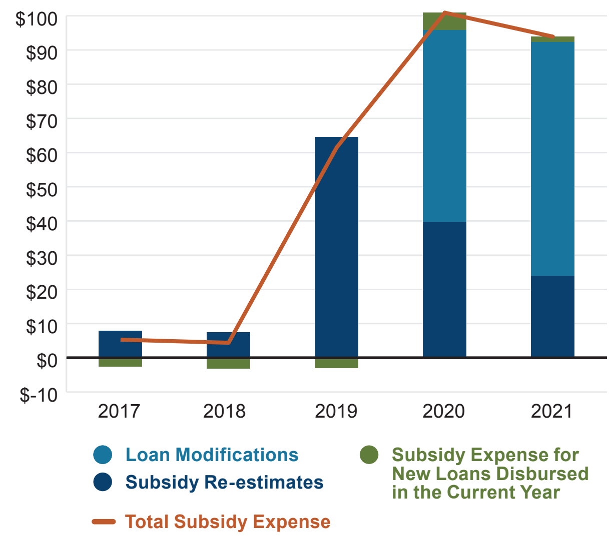
The Department estimates subsidy expenses annually for new loans disbursed in the current year and updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates). The Department also updates subsidy expenses due to changes 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
Total Subsidy	**$ 5.3**	**$ 4.4**	**$ 61.5**	**$100.9**	**$ 93.9**

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
Total Direct Loan Program Subsidy Re-estimates	**$ 24.0**	**$ 56.1**

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	-
Total Direct Loan Program Loan Modifications	**$ 68.3**	**$ 39.7**

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.

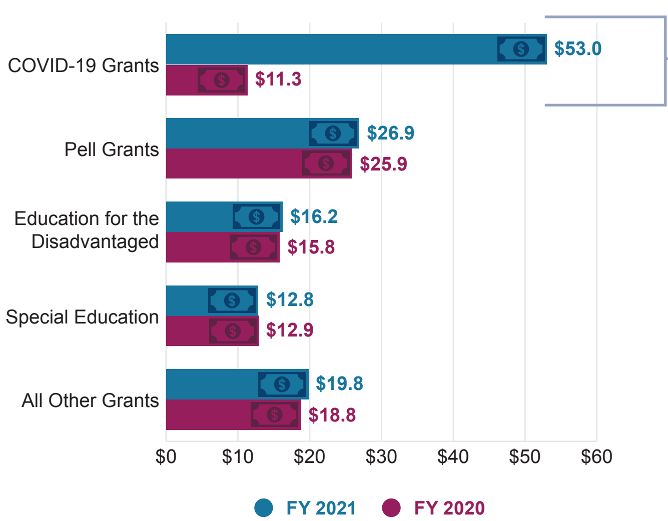
- **Special Education**—Primarily consists of *Individuals with Disabilities Education Act* grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists 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
Education Stabilization Fund:		
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
Total Education Stabilization Fund	**52,914**	**11,244**
Other COVID-19 Grants	66	15
Total COVID-19 Grants	**$ 52,980**	**$ 11,259**

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.

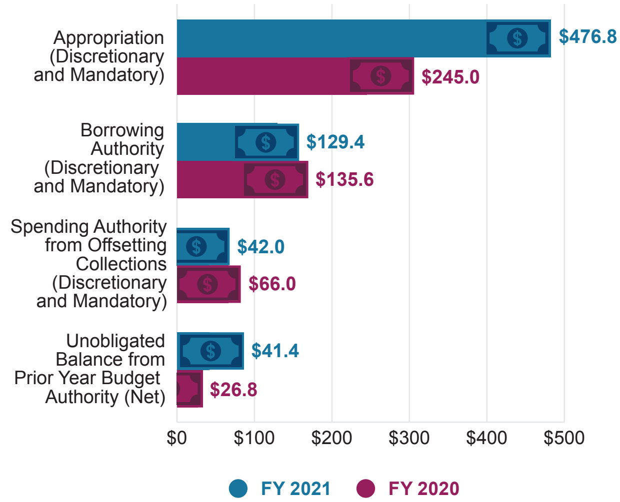
Figure 11 shows the components of the Department's budgetary resources, which totaled $689.6 billion for FY 2021, increasing from $473.4 billion, or 45.7 percent from the prior year. This increase was primarily due to increases in appropriations received totaling $231.8 billion, of which $235.0 billion 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
Outlays, Net		
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
Total Outlays, Net	**$ 267.1**	**$ 218.0**
Distributed Offsetting Receipts		
Subsidies	(5.6)	(12.3)
Repayment of Perkins Loans and Capital Contributions	(0.9)	(1.3)
Other	(0.1)	-
Total Distributed Offsetting Receipts	**$ (6.6)**	**$ (13.6)**
Disbursements, Net		
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
Total Disbursements, Net	**$ (39.9)**	**$ (42.9)**

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.

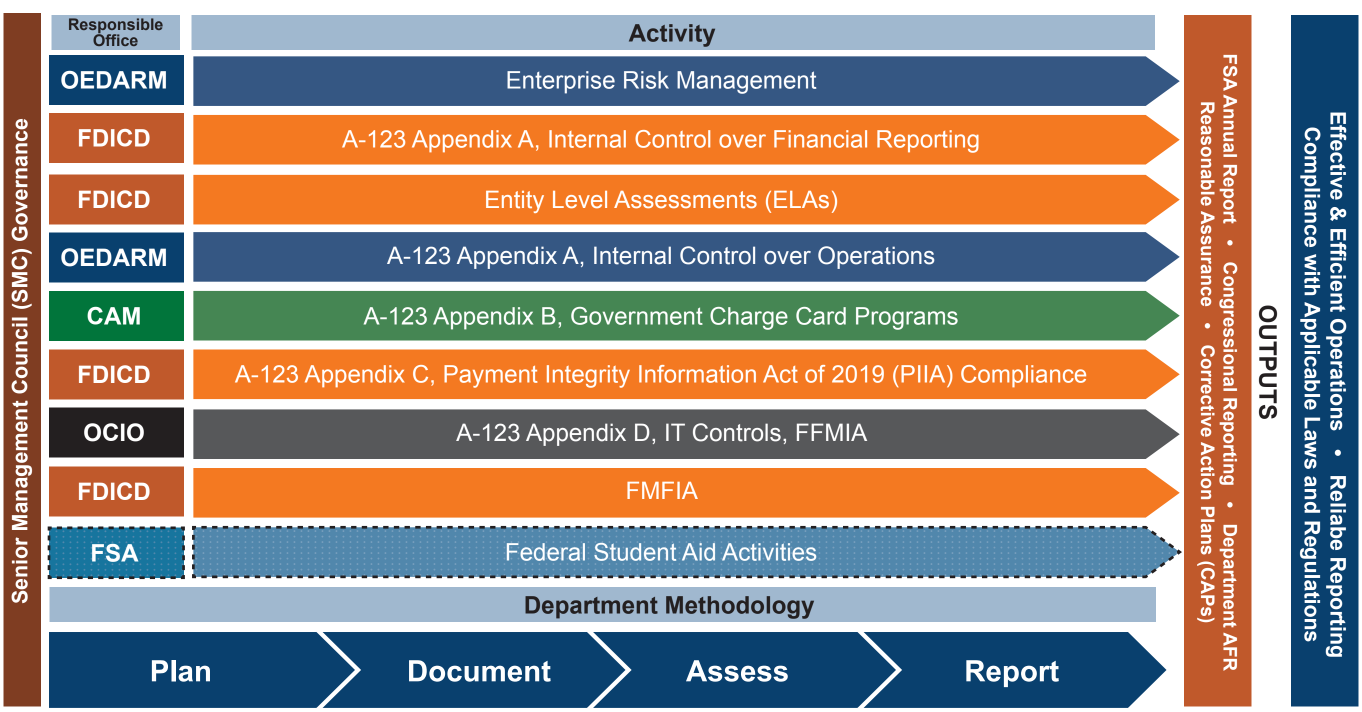
This section describes the Department's internal control framework, offers an analysis of the effectiveness of its internal controls, and explains assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2021 to meet the three objectives.

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 program 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[1], 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

[1] *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 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 (TMBS) 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 meets 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,[1] 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

[1] **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 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**, 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 (TMBS) 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.