



MANAGEMENT'S
DISCUSSION
AND ANALYSIS
(UNAUDITED)



About the Management's Discussion and Analysis

The U.S. Department of Education (Department) continued to enhance the content quality, report layout, and public accessibility of the fiscal year (FY) 2023 Agency Financial Report (AFR) by refining graphics and providing more useful, balanced, and easily understood information about the Broad-Based Debt Relief, COVID-19 funding relief bills and the Department's loan programs, including additional cost and risk information.

The Department also chose relevant web content to provide users with more information about the Department's operations and performance. To take advantage of the hyperlinks embedded in the report, the Department recommends reading it **on the Internet**. To continue to improve the quality and utility 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 specific 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 2023. Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2023 will be provided in the Department's *FY 2023 Annual Performance Report and FY 2025 Annual Performance Plan* to be released online at the same time as the President's *FY 2025 Budget of the United States Government* (President's Budget) in February 2024. 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 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 is complete, accurate, and reliable.

Forward-Looking Information

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

About the Department

Our Mission

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

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

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

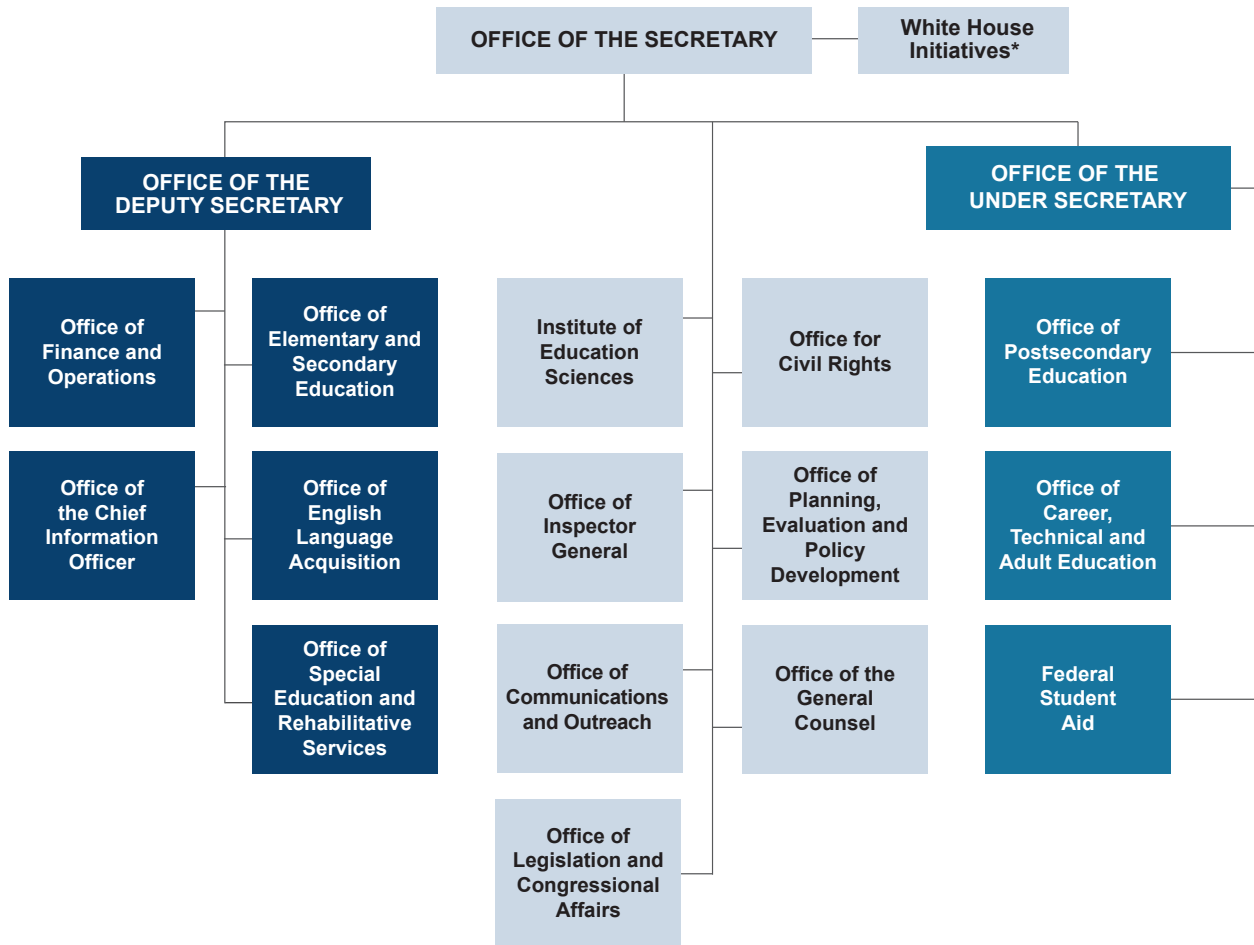
- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds.
- Supporting data collection and research on America's schools.
- Identifying major issues in education and focusing national attention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

Our Public Benefit. The Department executes the laws passed by Congress to promote student academic achievement and preparation for global competitiveness. The Department works with students, parents, educational institutions, school districts, and states to foster educational excellence and 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 2023

This chart reflects the coordinating structure of the U.S. Department of Education. A **text version** of the FY 2023 coordinating structure of the Department is available.



* The White House Initiatives are: Office of Faith-Based and Neighborhood Partnerships; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Native Americans and Strengthening Tribal Colleges and Universities; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Hispanics; White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Black Americans; and White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity through Historically Black Colleges and Universities.

The Department’s Approach to Performance

Performance Management Framework

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

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

FY 2022–26 Strategic Goals and Strategic Objectives

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

Strategic Goal 1 focuses on outcomes related to improving and promoting educational equities for all students through adequate resources, opportunities, and supports. In FY 2023, \$54.1 billion was appropriated to the Department in support of Strategic Goal 1.

To thrive academically and be globally competitive, students require access to a broad and challenging education that provides equal opportunities to build deep knowledge and useful life skills across many disciplines. However, access to a comprehensive and rigorous

¹ *GPRA Modernization Act of 2010* amends the *Government Performance and Results Act of 1993* (GPRA).
² The FY 2023 Statement of Net Cost and related notes align with the FY 2022–26 Strategic Plan.

education is not equitable across all students and communities. Research shows that when students have access to rich learning experiences across the spectrum of education, they are more likely to be engaged in school, get better grades, attend school more, and graduate on time.

In support of Strategic Goal 1, the Department continued to work with state and local leaders to expand access to high-quality early learning, rigorous science, technology, engineering, and mathematics (STEM) education and arts programming; protect students’ civil rights in schools; support students’ financial literacy; and emphasize the importance of focusing teaching and learning on the instructional core. In FY 2023, the Department hosted “YOU Belong in STEM” National Coordinating Conference in Washington, D.C. as a key initiative. The Raise the Bar: STEM Excellence for All Students initiative is designed to strengthen STEM education nationwide. This new initiative helps implement and scale equitable, high-quality STEM education for all students from PreK to higher education—regardless of background—to ensure their 21st century career readiness and global competitiveness.

The devastating and adverse impacts of the COVID-19 pandemic exacerbated previously documented gaps in educational opportunity. Supporting urgent and wise investing has been a major focus of the Office of Elementary and Secondary Education (OESE) State and Grantee Relations team’s work on the COVID-relief programs. Additionally, ensuring compliance with major fiscal equity provisions further supports student recovery from the impacts of the pandemic. In FY 2023, OESE monitored states’ compliance with the Maintenance of Effort and Maintenance of Equity provisions of the COVID-relief acts. The Department is committed to bring student learning beyond pre-pandemic levels and to help close underlying opportunity and achievement gaps by ensuring states and districts deploy federal pandemic relief funds in evidence-based ways, promoting promising practices, and providing technical assistance and opportunities for new or continued grant funding.

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

Strategic Goal 2 focuses on outcomes related to supporting and increasing diversity and talent in the educator workforce and professional growth. Every student should have access to outstanding, well-prepared, well-supported educators who reflect the diversity of the students they serve. In FY 2023, \$20.4 billion was appropriated to the Department in support of Strategic Goal 2.

Due to the pandemic, from February to May 2020, the economy lost an estimated 730,000 local public education jobs. As of March 2023, public education recovered 600,000 of those jobs (82 percent). However, there are still 130,000 fewer people working in local public education than before the pandemic, and schools were already experiencing shortages before the pandemic began, with disproportionate impacts on students of

color, students with disabilities, and English learners. The Department is committed to working with state and local leaders to elevate the teaching profession by investing in and scaling up high-quality and affordable pathways to teaching. The Department also is supporting efforts to better prepare, develop, and retain talented and diverse educators in America’s schools.

In support of Strategic Goal 2, the Department launched a partnership with Department of Labor to expand the number of registered apprenticeship programs for teachers. The registered apprenticeship programs allow teachers to gain robust experience in the classroom and make becoming a teacher more affordable. States with Teacher Registered Apprenticeship Programs have increased from 2 to 25 since the launch, and enrollees in these programs total more than 1,000.

In FY 2023, the Department announced first-ever awards, totaling over \$15 million, for the Augustus F. Hawkins Centers of Excellence Program (Hawkins Program) grants to increase high-quality teacher preparation programs for teachers of color, strengthen the diversity of our teacher pipeline, and address teacher shortages. The Hawkins Program, named for Augustus F. Hawkins, the first Black politician elected to the U.S. House of Representatives from west of the Mississippi River, supports comprehensive, high-quality teacher preparation programs at Historically Black Colleges and Universities, Tribally Controlled Colleges and Universities, and Minority Serving Institutions.

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

Strategic Goal 3 focuses on meeting students’ social, emotional, and academic needs. Learning and development across a student’s life span are influenced by several interrelated factors, including the individual’s social, emotional, academic, and career development. In FY 2023, \$26.0 billion was appropriated to the Department in support of Strategic Goal 3.

When students feel connected to school, their mental health and academic performance improve; however, the consequences of the pandemic—social isolation, illness, and family hardship among them—have led to decreased feelings of connectedness for students. For example, approximately 1 in 3 high school students have experienced poor mental health amid the pandemic, and rates of poor mental health have been higher for historically marginalized groups of students. For students to thrive in school, they need a strong foundation of overall wellness. The Department is committed to working with parents, families, educators, and others to meet students’ mental health needs.

In support of Strategic Goal 3, the Department announced awards of more than \$188 million across 170 grantees in over 30 states to increase access to school-based mental health services and to strengthen the pipeline of mental health professionals in high-needs districts. With funding provided by the *Bipartisan Safer Communities Act* (BSCA), these investments help advance the President’s Mental Health Strategy, which

directly implements his Unity Agenda priority to tackle the mental health crisis in our school communities. These grants enable communities to hire approximately 5,400 school-based mental health professionals and train an estimated 5,500 more to build a diverse pipeline of mental health providers in schools.

To support multilingualism, in FY 2023, the Office of English Language Acquisition announced awards of nearly \$120 million over five years under the National Professional Development Program (NPD) to support educators of English learner students. The NPD program provides grants to eligible Institutions of Higher Education and public or private entities with relevant experience and capacity, in consortia with states or districts, to implement professional development activities that will improve instruction for English Learners.

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

Strategic Goal 4 focuses on increasing the value of postsecondary education by addressing access, affordability, and degree and credential completion. This includes aligning our education and workforce systems to create college and career pathways that lead to industry-recognized credentials and opportunities to secure in-demand jobs. In FY 2023, \$104.6 billion was appropriated to support Goal 4.

In support of Goal 4, the Department provided over \$30 million to colleges and universities from five competitive grant programs of the Fund for the Improvement of Postsecondary Education (FIPSE), which aims to improve higher education opportunities and outcomes for students from underrepresented communities. The five grant programs that target critical needs in our higher education system include: Postsecondary Student Success Program, Basic Needs for Postsecondary Students Program, Open Textbooks Program, Centers of Excellence for Veteran Student Success Program, and the Transitioning Gang-Involved Youth to Higher Education Program.

The Department has made a concerted effort to fix persistent problems in the student loan forgiveness and discharge process through regulatory changes and making investments in system and customer service upgrades. As of the end of FY 2023, 730,000 student loan borrowers were approved for Public Service Loan Forgiveness, compared to only 7,000 applications that had been approved in total prior to 2021. As of July 2023, more than 3.4 million borrowers qualified for automatic discharges, Public Service Loan Forgiveness benefits, total and permanent disability discharges, and closed school court settlements.

The Department is committed to supporting efforts to dramatically increase the number of Americans who possess postsecondary industry-recognized credentials. Education programs that incorporate the opportunity to earn an industry-sought credential can give students a successful onramp to the workforce when they graduate from high school. The Department aims to expand access to work-based learning programs and initiatives by helping states and districts identify workforce credentials that have value in the labor market, expand opportunities for students to earn these credentials, and eliminate barriers to credential attainment. In FY 2023, \$1.46 billion was appropriated for Career, Technical, and Adult Education.

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

Strategic Goal 5 is focused on continuously improving agency operations as the Department manages, engages, and empowers the workforce; purchases products and services; enhances and secures information technology resources; and leverages data to support evidence-based decision-making. In FY 2023, \$72 million was appropriated to support Goal 5.

Information technology security was identified as a top management challenge in 2023, and the Department has made great strides in strengthening cybersecurity, reliability, and privacy protections. In 2023, the Department received an overall *Federal Information Security Modernization Act of 2014* (FISMA) assessment of “Effective,” or a Level 4 Cybersecurity Maturity Level. This score was the highest achieved by the Department since the scoring metrics were established in 2014.

The Department was the first cabinet-level Department to receive funding from the Technology Modernization Fund (TMF) and successfully adopted a secure access service edge (SASE) solution in support of advancing its Zero Trust Architecture (ZTA) capabilities in support of federal requirements as outlined in OMB Memorandum M-22-09.

In April 2023, the Office of Chief Data Officer staff received the Federal 2023 Chief Data Officers Council Award for Distinguished Achievement for improving data skills and culture at the Department and pioneering work in the federal space through the advancements of the Data Strategy Goal 2: Building Human Capacity to Leverage Data.

Strategic Goal 5 also prioritizes reducing potential procurement barriers and increasing procurement opportunities for small, underserved, and disadvantaged businesses. The Department established Creating and Leveraging Acquisition Small Business Strategies to elevate the Department’s small business achievement, which resulted in identifying 124 small business set asides totaling \$131 million. The Department also received an “A” on the U.S. Small Business Administration’s Federal Scorecard released in July 2023.

The Office of Business Support Services developed a robotic process automation tool or “bot” to automatically close out more than 50 percent of expired but open contracts in the Contracts and Purchasing Support System (CPSS). To date, the bot has closed 57 percent of expired but open contracts, providing approximately \$1.15 million in savings to the Department.

The Department’s Agency Priority Goals

The Department identified three Agency Priority Goals (APGs) for FY 2022 and FY 2023 to address the impact of the COVID-19 pandemic, effectively manage federal student loans, and reduce disparities in attainment of high-quality degrees and credentials. These current APGs concluded in September 2023, and the status reports are **available online**. The Department will focus on three new APGs in FY 2024 and FY 2025.

APG 1

Address the impact of the COVID-19 pandemic on students, educators, and faculty. The Department will be a leader and partner in addressing the impact of the COVID-19 pandemic in educational areas. By September 30, 2023, the Department will respond to the impact of the COVID-19 pandemic and the need to continuously provide for high-quality educational environments and capabilities by supporting state educational agencies, local educational agencies, and institutions of higher education to:

- Continue to support schools in maintaining safe, fully in-person instructions for students.
- Utilize COVID-19 relief funds on appropriate, effective, and evidence-based activities to reengage students, address lost instructional time, and improve educational opportunities by offering 300+ Department-led technical assistance engagements.

Related Strategic Objectives

Strategic Objective 1.1: Prioritize the equitable and adequate distribution of resources to communities of concentrated poverty in an effort to provide underserved students with high-quality educational opportunities.

Strategic Objective 1.2: Ensure all students have access to well-rounded, rigorous, engaging, and diverse learning opportunities and environments to support their success in school.

Strategic Objective 3.1: Support the development and implementation of multitiered systems of supports to increase students’ engagement; social, emotional, and mental health; well-being; and academic success.

Strategic Objective 3.2: Foster supportive, inclusive, and identity-safe learning environments and ensure the individual needs of underserved students are met through appropriately designed instruction, evidence-based practices, and related supports and services.

APG 2

Effectively manage federal student loans. The Department will provide effective customer service for borrowers to simplify the student loan repayment process. By September 30, 2023, Federal Student Aid will improve loan servicer quality and accuracy to levels at or above 95 percent, as defined in student loan servicer agreements.

Related Strategic Objective

Strategic Objective 4.2: Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.

APG 3

Reduce disparities in attainment of high-quality degrees and credentials. The Department will support institutions and states to assist low-income students and students of color to enroll in and complete high-quality postsecondary education programs, including at community colleges and through career and technical training. By September 30, 2023, the Department will increase the number and diversity of higher education grant applicants from community colleges, Historically Black Colleges and Universities, Tribally Controlled Colleges or Universities, Minority-Serving Institutions, and public four-year colleges by 5 percent to support and assist low-income students and students of color in attaining improved educational outcomes.

Related Strategic Objectives

Strategic Objective 4.1: Support educational institutions and state systems in efforts to raise academic quality and college completion for all students, especially for underserved students, such as first-generation students, students from low-income backgrounds, students of color, and students with disabilities.

Strategic Objective 4.2: Improve the administration of student aid programs to help eligible students receive aid; support borrowers in successfully repaying their loans, claiming loan forgiveness benefits, and mitigating student loan default; and hold contractors accountable.

Financial Highlights

Introduction

This section provides summarized information and analyses about the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It also provides a high-level perspective of the detailed information contained in the financial statements and related notes. A summary of significant changes in financial statement line-item balances is provided in Table 1.

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*. An independent accounting firm with oversight provided by the OIG was engaged to audit the consolidated balance sheet, related notes, and underlying business processes, systems and controls. The Consolidated Balance Sheet and related notes for FY 2023 are presented in the Financial Section. The Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and related notes for FY 2023 are presented in the Other Information section.

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

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2023	FY 2022	Amount	Percentage	Amount	Percentage
Balance Sheets						
Fund Balance with Treasury	\$ 244.0	\$ 317.0	\$ (73.0)	-23.0%	\$ (66.1)	-20.9%
Loan Receivables, Net – Direct Loan Program	1,030.9	816.5	214.4	26.3%	294.4	36.1%
Debt Associated with Loans – Direct Loan Program	1,127.0	837.4	289.6	34.6%	325.3	38.8%
Debt Associated with Loans – FFEL Program	60.9	67.0	(6.1)	-9.1%	13.9	20.7%
Subsidy Due to Treasury	1.6	27.0	(25.4)	-94.1%	-	0.0%
Statements of Net Cost (Net Program Costs)						
Promote Equity for Prekindergarten through Grade 12 Students with Access to Educational Resources, Opportunities, and Inclusive Environments	100.0	90.8	9.2	10.1%	(14.0)	-15.4%
Increase Postsecondary Value by Focusing on Equity Strategies to Address Access to Affordability, Completion, and Post-Enrollment Success	(58.6)	472.6	(531.2)	-112.4%	(733.3)	-155.2%
Statements of Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority (Net)	52.3	65.3	(13.0)	-19.9%	(18.0)	-27.6%
Appropriations (Discretionary and Mandatory)	254.7	597.2	(342.5)	-57.4%	(424.1)	-71.0%
Borrowing Authority (Discretionary and Mandatory)	472.7	178.7	294.0	164.5%	339.3	189.9%
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	70.5	60.7	9.8	16.1%	-	0.0%
New Obligations and Upward Adjustments (Total)	776.9	813.7	(36.8)	-4.5%	(442.0)	-54.3%
Unobligated Balance, End of Year (Total)	73.3	88.3	(15.0)	-17.0%	(0.1)	-0.1%
Outlays, Net	306.5	668.5	(362.0)	-54.2%	(438.6)	-65.6%
Distributed Offsetting Receipts	(347.6)	(29.1)	(318.5)	1,094.5%	(333.1)	1,144.7%

The Consolidated Balance Sheet and related notes for FY 2023 are on pages 80–99, the Independent Auditors' Report begins on page 100, and the Other Information section begins on page 115.

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

Financial Statement Impacts of Debt Relief Actions

During FY 2022 and FY 2023, the Department announced significant actions to provide relief to federal student loan borrowers, including extensions to the student loan repayment pause through August 31, 2023, and several additional debt relief actions. Targeted debt relief actions announced or taken during FY 2023 include:

- Fixing historical inaccuracies in the Income Driven Repayment (IDR) count system for borrowers who earned forgiveness. These fixes, which were first announced by the Biden-Harris Administration in April 2022, are part of the Department's commitment to address historical failures in the federal student loan program. Borrowers are eligible for forgiveness if they have accumulated the equivalent of either 20 or 25 years of qualifying months.
- Creating the most affordable payment plan ever—the Saving on a Valuable Education (SAVE) plan. The SAVE plan cuts payments on undergraduate loans in half compared to other IDR plans, ensures that borrowers never see their balance grow as long as they keep up with their required payments, and protects more of a borrower's income for basic needs. A single borrower who makes less than \$15 an hour will not have to make any payments. Borrowers earning above that amount will save more than \$1,000 a year on their payments compared to other IDR plans.
- Making improvements to the Public Service Loan Forgiveness (PSLF) program, including helping borrowers earn progress toward PSLF, simplifying criteria to help borrowers certify qualifying employment, and providing opportunities for borrowers to get help correcting PSLF account problems. Borrowers with Direct Loans who work in public service are also likely to benefit from the one-time account adjustment announced by the Department last year, allowing borrowers to get credit for past periods of repayment on loans that would not otherwise qualify for PSLF.

Of the debt relief actions announced by the Biden-Harris Administration, as of September 29, 2023, **3.4 million borrowers** have already had their debt relief approved, including:

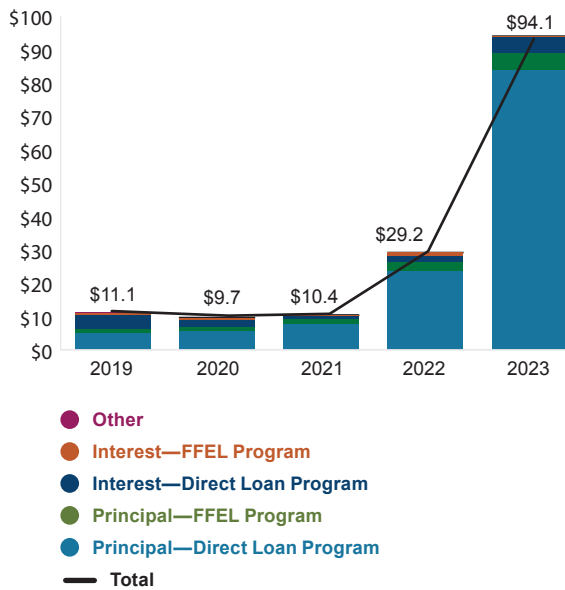
- **1.3 million borrowers** who were taken advantage of by their school, saw their school precipitously close, or are covered by related court settlements.
- More than **800,000 borrowers** who qualified for relief because of fixes to IDR plans implemented by the Biden-Harris Administration.
- More than **650,000 borrowers** through improvements to the PSLF program.
- Almost **500,000 borrowers** who have a total and permanent disability.

- Approving borrower defense and school closure discharges for borrowers whose institutions took advantage of them, including borrowers who attended Colorado-based locations of CollegeAmerica, Ashford University, and the University of Phoenix.
- Instituting a 12-month “on-ramp” to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies.
- Providing additional pathways for borrowers who have a total and permanent disability to receive a discharge. This includes allowing borrowers who receive additional types of disability review codes from the Social Security Administration (SSA) to qualify for a discharge. This also includes borrowers who later aged into retirement benefits and are no longer classified by one of these codes. Borrowers who have an established onset date of their disability determined by SSA to be at least 5 years in the past can also establish eligibility.

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

As shown in Figure 1, cancellations of loan principal and interest increased 222.3 percent during FY 2023, primarily for the Direct Loan Program. A large portion of cancellations of loan principal and interest during FY 2023 were associated with the PSLF and IDR programs, as they made up 39.7 percent and 41.6 percent of total cancellations, respectively. Other notable types of cancellation activity include borrower defense discharges, cancellations of loan principal and interest for loans in default status, and discharges for total and permanent disability.

Figure 1. Loan Cancellations
(Dollars in Billions)



FY 2023 Loan Cancellations
(Dollars in Millions)

Loan Cancellation Type	FY 2023						Total
	Direct Loan Program		FFEL Program		Fees	Other	
	Principal	Interest	Principal	Interest			
Discharges for closed schools	\$ 36	\$ 2	\$ 6	\$ 1	\$ -	\$ -	\$ 45
Discharges due to death of the borrower	619	47	41	5	-	-	712
Discharges for total and permanent disability	2,799	228	458	99	-	1	3,585
Public service loan forgiveness	35,789	1,563	4	-	-	1	37,357
Borrower defense discharges	7,210	1	2,362	66	-	-	9,639
Discharges for income driven repayment plans	34,601	3,066	1,478	49	-	-	39,194
Cancellation of defaulted loans held by guaranty agencies or the defaulted loan servicer	2,525	76	618	73	41	48	3,381
Other	210	7	3	-	-	10	230
Total Loan Cancellations	\$ 83,789	\$ 4,990	\$ 4,970	\$ 293	\$ 41	\$ 60	\$ 94,143

Financial Statement Impacts of COVID-19 Activities

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

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

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

The COVID-19 relief legislation and administrative actions also provided support during FY 2023 for student loan borrowers by suspending nearly all federal student loan payments through August 31, 2023, interest free. Additionally, support for student loan borrowers was provided in previous fiscal years by the following COVID-19 relief legislative and administrative actions.

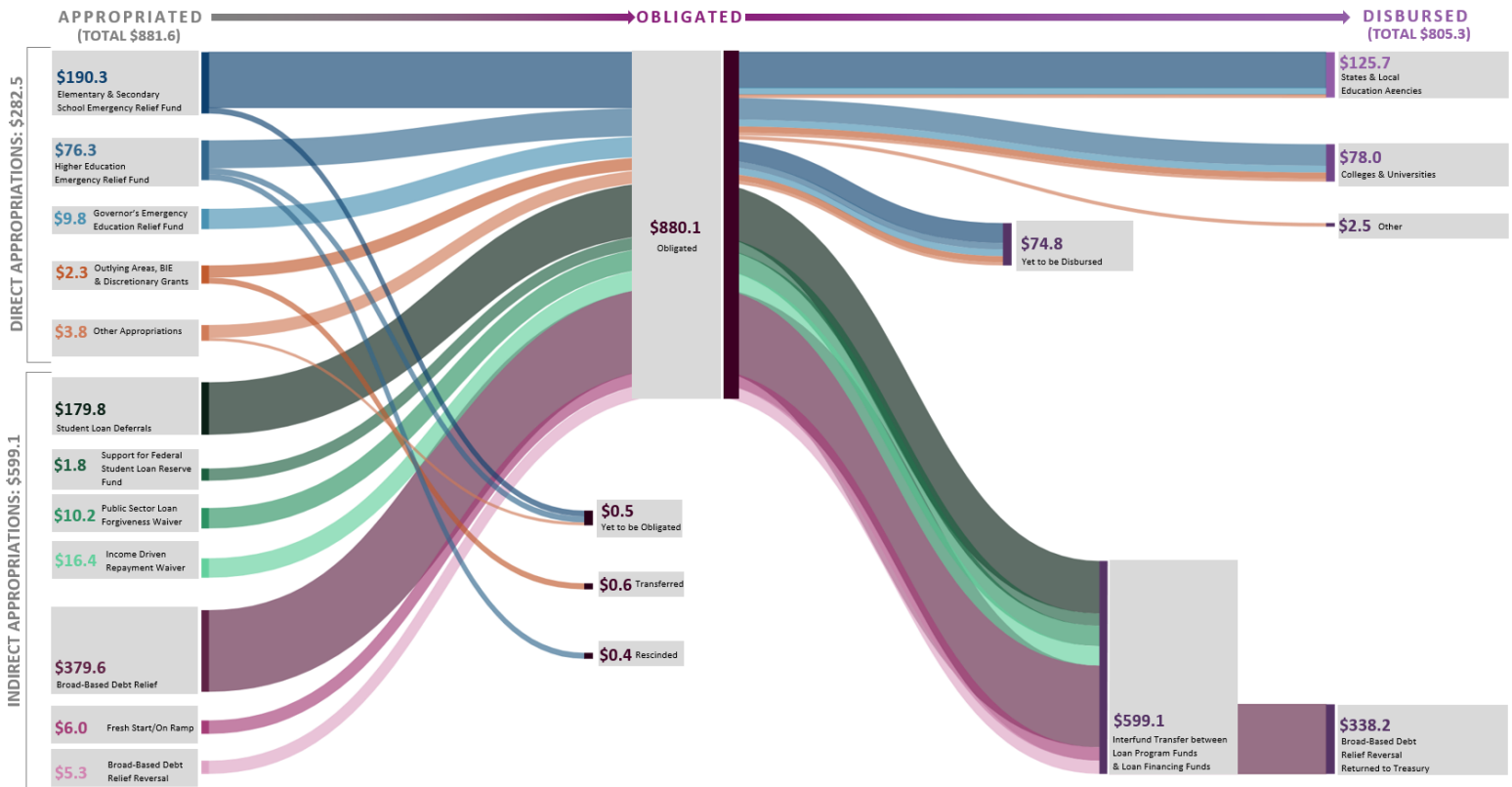
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals. This reimbursement covers the share of what a guaranty agency might have reasonably collected during the pandemic, but for the suspension.
- Making temporary changes to the PSLF program through a Limited PSLF Waiver to allow student borrowers to get credit for payments made while working for a qualifying employer, regardless of loan type or repayment plan.
- Addressing issues with IDR payment counting by allowing any borrower who made IDR-qualifying payments to count toward IDR, regardless of repayment plan.

Funding for each of these actions was provided through indefinite appropriations. Cost impacts of the COVID-19 loan modifications were recorded as loan modifications and are a component of subsidy expense, which reduced the overall loan receivable balances for the student loan programs. Detailed explanations of the COVID-19 Direct Loan Program loan modifications are provided in the Analysis of Direct Loan Program Subsidy Expense section beginning on page 36 and in Note 13 in the Other Information section beginning on page 127.

The direct and indirect funding stemming from the combined COVID-19 relief legislative and administrative actions is summarized in Figure 2. Obligated and unobligated COVID-19 funds remaining to be disbursed as of September 30, 2023, totaled \$75.3 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 draw down the remaining undisbursed funds.

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



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

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

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.

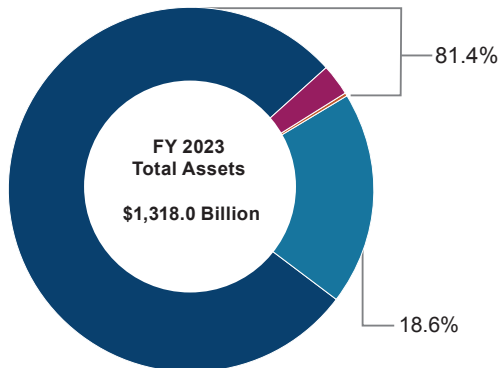
Balance Sheet

The consolidated balance sheet presents, 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 \$1,318.0 billion as of September 30, 2023. As shown in Figure 3, most assets relate to loans receivables, \$1,073.0 billion, which comprised 81.4 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 30. All other assets totaled \$245.0 billion, most of which was Fund Balance with Treasury, \$244.0 billion, which decreased by \$73.0 billion during FY 2023, largely due to a decrease in undisbursed COVID-19 funds as of September 30, 2023.

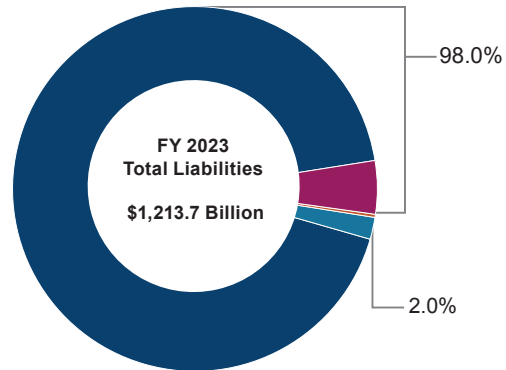
The Department’s liabilities totaled \$1,213.7 billion as of September 30, 2023. As shown in Figure 4, most of the Department’s liabilities are also associated with loan programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with the Direct Loan Program totaled \$1,127.0 billion as of September 30, 2023. Analysis of debt associated with the Direct Loan Program begins on page 33.

Figure 3. Assets by Type



- Loans Receivable, Net**
- Direct Loans
 - FFEL Loans
 - Other Loans
 - All Other Assets

Figure 4. Liabilities by Type

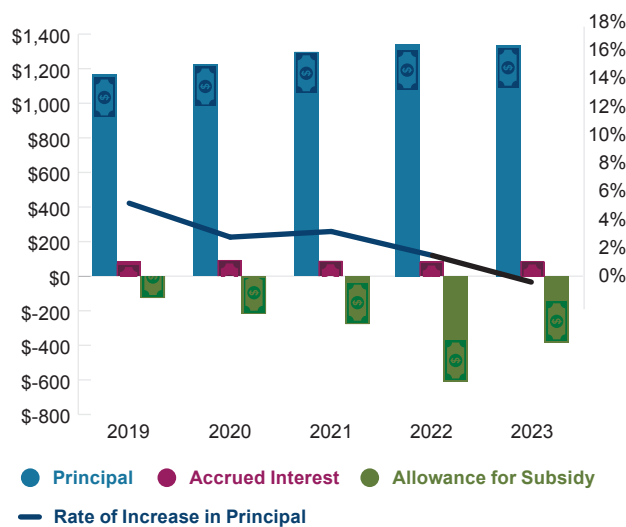


- Debt Associated with Loans**
- Direct Loans
 - FFEL Loans
 - Other Loans
 - All Other Liabilities

Analysis of Direct Loan Program Receivables, Net

Figure 5 shows the changes in the Direct Loan Program receivable components over the past five years. The principal amount grew each year since 2019, except 2023, which saw a slight decrease. Although total principal has increased during these years, the rate of increase in principal slowed as enrollment stagnated and sometimes declined. Even so, new loan disbursements continued to exceed overall loan principal repayments—student loan borrowers have many options to stretch out their repayment terms and reduce their monthly payments, and student loan repayment deferrals were implemented in response to COVID-19. Accrued interest amounts have decreased in recent years due to COVID-19 relief actions to temporarily set borrower interest rates to zero percent until August 31, 2023.

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



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2019	2020	2021	2022	2023
Principal	\$1,164.9	\$1,224.8	\$1,292.2	\$1,341.8	\$1,336.2
Rate of Increase in Principal	7.5%	5.1%	5.5%	3.8%	-0.4%
Accrued Interest	\$ 83.3	\$ 92.1	\$ 86.5	\$ 86.7	\$ 83.4
Allowance for Subsidy	\$ (124.4)	\$ (216.4)	\$ (273.9)	\$ (611.9)	\$ (388.7)
Total No. of Direct Loan Recipients (in Millions)	35.1	35.9	37.0	37.1	38.1

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

A negative allowance for subsidy balance means that the present value of funds expected to be recovered is less than the principal outstanding. The increase in the negative allowance from FY 2019 through FY 2022 is due primarily to higher subsidy costs, the main causes being high participation in IDR plans and the COVID-19 deferrals of student loan repayments. In addition to these factors, the increase in the negative allowance for subsidy during FY 2022 was also due to higher subsidy costs due to debt relief actions announced during the FY. The decrease in the negative allowance for subsidy during FY 2023 was largely due to a downward modification to reverse the inclusion of student loan debt relief from the baseline subsidy cost as a result of the Supreme Court’s ruling on *Biden v. Nebraska* on June 30, 2023 (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 36).

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

Loan Status	FY 2019	FY 2020**	FY 2021**	FY 2022**	FY 2023**
Total No. of Direct Loan Recipients (in Millions)	35.1	35.9	37.0	37.1	38.1
Total Dollar Amount of Direct Loans Outstanding	\$ 1,248.1	\$ 1,316.9	\$ 1,378.7	\$ 1,428.5	\$ 1,419.6
Current Repayment ¹	\$ 594.7	\$ 14.2	\$ 16.2	\$ 11.8	\$ 999.4
% Current Repayment	47.6%	1.1%	1.2%	0.8%	70.4%
In School, Grace Period, and Education Deferments	\$ 294.8	\$ 282.8	\$ 271.9	\$ 259.5	\$ 255.4
% In School, Grace Period, and Education Deferments	23.6%	21.5%	19.7%	18.2%	18.0%
Forbearance and Noneducation Deferments	\$ 133.2	\$ 887.5	\$ 967.8	\$ 1,039.7	\$ 57.4
% Forbearance and Noneducation Deferments	10.7%	67.4%	70.2%	72.8%	4.0%
Delinquent (Past Due 31–360 Days)	\$ 90.8	\$ 0.5	\$ 0.0	\$ 0.0	\$ 0.0
% Delinquent (Past Due 31–360 Days)	7.3%	0.0%	0.0%	0.0%	0.0%
Default/Bankruptcy/Other*	\$ 134.6	\$ 131.9	\$ 122.8	\$ 117.5	\$ 107.4
% Default/Bankruptcy/Other*	10.8%	10.0%	8.9%	8.2%	7.6%

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 through August 2023.

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.

COVID-19 student loan repayment deferrals were in effect from March 2020 through August 2023, resulting in significantly lower reported balances for Current Repayment and Delinquent in FY 2020–2022. The COVID-19 student loan repayment deferrals placed loans in forbearance and subsequently cured delinquencies. As a result of the COVID-19 student loan repayment deferrals, the delinquent balances have been zero for FY 2021–2023.

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

- Borrower flexibility to make payments or suspend payments as their financial circumstances permitted without notification to the loan servicer.

- Potential earlier loan payoff.
- Lower total cost of a loan over time to the borrower due to the zero percent interest rate. (Before the pause, an average of two-thirds of each dollar paid went to principal. During the pause, this quickly increased to above 90 percent, and now an average of 95 percent of each dollar goes toward principal.)
- Potentially improving the borrower's credit rating by reducing the student debt balance. The relative strength of FSA borrower payment activity has been driven, in part, by efforts of borrowers to improve their credit stance to purchase homes during the period of forbearance. During the pandemic, the U.S. Department of Housing and Urban Development and Federal Housing Authority implemented nontemporary policy changes to improve the underwriting stance of federal student loan borrowers.
- Potentially improved overall borrower financial health and reduced financial stress by reducing student debt.

Analysis of Debt Associated with Loans, Direct Loan Program

The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows.

The Department’s total debt associated with the Direct Loan Program was \$1,127.0 billion as of September 30, 2023, which was a \$289.6 billion increase from FY 2022. Total debt increased largely because of new borrowings from Treasury during FY 2023 to fund the disbursement of new loans and downward modifications.

Figure 6. Direct Loan Program Cumulative Financing Activity (Dollars in Billions)

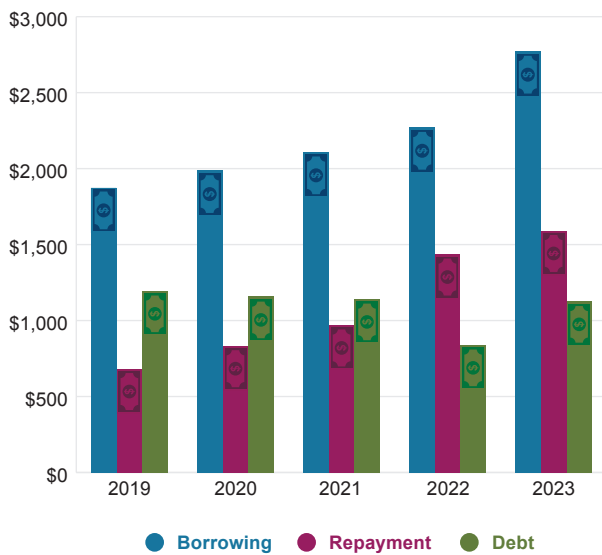
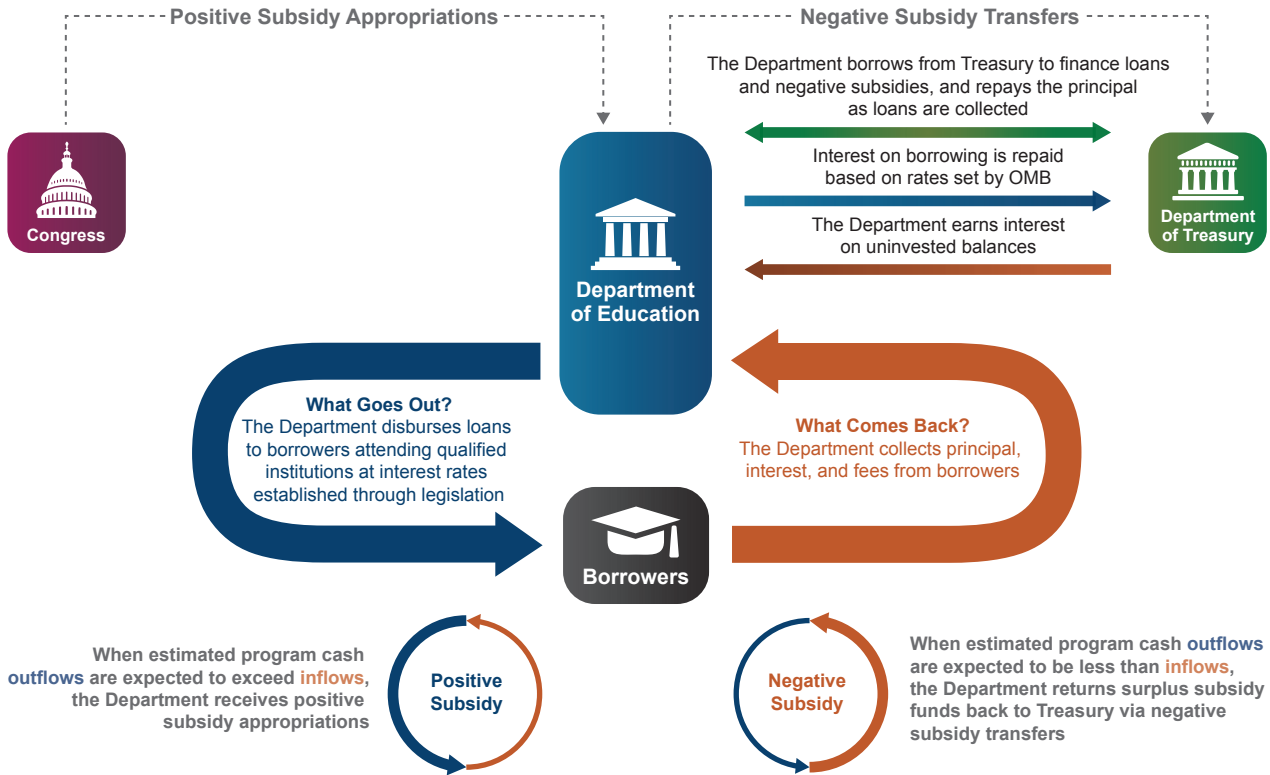


Figure 6 shows the Direct Loan Program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan Program financing process is displayed with related trend data as Figure 7 on page 34 of this report.

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



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	2019	2020	2021	2022	2023
Net Borrowing	\$ 41.5	\$ (32.0)	\$ (17.9)	\$ (304.8)	\$ 289.5
Borrowing from Treasury	137.6	116.9	120.0	162.8	445.0
Debt Repayments to Treasury	(96.1)	(148.9)	(137.9)	(467.6)	(155.5)
Interest Expense to Treasury	(33.8)	(34.7)	(33.0)	(30.6)	(28.2)
Interest Earned from Treasury	4.1	4.8	4.2	7.6	6.3
Cumulative Taxpayer Cost / (Savings)	124.4	216.4	273.9	611.9	388.7
Current Subsidy Expense / (Revenue)	61.5	100.9	93.9	385.4	(116.5)

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2019	2020**	2021**	2022**	2023**
Loan Disbursements	\$ 130.7	\$ 117.4	\$ 104.8	\$ 120.4	\$ 122.3
Stafford Subsidized	20.0	19.1	18.3	15.7	15.7
Stafford Unsubsidized	48.1	46.1	44.1	45.5	44.9
Parent Loan for Undergraduate Students (PLUS)	22.7	21.7	20.8	22.2	23.9
Consolidation ¹	39.8	30.4	21.5	36.9	37.8
Loan Collections²	91.3	69.9	37.2	45.5	45.9
Principal	67.0	55.3	33.3	41.3	42.1
Interest	22.4	12.9	2.3	2.6	2.1
Fees	1.9	1.7	1.6	1.6	1.7

* Numbers may not add due to rounding.

** Student loan payment pause in effect from March 2020 through August 2023.

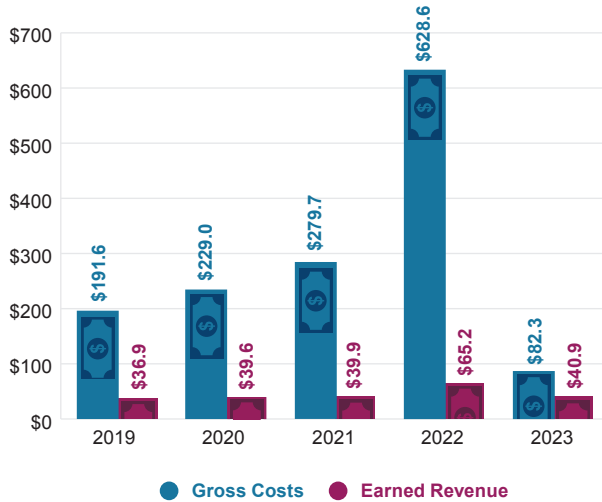
¹ Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

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

Statements of Net Cost

The consolidated statements of net cost report the Department's components of the net cost of operations for a given fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the cost of credit and grant programs, and operating costs. Exchange revenue is primarily interest earned on credit program loans. Figure 8 shows the Department's gross costs and earned revenue over the past five years. As discussed in more detail below, significant changes in the Department's net costs for FY 2023 were primarily due to loan modifications and re-estimates (subsidy expense) and grant expenses related to COVID-19 activities.

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



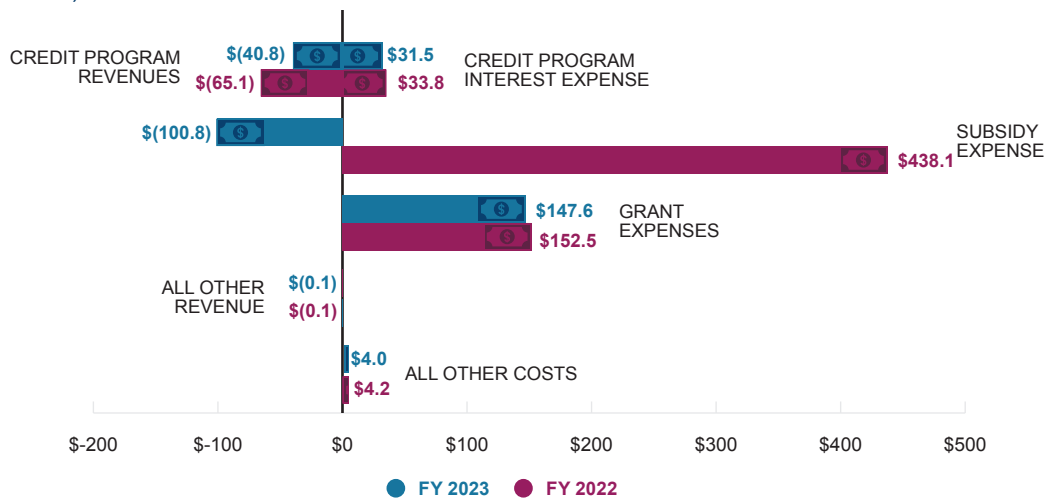
As discussed in more detail below, significant changes in the Department's net costs for FY 2023 were primarily due to loan modifications and re-estimates (subsidy expense) and grant expenses related to COVID-19 activities.

Gross Costs and Earned Revenue by Type

As shown in Figure 9, the Department's gross costs and earned revenue include three primary components:

- Credit program interest expense offset by credit program interest revenue and administrative fees as the result of subsidy amortization.
- Credit program subsidy expense. (See Analysis of Direct Loan Program Subsidy Expense below)
- Grant expenses. (See Figure 11)

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



Analysis of Direct Loan Program Subsidy Expense

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

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

The Department estimates subsidy expenses annually for new loans disbursed in the current year and updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates). The Department also updates subsidy expenses due to changes to terms of existing loans (subsidy modifications). Figure 10 shows these three components of the Direct Loan Program subsidy expense for the past five years. Factors such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees and other costs, and assumptions concerning borrowers' selection of repayment plans impact the estimated cost calculation and determine whether the individual components and overall subsidy expense are positive or negative.

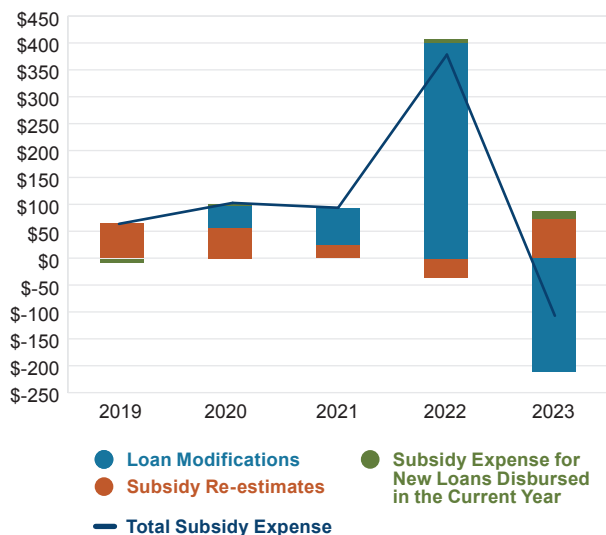
The Direct Loan Program subsidy expense for new loans disbursed was negative in FY 2019 primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default. Subsidy expense for new loans disbursed since FY 2020 has been positive due in large part to rising enrollment in IDR plans, which contributes to a higher expected cost to the government for issuing student loans by reducing the amount that many borrowers will repay over the life of their loans and/or creating a student loan forgiveness benefit for amounts remaining after 20 or 25 years, particularly common among high-debt borrowers.

The Department updates its subsidy cost estimates each year for outstanding loans disbursed in prior years using a process referred to as a subsidy re-estimate. The total of Direct Loan subsidy re-estimates during FY 2023 was a net \$71.4 billion upward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Figure 10.

The Department also updates previous cost estimates based on any new legislation or other government actions that change the terms of existing loans and alter the estimated subsidy cost. This process is referred to as a modification. During FY 2023, the Department recorded a total of \$204.2 billion net downward modifications. The modifications that were recorded in FY 2023 are summarized in Figure 10. More detail about these modifications and components of re-estimated subsidy cost can be found in the notes to the financial statements beginning on page 122.

The FY 2023 year-end subsidy re-estimates also resulted in a \$25.4 billion decrease in the Subsidy Due to Treasury shown in Table 1 on page 24 of this report. This represents the amount of accrued downward re-estimates of subsidy expense that will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. More detail on Subsidy Due to Treasury can be found in the notes to the Consolidated Balance Sheet beginning on page 81.

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



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Subsidy Expense for New Loans Disbursed in the Current Year	\$ (3.0)	\$ 5.1	\$ 1.6	\$ 7.3	\$ 16.3
Subsidy Re-Estimates	64.5	56.1	24.0	(21.9)	71.4
Loan Modifications	-	39.7	68.3	400.0	(204.2)
Total Subsidy Expense	\$ 61.5	\$100.9	\$ 93.9	\$385.4	\$(116.5)

Subsidy Re-estimate Components	FY 2023	FY 2022
Income-Driven Repayment (IDR) Model Changes	\$ 26.5	\$ (24.0)
Prior Year's Cohort Assumption Changes	0.2	7.7
Interest on the Re-Estimate	16.8	(0.4)
Default	(0.6)	3.0
Repayment Plan Selection	4.2	(3.0)
Discount Rates	0.8	(16.6)
Non-IDR Discharges	29.9	2.9
Deferment and Forbearance	(2.3)	2.6
Collections	16.4	(1.7)
Interactive Effects	(18.2)	7.4
Other Assumptions	(2.3)	0.2
Total Direct Loan Program Subsidy Re-Estimates	\$ 71.4	\$ (21.9)

Loan Modification Components	Modification Costs	
	FY 2023	FY 2022
Student Loan Repayment Deferrals	\$ 23.3	\$ 48.6
Broad-Based Debt Relief	-	337.3
Shift to Business Process Operations	-	(9.1)
PSLF Waiver	4.1	9.1
IDR Waiver	-	14.1
Total and Permanent Disability Discharges	4.4	-
Interest Capitalization	3.5	-
Closed School Discharges	3.7	-
Borrower Defense to Repayment & Arbitration	4.1	-
IDR SAVE Regulation	70.4	-
Broad-Based Debt Relief Reversal	(319.9)	-
Fresh Start/On Ramp	2.2	-
Total Direct Loan Program Loan Modifications	\$(204.2)	\$400.0

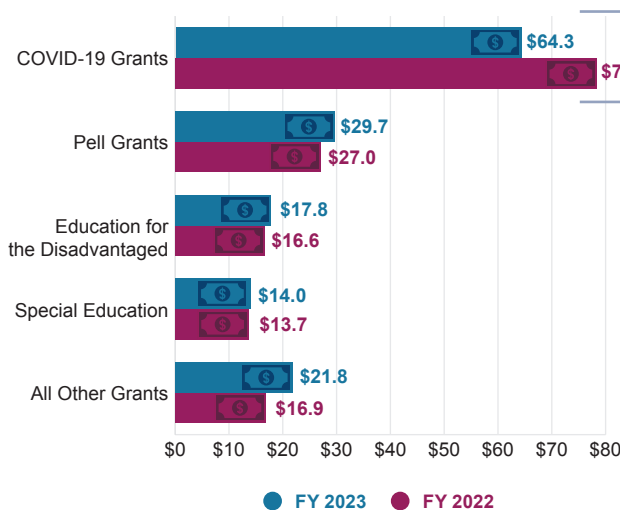
Grant Expenses

As shown in Figure 11, overall grant expenses changed primarily because of COVID-19 grants. More detail concerning COVID-19 grants can be found in Note 16 in the Other Information section beginning on page 142. In addition to COVID-19 funded grants, the Department has more than 100 other grant 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, or 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 assist 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.

The Department also offers other discretionary grants under a variety of authorizing legislation, with approximately 90 percent of nonstudent aid funds awarded by formula and 10 percent through competitive processes.

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



COVID-19 Grant Expenses

(Dollars in Millions)

COVID-19 Grants	FY 2023	FY 2022
Education Stabilization Fund:		
Elementary and Secondary School Emergency Relief Fund	\$ 52,832	\$ 48,502
Higher Education Emergency Relief Fund	7,238	25,976
Governor’s Emergency Education Relief Fund	2,354	2,654
Outlying Areas & Discretionary Grants	406	312
Total Education Stabilization Fund	62,830	77,444
Other COVID-19 Grants	1,451	865
Total COVID-19 Grants	\$ 64,281	\$ 78,309

Statements of Changes in Net Position

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

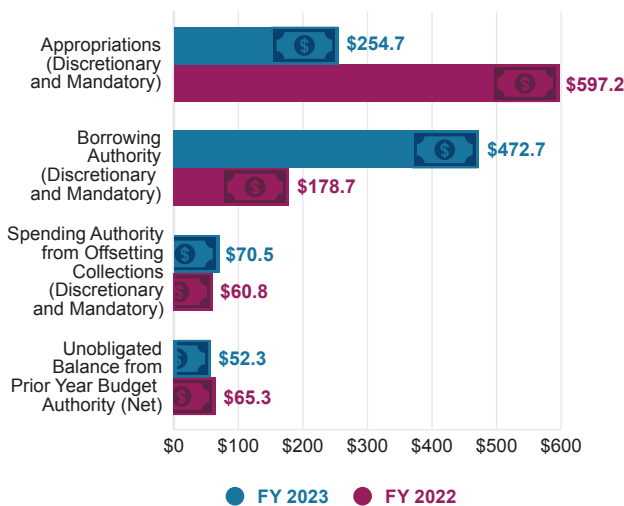
Statements of Budgetary Resources

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

Figure 12 shows the components of the Department’s budgetary resources, which totaled \$850.2 billion for FY 2023, decreasing from \$902.0 billion, or 5.7 percent, from the prior year. This decrease was primarily due to a net \$342.5 billion decrease in appropriations received, of which \$337.7 billion was for a decrease in Direct Loan Program appropriations for subsidy re-estimates and modifications. The decrease in appropriations was offset by a new \$293.9 billion increase in borrowing authority, primarily for the Direct Loan Program, which increased by \$281.4 billion.

Other significant changes to the Department’s combined statement of budgetary resources compared to the prior year include the following:

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



- Unobligated Balances from Prior Year Budget Authority (Net) decreased by \$13.0 billion, or 19.9 percent. Of this decrease, (\$18.0) billion was due to COVID-19 funded balances.
- New Obligations and Upward Adjustments (Total) decreased by \$36.8 billion, or 4.5 percent, primarily due to a net \$20.1 billion decrease for the Direct Loan program. The change in the Direct Loan program includes the combined effect of differences in subsidy cost re-estimates and modifications that were executed during the two fiscal years.
- Unobligated Balance, End of Year decreased by \$15.0 billion, or 17.0 percent. This decrease was largely due to a \$13.6 billion decrease in unobligated balances for the FFEL guaranteed loan program financing account.

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

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

	FY 2023	FY 2022
Outlays, Net		
Credit Programs	\$ 155.6	\$ 510.0
Grants	147.6	155.3
Contractual Services	2.5	2.5
Personnel Compensation and Benefits	0.8	0.7
Total Outlays, Net	\$ 306.5	\$ 668.5
Distributed Offsetting Receipts		
Negative Subsidies and Downward Re-Estimates of Subsidies	(346.7)	(28.2)
Repayment of Perkins Loans and Capital Contributions	(0.5)	(0.7)
Other	(0.4)	(0.2)
Total Distributed Offsetting Receipts	\$ (347.6)	\$ (29.1)
Disbursements, Net		
Direct Loan Program		
Gross Disbursements	\$ 483.0	\$ 177.6
Offsetting Collections	(195.5)	(526.6)
Total Direct Loan Program Disbursements, Net	287.5	(349.0)
FFEL Program		
Gross Disbursements	26.0	10.3
Offsetting Collections	(16.9)	(43.6)
Total FFEL Program Disbursements, Net	9.1	(33.3)
Other Loan Programs		
Gross Disbursements	0.3	0.5
Offsetting Collections	(0.2)	(0.5)
Total Other Loan Program Disbursements, Net	0.1	-
Total Disbursements, Net	\$ 296.7	\$ (382.3)

Outlays, Net is comprised of gross outlays and offsetting collections in the Department's budgetary funds. Outlays, Net decreased \$362.0 billion (54.2 percent) due primarily to a decrease of \$330.1 billion in Direct Loan Program outlays, including upward loan modifications and re-estimates.

Distributed Offsetting Receipts primarily represents amounts paid from the Direct Loan Program and FFEL Program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and modifications, and negative subsidies. Of the \$318.5 billion net decrease in FY 2023 versus FY 2022, \$304.7 billion was attributed to the Direct Loan Program.

Disbursements, Net is comprised of gross outlays and offsetting collections in the Department's credit program nonbudgetary financing funds. Of the \$679.0 billion net increase in FY 2023 versus FY 2022, \$636.5 billion was attributed to the Direct Loan Program and primarily attributed to changes in the subsidy re-estimates and modifications during the fiscal years.

Analysis of Systems, Controls, and Legal Compliance

Management Assurances

Management Control Program

The Department's system of internal control is comprehensive and requires all Department managers to establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible for ensuring adequate controls over all Department operations. As such, the Department's management is responsible for managing risks and maintaining effective internal control.

The *Federal Managers' Financial Integrity Act* (FMFIA) requires the head of each agency to conduct an annual evaluation in accordance with prescribed guidelines and provide a Statement of Assurance (SOA) to the President and Congress. The Secretary of the Department of Education's Fiscal Year 2023 SOA provided below is the final report produced by the Department's annual assurance process.

SECRETARY'S STATEMENT OF ASSURANCE FISCAL YEAR 2023 November 16, 2023

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

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

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) require management to ensure the Department's financial management systems provide reliable, consistent disclosure of financial data. Management evaluated the Department's financial management systems for substantial compliance with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over reporting with consideration of its Data Quality Plan (DQP) in accordance with Appendix A of OMB Circular A-123.

The Department's management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the FMFIA. The Department conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Agency can provide modified assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2023, due to the following material weakness:

The material weakness is related to the subsidy estimate for the Department's Direct Loan (DL) and Federal Family Education Loan (FFEL) student loan portfolios. The Department is required to perform interest rate and technical re-estimates of the subsidy costs (commonly referred to as subsidy re-estimates) of its direct loan and loan guaranty programs as of September 30th every year. These subsidy re-estimates

are calculated using an internally developed cash flow model, the Student Loan Model (SLM). In FY 2023, the external financial statement auditor and FSA separately identified errors in the data in the system that was used in key assumptions for the SLM. FSA has corrected some of the identified errors and is continuing to research other known issues to identify and implement corrective actions.



Miguel A. Cardona, Ed.D.

Introduction

The FMFIA requires the Government Accountability Office (GAO) to prescribe standards of internal control in the Federal Government, which is titled *GAO's Standards for Internal Control in the Federal Government* commonly known as the Green Book. These standards provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

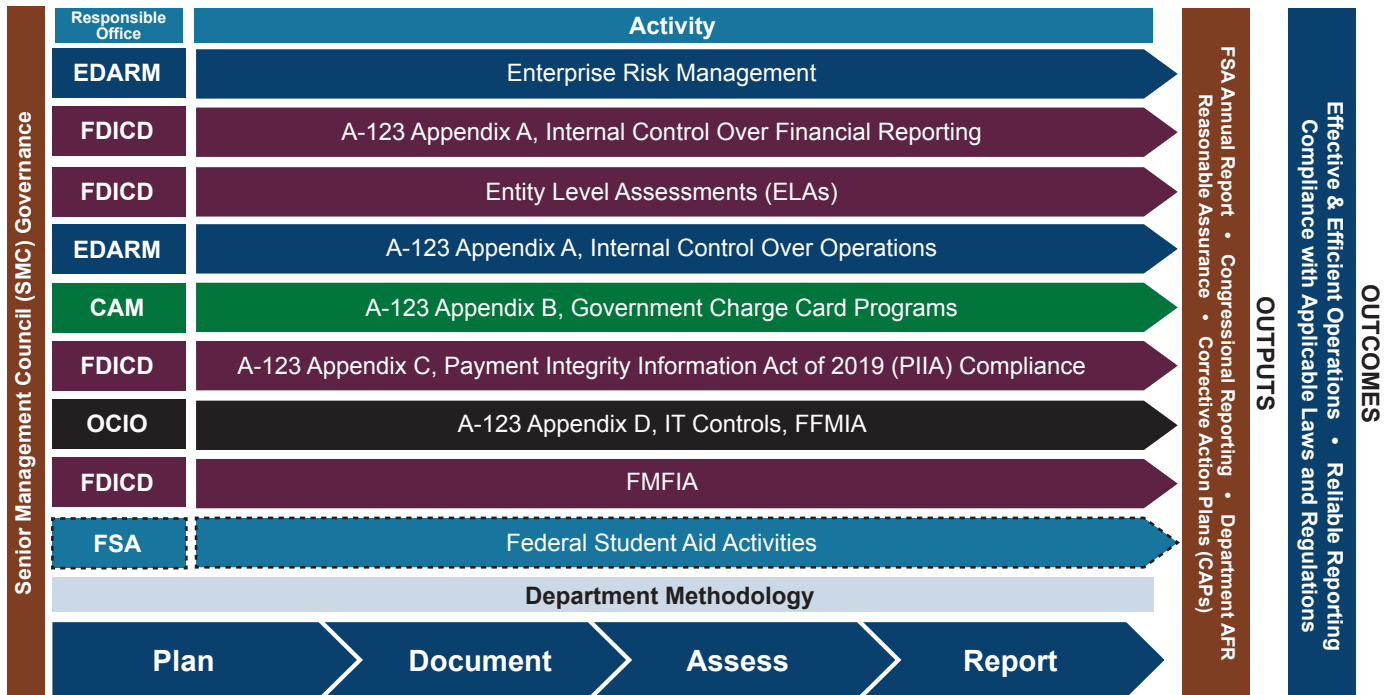
- *Operations*—Effectiveness and efficiency of operations.
- *Reporting*—Reliability of reporting for internal and external use.
- *Compliance*—Compliance with applicable laws and regulations.

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

Internal Control Framework

The Department's internal control framework helps 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's comprehensive internal control framework and assurance process is depicted in the following diagram in Figure 13.

Figure 13. Department of Education Internal Control Framework



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

The Department worked to evolve its existing internal control framework to be more value-added and provide for stronger risk management for the purpose of improving mission delivery. The Department’s Senior Management Council (SMC) oversees the Department’s management control program. Individual SOAs from Assistant Secretaries in Principal Office Components (POCs) serve as the primary basis for the Department’s FMFIA SOA issued by the Secretary. The SOAs are based on information gathered from various sources including managers’ personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of Inspector General and the GAO conduct reviews, audits, inspections, and investigations that are considered by management.

The Department’s Office of Finance and Operations (OFO) employs an integrated process to perform the work necessary to meet the requirements of OMB Circular A-123’s Appendix A and Appendix C (regarding Payment Integrity), the FMFIA, and GAO’s Green Book. Green Book requirements directly relate to testing entity-level controls, which is a primary step in operating an effective system of internal control. Entity-level controls reside in the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control in the Green Book, which are further analyzed by 17 underlying principles of internal control. For the Department, all five internal control components and 17 principles were assessed in support of the Department’s FY 2023 SOA.

The Department employs a risk-based approach in evaluating internal controls over reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the divisions who assess key controls, the Department was able to evaluate issues on a detailed level. The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. Numerous Department organizational entities provided oversight during FY 2023 for the internal controls over reporting program in place to meet the requirements of OMB Circular A-123, Appendix A. These entities include the Division of Enterprise Data Analytics and Risk Management (EDARM), Financial Data Integrity and Controls Division (FDICD), Contracts and Acquisitions Management (CAM), Office of the Chief Information Officer (OCIO), and Federal Student Aid (FSA). To that end, the Department has dedicated considerable resources to administer a successful management control program. As noted in the Secretary's Statement of Assurance, the Department identified one material weakness in control operation and design.

The Department also places emphasis on the importance of continuous monitoring. It is the Department's policy that any organization with a material weakness or significant deficiency must prepare and implement a corrective action plan to correct the weakness. The plan, combined with the individual SOAs and Appendix A assessments, provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct and focus efforts to resolve any deficiencies in internal control identified by management and auditors.

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

Additionally, during FY 2023, the Department continued taking important steps to advance its Enterprise Risk Management (ERM) program.

Enterprise Risk Management Framework

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

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

The ERM Annual Assessment process includes the following key steps:



EDARM collaborated with every Principal Office Component (POC) to identify and evaluate risk priority within each POC and at the Department-wide level. The FY 2023 Department of Education ERM profile was published with the aggregated result and analysis from the annual assessment process. This profile highlights the top 15 risks for the Department around the following 6 main functional processes:

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

In FY 2023, after launching the ERM digital tool for collecting, analyzing, and reporting risk data, EDARM continued to enhance the tool based on user feedback and is building additional capabilities and visual analysis for all stakeholders to further monitor and evaluate trends and results.

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

Analysis of Controls

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

In FY 2023, the Department and Federal Student Aid (FSA) did identify one material weakness related to the reliability of reporting. The Department acknowledges that it has areas of control that need further strengthening, as well as major challenges identified by the Department's Office of Inspector General (OIG) in its FY 2024 Management Challenges report. As an example, data quality and reporting are a challenge identified by the OIG. The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and complete. The Department relies on program data to evaluate program performance and inform management decisions. The establishment of a Data Quality Plan (DQP) integrated into testing of controls is helping to address this challenge identified by the OIG.

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

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

In accordance with OMB Circular A-123, the Department also conducted a separate assessment of the effectiveness of the Department's internal control over reporting,

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

Internal Control Over Reporting

Annually, the Department evaluates its POCs' internal control system using the 17 GAO Green Book principles to ensure entity level control objectives are met. These evaluations assist POCs in producing a letter of assurance each year by September 30, documenting their internal control system, identifying any control deficiencies, and noting any major improvements or challenges.

In FY 2023, the external financial statement auditor and FSA separately identified errors in the data in the system that was used in key assumptions for the SLM. FSA has corrected some of the identified errors and is continuing to research other known errors to identify and implement corrective actions.

In FY 2023, the Department tested a proportionate number of key financial controls in significant business processes based on qualitative process risk assessments and rotational test plans. The internal controls assessment did not find any material weaknesses. However, recommendations have been provided to process owners to strengthen internal controls, such as verifying immaterial differences, obtaining electronic signatures, and updating policies and procedures.

In addition, the Department's shared service provider, the U.S. Department of the Interior (DOI)/ Interior Business Center (IBC), uses the Federal Personnel and Payroll System (FFPS) to process its payroll. DOI's auditor tested FFPS and the results of their FY 2023 review indicated that the controls tested were operating effectively, providing reasonable assurance that the control objectives specified were achieved during that period.

Internal Control Over Operations

In FY 2023, the Department reviewed a number of operational processes based on qualitative risk assessments (in alignment with the Department's ERM profile) and detected some control deficiencies but none that would rise to the level of material weakness. As a result, tools have been developed in the areas of stakeholder outreach, acquisition planning and the procurement process to better utilize resources, improve the flow, timeliness, and quality of information, and allow for more effective decision-making. A significant achievement has been the creation of the acquisition portal and dashboard, which enhances and streamlines the acquisition management process by providing a solitary access point for gathering, editing, and reviewing submissions and enabling accountability and transparency throughout the Department. The dashboard provides the Department with the ability to present decision-makers with clearly understood data to spot important acquisition trends and resources across the agency.

Analysis of Financial Management Systems

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

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

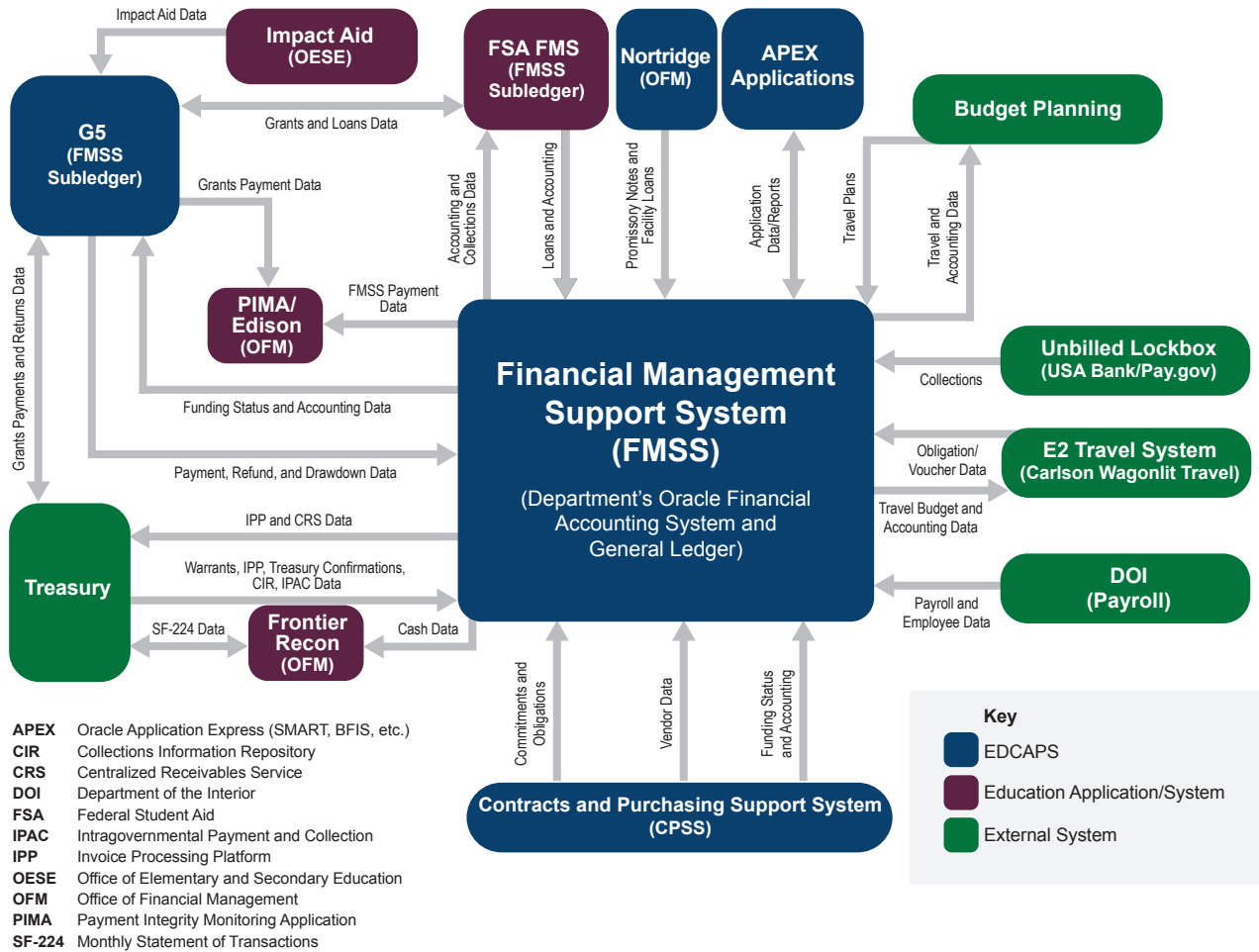
- General ledger—Preparation of financial statements and reconciliation of general ledger balances with subsystems maintained in program areas and Treasury.
- Funds management—Budget formulation, budget execution, and funds control.
- Grants pre- and post-award processing, including grant payment processing.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

EDCAPS is composed of five main integrated components:

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

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

EDCAPS (FMSS) Functional Flow Diagram



Across all its components, EDCAPS is serving numerous Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States and territories, as follows:

- G5 – 825
- CPSS - 710
- FMSS - 400
- E2 – 3,720

EDCAPS is serving approximately 45,790 external users, mostly users of Grants Management System (G5). In FY 2023, the Department conducted an annual risk assessment of EDCAPS and tested 86 IT security controls out of a baseline of 630 IT security controls, as follows:

- EDCAPS—15
- FMSS—3
- CPSS—27
- G5—33
- E2—8

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 2023:

- 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* and *Digital Accountability and Transparency Act of 2014*.
- 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).
 - Fiserv Frontier.
 - G5.
 - CPSS.
- External Systems:
 - Treasury systems (Invoice Processing Platform [IPP] invoices/receipts/obligation data, IPP invoice status, payment files, debt referrals, Centralized Receivables Service invoices, warrants, Treasury confirmations, Collections Information Repository collections and administrative return, collections/payments).
 - 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, except for the material weakness reported in the Secretary's Statement of Assurance. The financial

statement auditors, in their independent assessment, concluded that the Department did not substantially comply with FFMIA requirements, and the Department concurred. 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. However, the Department reports some areas of non-compliance:

The Federal Managers' Financial Integrity Act (FMFIA)

Federal Managers Financial Integrity Act of 1982 (FMFIA), Pub. L. 97-255 – (H.R. 1526) was enacted into law on September 8, 1982.

The FMFIA establishes overall requirements with regard to internal control and requires the agency head to certify annually to the President and Congress whether there is reasonable assurance that the Department's internal controls are achieving their intended objectives. This is also noted in the Office of Management and Budget Circular A-123 (OMB A-123), *Management's Responsibility for Enterprise Risk Management and Internal Control*, which implements the FMFIA.

The Department's management performed an internal control assessment as required under FMFIA; however, management's assessment did not comply with limited requirements within the FMFIA and the related OMB A-123 requirements. Specifically, the Department did not identify and document specific and limited financial statement risks and the associated controls that were responsive to those specific risks. Additionally, the Department's management internal controls did not properly identify specific risks impacting the data used to calculate the subsidy re-estimates used in the consolidated financial statement. This resulted in the lack of timely identification of errors in data that impacted subsidy re-estimates in the consolidated financial statements.

Federal Financial Management Improvement Act of 1996 (FFMIA)

Federal Financial Management Improvement Act of 1996 (FMFIA), Pub. L. 104-208, Title VIII (31 U.S.C. 3512 note) was enacted into law on September 30, 1996.

The FFMIA requires the Department to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Appendix D to the Office of Management and Budget (OMB) Circular A-123 provides the FFMIA Compliance Determination Framework that is used in determining whether the Department's financial management systems comply substantially with FFMIA requirements. Per section 806 of the FFMIA, "financial management systems" includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

The Department did not meet limited FFMIA requirements due to an inadequate risk assessment over specific key processes and data used in the consolidated financial statement. As a result, the Department did not comply with FFMIA, increasing the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statement.

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,³ which establish requirements for federal agencies to cut down on improper payments made by the federal government. PIIA requires federal agencies to report improper payments annually for programs that are deemed susceptible to significant improper payments. PIIA also requires each agency's OIG to review the agency's improper payment reporting in its Agency Financial Report (AFR) and accompanying materials, and to determine whether the agency has met six compliance requirements.

In its annual improper payment compliance audit for FY 2022, the OIG concluded that the Department did not comply with the PIIA for the FY 2022 reporting period because it did not meet one of the six compliance requirements. Specifically, the Department reported improper payment and unknown payment estimate rates that exceeded 10 percent.

For the Title I program, the Department reported an improper payment and unknown payment estimate that exceeded 10 percent for the second consecutive year. To comply with 31 U.S.C. section 3351(2)(F), an agency must report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published. In addition, the Department's OIG determined that the improper payment and unknown payment estimates for each of the five programs (Title I, Special Education, Education Stabilization Fund, Pell Grant, and Direct Loan) were not reliable. Specifically, for the Title I and Special Education programs, the improper payment and unknown payment estimates were based on inaccurate sampling populations. Further, for the Title I, Special Education, and Education Stabilization Fund programs, the Department's testing results were inaccurate.

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

Additionally, auditors determined that the Department's overall IT security program and practices are effective, as eight out of the nine FISMA domains met the requirements needed to operate at a Level 4 maturity rating, indicating the systems security is Managed and Measurable.

Federal Information Security Modernization Act of 2014 (FISMA)

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

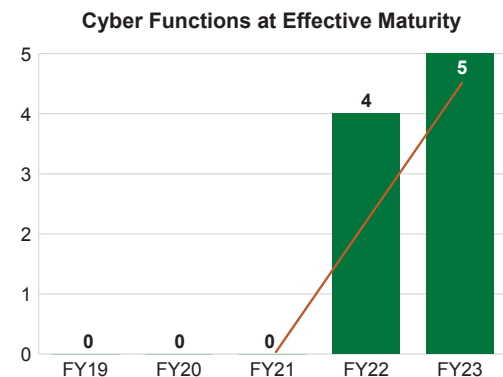
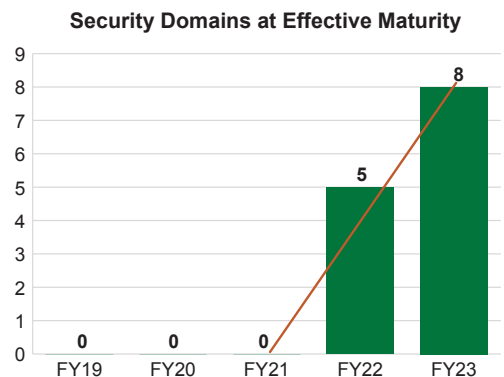
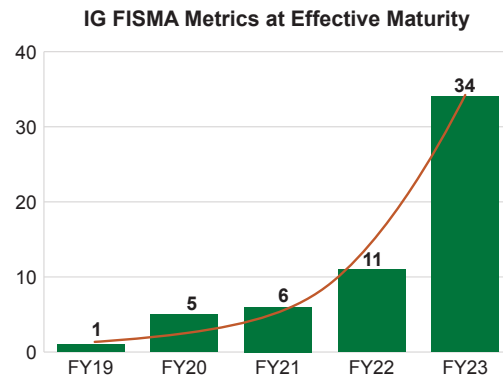
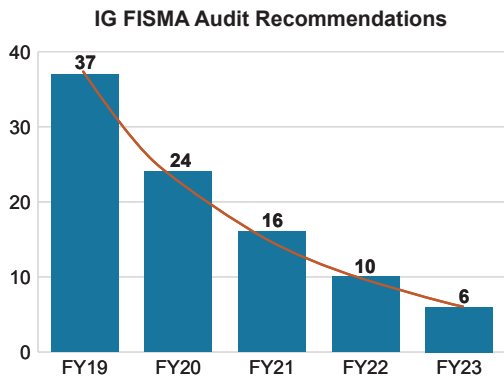
The Department's and FSA's information security programs completed numerous significant activities in FY 2023 to improve cybersecurity capabilities and functions, some of which include:

- In FY 2022, the Department received an overall FISMA assessment of "Effective," or a Level 4 Cybersecurity Maturity Level. This score was the highest achieved by

³ *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.

the Department since the scoring metrics were established in 2014. In FY 2023, the Department was again assessed to be overall “Effective.” However, in FY 2023, all five cybersecurity functions were assessed to be operating at Level 4. This is the first time the Department has achieved such a result which reflects significant strides in advancing the Department’s cybersecurity maturity and effectiveness across all functions and 8 of 9 security domains which make up those functions as supported by information in the graphics below.

Security Function	Metric Domain	Maturity Level	Change from 2022	Met Federal Goal
Identify	Risk Management	Managed and Measurable	▲	✓
Identify	Supply Chain Risk Management	Managed and Measurable	▲	✓
Protect	Configuration Management	Managed and Measurable	=	✓
Protect	Identity and Access Management	Consistently Implemented	=	
Protect	Data Protection and Privacy	Managed and Measurable	▲	✓
Protect	Security Training	Managed and Measurable	=	✓
Detect	Information Security Continuous Monitoring	Managed and Measurable	=	✓
Respond	Incident Response	Managed and Measurable	=	✓
Recover	Contingency Planning	Managed and Measurable	=	✓



- In FY 2023, the Department continued advancing its cybersecurity capabilities, policies, and procedures as well as implementing priority capabilities to reduce risk in support of requirements levied from Office of Management and Budget (OMB) and Department of Homeland Security (DHS), including those documented within Executive Order on Improving the Nation's Cybersecurity (EO 14028). The Department was the first cabinet-level Department to receive funding from the TMF and successfully adopted a SASE solution in support of advancing its ZTA capabilities in support of federal requirements as outlined in OMB Memorandum M-22-09. SASE has modernized the Department's cybersecurity posture through migrating away from legacy Virtual Private Networks (VPN). The new solution leverages cloud native capabilities to enhance the teleworking employees' experiences, including providing 10x faster connection speed than the legacy VPN access, reducing the number of logins required for applications, and increasing performance for tools such as Microsoft Teams, Outlook, Zoom, and other applications and data while modernizing the Department's Cybersecurity posture.
- The Department issued a contract with a professional service provider to modernize and enhance its Enterprise ICAM (Identity, Credential, and Access Management) solution beginning in September 2022 and aligns with the OMB Memorandum M-22-09, Moving the U.S. Government Toward Zero Trust Cybersecurity Principles requirements to meet specific cybersecurity standards and objectives by the end of FY 2024. The ICAM program continues to provide improved security features and functionality which enhance the security posture of the Department. The Enterprise ICAM service has been working to integrate all Department information systems with modern, phishing resistant authentication services, and has instituted a single sign-on (SSO) capability through a centralized user portal for Department employees and contractors to access their Microsoft Office 365 applications.
 - Enterprise ICAM provides the following new capabilities to the Department: self-service password reset functionality and security information registration; certificate-based authentication to support native personal identity verification (PIV) in cloud service provider SSO; and identity lifecycle management capabilities to enable automated user account provisioning and deprovisioning. Enterprise ICAM has also integrated with the ED Cyber Data Lake (EDCDL) to develop a centralized identity dashboard to improve transparency into identity related metrics that align with OMB Memorandum M-22-09, Moving the U.S. Government Toward Zero Trust Cybersecurity Principles, and OMB Memorandum M-21-31, Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents, for user and privileged user logging requirements.
 - The Department's ICAM program was successful in integrating with Login.gov for public users and was integral to instituting multifactor authentication (MFA) deployment across the Department through integrating PIV validation of Department organizational users. Through the implementation of ICAM, Department online resources are more secure for users to access through implementation of phishing resistant authentication and improved visibility. Implementation also strengthens the Department's access management capabilities by reducing the risk of successful phishing cyber-attacks across the Department's enterprise and ensuring the right people have the right level of access to Department resources. Users experience a superior interaction with the Department's services as they will log on substantially fewer times and will need to remember fewer passwords and pins.

- The Department's accomplishments in maturing its risk management capabilities, specifically the maturation of the Cybersecurity Framework (CSF) Risk Scorecard, has been recognized by other Federal Agencies, including OMB, as an optimized capability in managing and communicating cybersecurity risk. The Department of Commerce, Department of Justice, Department of Transportation, and Nuclear Regulatory Commission have all requested playbooks for the development and implementation of CSF-based risk scoring capabilities in their environments based upon our constructs. Released in November 2022, version 3.0 of the ED CSF Risk Scorecard now aligns National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 5 security and privacy controls to the NIST CSF objectives as well as the NIST Privacy Framework (PF) Ver. 1.0. The ED CSF Risk Scorecard provides continuous measurement and risk prioritization of key metrics for system stakeholders, POC leadership, and Department executive leadership on a daily, monthly, and quarterly basis.
- On April 14, 2022, the Department's CISO issued a memorandum for Recission of Department Standard PR.AC: Emergency PIV Alternative. On May 5, 2020, to address the closure and limited operating capacity of Federal Government badging offices due to the coronavirus 2019, OCIO issued Standard PR.AC: Emergency PIV Alternative Standard. This standard provided authorization to access Department systems for those who did not hold a valid PIV but have been cleared by the Department's Office of Personnel Security. OCIO has determined Standard PR.AC: Emergency PIV Alternative Standard is now unnecessary as Federal Government badging offices are now open and are at normal operating capacity. This memo serves to drive actions necessary to ensure the Department's workforce is using the strongest multifactor authentication possible in alignment with Executive Order 14028.
- The integration of supply chain risk management (SCRM) assessments with the Department's Enterprise Architecture Technology Insertion process, also known as the (EATI) process, successfully identified 15 CFR Part 7 concerns with Eclipse DB and 7-zip resulting in Deep Dive reviews and the creation of plan of action and milestones for mitigation. SCRM has also been integrated into the CSF Risk Scorecard to strengthen the ability to measure and monitor supply chain risk. This integration has allowed the Department to identify risks and empowered senior leadership the ability to accept, mitigate, or transfer supply chain risk appropriately within the Department.
- The Department continued to build on FY 2022 awards and received multiple recognitions and multiple awards in FY 2023 from the Federal Information Security Educators Association (FISSEA). FISSEA is an organization run by and for Federal government information security professionals to assist Federal agencies in strengthening their employee cybersecurity awareness and training programs. These awards include Awareness Training Category award for the Cybersecurity and Privacy Awareness Escape Room course; Innovative Solutions award for badges awarded for high levels of symposium participation and top reporters of phishing exercises; and Awareness Newsletter award for the Department's Bits and Bytes awareness newsletter. Following receipt of these awards, the Department of Energy, Postal Regulatory Commission, Social Security Administration, Department of Health and Human Services, Department of Labor, Department of Commerce, and Consumer Financial Protection Board reached out to the Department and requested meetings to learn more about the Department's program and obtain guidance and direction on how to build and maintain an effective training program.

- From an incident response perspective, there have been no major cybersecurity incidents across the Department in FY 2023. To bolster collaboration and interagency coordination, the Department has also allocated a dedicated resource to work with law enforcement and the National Cyber Investigative Joint Task Force. The Department also continued maturing its cyber threat intelligence and cyber hunt capabilities by establishing dedicated resourcing to interface with the intelligence community for Department of Education-specific threat indicators.
- The Department, in coordination with 18 Federal agencies through the Memorandum 21-31 (M-21-31) working group, is leading the government's efforts to determine impact, applicability, and legal ramifications for statistical data collection for event logging. Adhering to Executive Order (EO) 14028 (Section 8) to improve the Nation's Cybersecurity, the implementation M-21-31 will strengthen the Department's event logging capabilities to better identify, investigate and prevent cyber-attacks such as data breaches, identity theft, and other types of cybercrime. Without this capability, the Department will be unable to aid law enforcement and national security partners when a cyber-attack impacts the Department. This can lead to prolonged attacks degrading, disrupting, and limiting services. Furthermore, Department staff will be unable to answer questions to Congress and oversight bodies about what happened, when it started, and how staff resolved the issue in cybersecurity breaches and incidents.
- On February 27, 2023, OMB Memorandum M-23-13, "No TikTok on Government Devices" Implementation Guide, was issued. The Department issued the appropriate CISO memorandum to all Department employees and contractors to remove TikTok and any successor application or service developed or provided by ByteDance Limited or subsidiary from ED devices and providing instructions and deadlines for its removal. Further the Department was able to leverage its newly deployed ZTA tools, SASE, to begin blocking TikTok by its application identifier.
- In support of the Department's maturation plan for the Education's Security Operations Center (EDSOC), efforts are underway to build out a consolidated and centralized SCIF for use by the Department and FSA. This new SCIF will provide a secure room for classified briefings as well as serve as a disaster recover site to ensure continuity of business operations in the event of an emergency and deemed necessary.
 - In February 2023, the Department and FSA combined Security Information and Events Management licenses and migrated FSA's data to the EDCDL in August 2023. In doing so, the Department saved in FY 2023, this migration drastically increased the opportunity for information sharing between EDSOC and FSA Security Operations Center incident response analysts allowing the Department to adhere to EO 14028 and OMB M-21-31.
 - The Department also enhanced its data loss prevention (DLP) capability through an engagement with DHS CISA under the Secure Cloud Business Applications project which provided guidance and capabilities to secure cloud business application environments and protect federal information that is created, accessed, shared, and stored. The Department has also gone above and beyond by taking the next steps to include DLP looking for things like Federal Tax Information and Employer Identification Number.

- The Department's Information System Security Support Services (I4S) executed a Blanket Purchase Agreement (BPA), as well as I4S BPA Call Order1 to provide Support Services related to Program Management Support, Governance, Risk and Compliance Tool (CSAM) Support, and Contractor Information System Security Officer (ISSO) Support. The Department will now be able to execute call orders against this BPA to procure Information System Owner, ISSO, and Vulnerability Management and Security Engineering services.

Forward-Looking Information

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

Direct Loan Program

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

Managing Student Loan Debt

Each year, federal student loans help millions of Americans obtain a college education—an investment that, on average, has high returns. While the average return to having a college degree remains high,⁴ 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 75 percent of the direct loan portfolio was in mandatory administrative forbearance when the student loan repayment deferral period ended on August 31, 2023.
- As of September 2023, more than 9.9 million direct loan recipients were enrolled in IDR plans. Overall, as of September 2023, about 50 percent of direct loan dollars and more than 32 percent of direct loan 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.
- Work to improve customer service and student aid systems and processes by implementing FSA's Next Gen FSA, see page 63.
- 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.

⁴ <https://www.stlouisfed.org/publications/regional-economist/2023/mar/return-investing-college-education>

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

Direct Loan Program costs are estimated consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the act, the future disbursements and collections associated with a cohort of loans are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected in developing estimates. Estimation of Federal credit programs involves inherent risk. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used. There are four types of inherent risk, described below, that make estimating lifetime program costs a difficult task.

Legislative, Regulatory, and Policy Risk

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

Return to Repayment: 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 ended. Interest began accruing on September 1, 2023, and the first payments were due in October. To help borrowers successfully return to repayment, the Department created a temporary on-ramp period through September 30, 2024. This on-ramp period protects borrowers from having a delinquency reported to credit reporting agencies. This prevents the worst consequences of missed, late, or partial payments. While payments will be due and interest will accrue, interest will not capitalize for the duration of the on-ramp period. There is uncertainty regarding cost estimates as millions of borrowers have not been required to make monthly payments on their federal student loans since March 2020 and a large portion of those borrowers have no previous experience in making loan payments.

Income-Driven Repayment Plans: On July 10, 2023, the Department published a Final Rule to revise the current Revised Pay As You Earn (REPAYE) repayment plan which may also be referred to as the Saving on a Valuable Education (SAVE) plan. The revised plan will result in lower monthly payments for nearly all qualifying borrowers (among those who did not already have a \$0 monthly payment). Provisions of the plan are being implemented on a tiered schedule with some provisions currently effective and others effective July 1, 2024.

IDR plans tend to be more costly to the government than non-IDR plans. For the 2023 loan cohort, it is estimated that the government will recover 57 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 introduction of the SAVE plan has made IDR terms more generous and more costly to the government.

Selected comparisons between projected originations and borrower repayments under the different IDR plans are available on the **Department's website**. Future commitment to promote these programs, and potential increased participation in these plans, are areas of uncertainty. Future legislative and/or regulatory activity could also affect the underlying cost of IDR plans.

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

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

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

Data on approved PSLF applications first became available in FY 2018 since borrowers first became eligible for PSLF discharges starting October 1, 2017, after having made 120 qualifying payments. As of September 30, 2023, the total number of borrowers who received forgiveness from the PSLF waiver exceeded 673,000. The value of this forgiveness totaled \$46.6 billion. Including TEPSLF and PSLF discharges processed before the waiver period, the value of forgiveness exceeded \$52.1 billion and included 730,000 borrowers.

As of September 30, 2023, the number of borrowers with certified employment totaled 2.09 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. Borrowers may certify public service employment one year at a time, rather than certifying all 10 years at once, and this process also makes the number

of borrowers with certified employment higher than the number who have received forgiveness. Any future congressional or regulatory action that may affect eligibility for PSLF continues to be an area of uncertainty.

Broad-Based Debt Relief: On June 30, 2023, the Supreme Court ruled that the Secretary does not have authority under the *Higher Education Relief Opportunities for Students Act of 2003* (HEROES Act) to establish a student loan forgiveness program. In response, the Secretary initiated a rulemaking process aimed at opening an alternative path to debt relief using the authority under the *Higher Education Act*.

Borrower Defense to Repayment: On June 22, 2022, the Department and the plaintiffs reached a proposed settlement in the case titled *Sweet v. Cardona* (formerly *Sweet v. DeVos*). The court granted final approval to the settlement as fair, adequate, and reasonable on November 16, 2022. In the settlement, if the borrower defense application is related to federal student loans taken out to pay for attendance at any school on **the list of schools attached to the settlement agreement**, the borrower will receive "Full Settlement Relief." Full Settlement Relief means that the federal student loan(s) associated with the borrower's attendance at the school will be discharged, the Department will refund any amounts paid to it on those loans, and the credit tradeline for those loans will be deleted from the borrower's credit report.

Estimation Risk

Actual student loan outcomes may deviate from estimated student loan outcomes, which is not unexpected given the long projection window of up to 40 years. The Direct Loan Program is subject to a significantly large number of borrower-level events and future economic factors that heavily impact the ultimate cost of student loans. For example, assumptions that need to be estimated for loans originating in FY 2023 include how long students will remain in school; what repayment plan will be chosen; whether the loan will be consolidated; whether the borrower will die prior to completing repayment, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed school loan discharge, borrower defense to repayment, etc.); whether the loan will go into deferment or forbearance; whether the loan will go into default and, if so, what collections will be received on the defaulted loan; and, if the loan is in an IDR plan, what the borrower's employment (public sector or not) and income and family size will be over the next 25 years. These projections are generally made based on historical data about borrower characteristics and behavior, which are more difficult to estimate. Lastly, the direct loan portfolio has grown from approximately \$356 billion in FY 2011 to more than \$1.3 trillion as of the end of FY 2023. 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.

From the second quarter of 2020 until the expiration of the federal Public Health Emergency on May 11, 2023, the COVID-19 pandemic caused 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 were also suspended. However, the ultimate impact of the pandemic on long-term Direct Loan Program costs will depend on, among other things, short- and long-term unemployment, economic growth trends, and potential structural changes in the overall economy and job markets. Some types of macroeconomic risk are inherent to student loan cost estimation, and the Department analyzes them regularly—though some of these risks have been exacerbated by the unprecedented worldwide pandemic. New risks have also developed due to the conditions surrounding the pandemic. Specific examples of macroeconomic risk include:

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

Unemployment: Unemployment rates have been shown to affect both student loan volume and student loan repayment decisions and behavior. During periods of economic downturn, displaced workers have tended to pursue higher education opportunities in high numbers to strengthen their credentials, change career paths, or improve future employment opportunities. The exact impact on the cost estimates from the current period remains an area of uncertainty. For instance, higher short-term unemployment rates could have an impact on future collections of already defaulted loans by increasing the risk of fewer collections from wage garnishment and tax refund reductions. A sensitivity analysis examining the impact of a 5 percent reduction in default collections, limited to cohorts 2018–22, resulted in a projected increase in the re-estimate of \$3.0 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 continue to closely monitor wage growth following the pandemic. The estimates are sensitive to slight changes in model assumptions. The Department continues to manage risks in this area by building its knowledge about its borrower base and remaining informed of labor market statistics.

Operational Risk

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

disbursements are processed. Hence, there is an inherent risk that future, unpredictable disruptions in the administrative status quo may impact student loan cost estimates.

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

Next Gen FSA

About FSA

As the nation's largest provider of financial aid for education beyond high school, Federal Student Aid (FSA) delivers approximately \$114.1 billion in aid each year to students and their families. Through programs authorized under the *Higher Education Act of 1965*, as amended, FSA provides grants, loans, and work-study funds for college and career school. FSA's loan portfolio has grown to more than \$1.6 trillion. FSA also provides oversight of approximately 5,400 postsecondary institutions that participate in the federal student aid programs. In every interaction with students and their families, FSA strives to be the most trusted and reliable source of student financial aid information and services in the nation.

The Vision

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

Legacy Environment

In the legacy federal student aid environment, students and families navigated a complex and fragmented landscape and interacted with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. This poor customer experience created confusion and resulted in customers failing to understand how to apply for and maintain their aid eligibility. As a result, federal student loan borrowers often do not know for which loan forgiveness and repayment options they qualify. Additionally, operational complexities resulted in higher administrative costs and hindered effective oversight of the Department's vendors.

Next Gen FSA Environment

As part of the Next Gen FSA initiative, FSA combined multiple websites, contact centers, and other customer interfaces into a simplified, consistent, and engaging customer experience, which has been enhanced by standardized training and tools. FSA's website—**StudentAid.gov**—continues to be customers' single front door on the web. In addition, the FSA Partner Connect website—**fsapartners.ed.gov**, which was launched as a part of the Next Gen FSA initiative—serves as a resource for entities that participate in the federal student aid programs. FSA also continues to enhance its modern self-service and consumer information tools that help customers understand the aid they have received, their remaining eligibility, for what loan forgiveness programs they may be eligible, and how they can manage loan repayment in a way that meets their goals.

During FY 2023, FSA enhanced many of its Digital and Customer Care (DCC) tools, including the Public Service Loan Forgiveness (PSLF) Help Tool, Loan Simulator, Aidan[®] Virtual Assistant, and the Federal Student Aid Estimator. In FY 2023, FSA significantly updated the PSLF Help Tool to allow users, for the first time, to fully complete the PSLF application process digitally using the new digital signature and submission components of the PSLF Help Tool. Previously, borrowers had to follow multiple, disjointed steps to complete the PSLF Form, including printing and signing the form and having their employers sign the paper form as well. Digital signature and submission created a faster, more straightforward, and more transparent process for borrowers applying for PSLF. FSA updated Loan Simulator to improve borrowers' experience and allow users to compare different repayment plans more easily. FSA enhanced Aidan to give borrowers information about a wider range of topics.

FSA also updated the Federal Student Aid Estimator, which helps students determine how much and for what types of federal student aid they may be eligible. The newly updated tool now provides an estimate of the amount of federal student aid that a student may be eligible to receive using criteria that align with the 2024-25 *Free Application for Federal Student Aid* (FAFSA[®]) form.

Finally, FSA enhanced other resources and tools across **StudentAid.gov** to help borrowers prepare for student loan payments to restart when the COVID-19 payment pause ended in fall 2023.

Throughout FY 2023, FSA completed several updates to the Enterprise Data Management and Analytics Platform Services (EDMAPS), including three successful packages of updates that support tools on StudentAid.gov, including the PSLF Help Tool digital signature and submission functionality and updates to the IDR application.

As a part of the Next Gen FSA initiative, FSA also successfully awarded new contracts to five companies to modernize and enhance servicing for federal student loan borrowers. These contracts, awarded during FY 2023 through the Unified Servicing and Data Solution (USDS) solicitation, mark the first step toward implementing the new servicing environment during FY 2024, which will be FSA's long-term loan servicing solution. This new servicing environment will replace the legacy loan servicing environment, which can be confusing for borrowers as legacy loan servicers operate under their own brands.

The new environment is designed to provide all federal student loan borrowers with a high-quality customer experience, deliver enhanced support for at-risk borrowers, and ensure vendor accountability. FSA's goals for the new loan servicing environment include:

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

Awarding the contracts for the new loan servicing environment is the culmination of nearly a decade of work to overhaul federal student loan servicing, and borrowers will begin to see the benefits when the new servicing environment goes live in spring 2024.

The Next Gen Business Process Operations (BPO) vendors continue to provide support for customers by answering questions through the Federal Student Aid Information Center. In FY 2023, BPO vendors handled a higher volume of calls and chats, exceeding forecasted volumes in summer 2023, despite reduced hours of operations that went into effect earlier in FY 2023 due to budget reduction. BPO vendors provided efficient and effective customer experiences about topics that include return to repayment; the SAVE Plan and other IDR plans; PSLF, including processing employer adjudication cases; and borrower defense to repayment. In addition, BPO vendors also staffed FSA's debt relief hotline, which received a significant number of inquiries, and supported users who needed to reset their StudentAid.gov accounts. Finally, the BPO team hosted an all-BPO vendor meeting in June 2023 to focus on vendors' concerns and explore BPO recommendations.

The FSA Partner Connect website, fsapartners.ed.gov, consolidates the tools that partners use regularly onto a single digital platform that streamlines operational information by award year, provides notifications related to a partner's specific school activities, tracks scheduled system outages, and more. During FY 2023, FSA further updated the website by transitioning the FSA Conference website and the FSA Learning Management System (LMS) to the Partner Connect website. The new website aligns with the overall design of FSA Partner Connect and the new look and feel provide an improved user experience for partners. Conference information and resources that were available on the FSA Conference website—including session materials and recordings from past conferences—were also moved into Partner Connect.

Finally, during FY 2023, FSA began work on the Title IV Origination and Disbursement (TIVOD) Modernization Project. This project will award one or more contracts to replace contracts expiring in January 2025. The project will ensure the continuation of functionality delivered by Common Origination and Disbursement (COD), the National Student Loan Data System (NSLDS®), EDMAPS, and critical back-end services, such as data integration and customer service for schools and other partners.

Leveraging Data as a Strategic Asset

The Department continues its focus on leveraging its data as a strategic asset by continuing to implement requirements in the *Foundations for Evidence-Based Policymaking Act of 2018* (Evidence Act; **P.L. 115-435**) and the **Federal Data Strategy**. Throughout FY 2023, the Department continued to strengthen data governance while overseeing an unprecedented investment in students and schools through the Education Stabilization Fund, created and subsequently augmented through the triad of COVID relief laws. This section highlights five areas guiding the Department towards realizing the power of data in daily operations and national policy: (1) the ED Data Strategy; (2) Open Data; (3) the Education Stabilization Fund Transparency Portal; (4) Data Quality; and (5) the ED Learning Agenda.

The Department's Data Strategy

The Department's inaugural Data Strategy (December 2020) and the agency's updated Data Strategy—published in August 2023—collectively set forth the agency's plan to meet its longstanding vision: to realize the full potential of data to improve education outcomes and lead the nation in a new era of evidence-based policy insights and data-driven operations. The mission of the Data Strategy is to optimize the Department's ability to provide trusted data and insights to internal and external stakeholders, guided by the principles of ethical governance, conscious design, and a learning culture. The four goals of the Data Strategy focus the Department's efforts on strengthening agency-wide data governance, building human capacity to leverage data, advancing the strategic use of data, and improving data access, transparency, and privacy. These interconnected goals continue to build the Department's capacity for data governance and management to promote evidence-based decision-making.

Since the publication of the agency's inaugural Data Strategy in 2020, the Department has established an agency-wide data governance program and released foundational governance policies, created a data skills training program, made progress on essential data infrastructure modernization projects, developed guidance around data quality, data privacy, open data, performance measures, and other topics, and built staff capacity for data visualization and storytelling. By the end of FY 2023, the Department had made substantial progress toward completing planned activities and action plans aligned with each of the 19 objectives established in its inaugural Data Strategy. Specifically, the agency fully executed 16 of 19, or 84 percent of the original Data Strategy objectives, exceeding the Department's FY 2022–2026 Strategic Plan Objective 5.2 performance metric for FY 2023.

The 2023 Data Strategy establishes 16 new objectives that reflect the agency-wide progress to date to build data maturity, processes, and outcomes. For example, buttressed by the progression achieved through the inaugural Data Strategy, the Department is now focused on advancing agency-wide data maturity, developing a data valuation methodology to ensure strategic data investments, fully implementing a cohesive data quality plan, and improving intra- and inter-agency data sharing as part of the Goal One focus for the next few years. Under Goal Two, the data workforce plan aspires to address agency staffing and training needs while the Department continues to build out the pioneering Data Literacy and Data Science training programs to tailor support for all proficiency levels and help staff develop data visualization and storytelling capacity. To advance the strategic use of data under Goal Three, the agency will strengthen the evidence-building pipeline by addressing the Learning Agenda's priority learning questions and identifying gaps in Department data while supporting the agency's grant management and student loan servicing systems. Finally, under Goal Four, the agency plans to publish and implement an Open Data Plan, continue to expand the comprehensive data inventory, enhance transparency through access to agency administrative data, and strengthen the data release and disclosure review processes.

The agency's pioneering work and accomplishments continue to be recognized by other federal agencies and affiliates. For example, in April 2023, the Department's Data Skills Team—leading Data Strategy Goal Two—was bestowed the 2022 Federal Chief Data Officers Council (CDOC) Distinguished Achievement in Federal Data Award. The Federal CDOC Awards recognize both civilian and military employees and teams of federal agencies that demonstrate innovative data policy and practices to advance government mission achievement and increase the benefits to the Nation through improvement in the management, use, protection, dissemination, and generation of data

in decision-making and operations. The award category for Distinguished Achievement in Federal Data highlights individuals or teams who make truly exceptional contributions to Federal Data and the use of data in policymaking.

Open Data

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

The Department's Open Data Platform (ODP) at <https://data.ed.gov/> was publicly launched in December 2020, with an initial population of public data profiles. A central repository for Department data assets, ODP is a fully featured, robust, and highly scalable data repository that maintains all data assets in a fully searchable catalog. As required by Title II of the *Foundations for Evidence-Based Policymaking Act of 2018* and guided by Data Strategy Goal Four, throughout FY 2023, the Department continued to advance toward the development of the comprehensive data inventory by further expanding on the ODP; increasing its catalogued data assets for both externally available open data and internal sources subject to open data priorities; reviewing all data assets for release; and growing the number of Department open data assets listed in the Federal Data Catalogue. In FY 2023, the number of data assets categorized in the agency's comprehensive data inventory grew to over 800, demonstrating the Department's commitment to providing the public with quality data that can be freely accessed and used. Progress attained exceeded the FY 2023 target for performance indicator 5.4.5 in the Department's FY 2022–2026 Strategic Plan.

In FY 2023, ODP was upgraded to support accounts for public users through the General Services Administration's login.gov service. This innovation allows participating users to follow offices or specific data assets and receive notifications when the items they follow are updated. Future public engagement features through the Open Data Platform are planned to build on this foundational capability.

Future Open Data activities include the development, publication, and implementation of an Open Data Plan aligned with ED's Data Strategy, further detailing the agency's efforts to make government data open for the public. Aligned with statutory requirements, the following four goals will guide the development of the agency's Open Data Plan: 1) to improve the usability of ED's data assets, 2) to identify what data assets are being used, and how they are being used, 3) to grow the data inventory to help the agency find and use available data, and 4) to create processes to improve the quality, completeness, accuracy, and timeliness of ED's data. The agency conducted an OMB-approved public Customer Survey in the summer of 2023, engaged CFO Act agencies, and collaborated with stakeholders across the Department to garner input on the development of the Open Data Plan and ways to improve the agency's comprehensive data inventory.

The Department awaits further guidance from OMB through the annual Federal Data Strategy Action Plan—the last one was published in 2021—as well as the next phase of guidance on Title II of the *Foundations for Evidence-Based Policymaking Act of 2018*, known as the *OPEN Government Data Act*.

Education Stabilization Fund Public Transparency Portal

The Department launched the **Education Stabilization Fund Transparency Portal** in 2020 to provide transparency into how the \$263 billion investment in education provided for state and institutional COVID-19 recovery and rebuilding efforts was awarded and spent. The ESF Transparency Portal was established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in March 2020, with subsequent allocations to the Fund codified through the *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSA Act), signed into law in December 2020, and the *American Rescue Plan Act* (ARP Act), signed into law in March 2021. The ESF Transparency Portal includes four primary emergency relief funds: (1) the Elementary and Secondary School Emergency Relief (ESSER) Fund, (2) the Governor's Emergency Education Relief (GEER) Fund, (3) the Emergency Assistance to Non-Public Schools (EANS) Fund, and (4) the Higher Education Emergency Relief (HEER) Fund. In September 2023, the Department upgraded the website to improve overall usability and public accessibility of the site's data assets and reports.

Throughout FY 2023, the work to communicate ESF award expenditures by states, local school districts, and institutions of higher education, continued unabated but with a renewed focus on improving data collection and accurate and timely reporting via the ESF Transparency Portal. In December 2022 and January 2023, the Department publicly released, via the ESF Transparency Portal, the Calendar Year (CY) 2021 Annual Performance Reports (APRs) received from more than 4,600 institutions of higher education and 52 FY 2021 APRs for the ESSER Fund grantees. In addition, the Department published reports summarizing expenditures and highlighting how funds were used to support students, schools, institutions, and their communities while spotlighting grantees' work to reengage students and address learning needs.

Throughout the spring and summer of 2023, the agency coordinated, planned, and conducted the CY 2022 (Year 3) APR data collection for nearly 4,000 institutions of higher education. In the summer of 2023, the APR data collections for FY 2022 ESSER Fund Year Three, ESF-SEA Fund Year Three, GEER Fund Year Three, and EANS Fund Year Two State and outlying area grantee submissions were conducted. To support grantees and improve data quality in FY 2023, the agency provided enhanced technical assistance through increased customer communications, live webinars, published business rules and forms, and the provision of grantee-specific Help Desk support.

The outcome of these interventions and initiatives was a distinguishable increase in the timeliness of grantee submission of APR data. In 2023, 100 percent of ESSER grantees reported during the allotted initial reporting period and for HEERF, 400 fewer IHEs failed to submit their HEERF reports during the allotted initial reporting period than in 2022. Through the end of FY 2023, the Department continued to work with grantees to address data quality issues to provide the public with more accurate information on the expenditure of the education relief funds. These FY 2023 initiatives to improve communications and the quality of the data the agency receives from ESF grantees increases the reliability of and promotes greater transparency into the expenditures of CARES, CRRSA, and ARP funds.

Additionally, in July 2023, an audit report managed by the Pandemic Response Accountability Committee in coordination with the Department's Office of Inspector General (OIG) and other Inspector Generals across a host of agencies studying the sources, intended purpose, and impacts of federal pandemic response program funds provided to six select geographic areas, acknowledged ED's **ESF Transparency Portal**

for “clearly distinguishing ESF funding by subprogram, like HEERF, and for providing information on how funds are being used by recipients and subrecipients, i.e., local school districts, which supports increased public transparency of specific programs.”

Data Quality

The Department's Data Quality Program aims to improve the quality of data collected and published by the agency, serves as a component part of the response to OIG's annual Management Challenges report, and will be executed in concert with supporting initiatives. The agency has published a data quality playbook for grant staff, a data quality plan template and instructions for POCs, and offered data quality trainings to support the procedures outlined in the agency's revised *Information Quality Act* (IQA) guidelines which were published in September 2023.

The agency has determined that there are three root causes to the persistent data quality challenges, identifying them initially in the 2020 response to the Department OIG's findings in the Data Quality and Reporting section of its Management Challenges report. The first root cause is prime grant recipients' capacity, as they are focused on programming to serve students. They have limited time and fiscal resources to improve data quality and reporting. Additionally, prime grantees are responsible for the quality of data reported to them by their own subgrantees. Data errors in subgrantee reporting become aggregated to larger errors in prime grantee reporting. Second, grants staff at the Department have large portfolios, in which looking at data quality is just one responsibility during the limited time they must spend monitoring, providing technical assistance to grantees, preparing required paperwork, and taking training on grants administration. Third, the agency has worked on this issue over the past three years, the Department has acknowledged the need to communicate to grantees that there are credible consequences for failing to report accurate data at an acceptable level of quality.

The agency is working to implement data quality policies that encourage and support principal offices to establish a data quality plan in advance of seeking internal approvals for collecting, creating, processing, storing, or otherwise managing data. Additionally, the agency has developed and, throughout FY 2024, will deploy templates, training, and other resources to support agency staff that are engaged in implementing these policies.

Further progress in improving data quality is reliant on the FY 2023 publication of the revised IQA Guidelines. The FY 2023 Guidelines revision reflects in-depth collaboration and consultation with leaders across the agency. The Guidelines encourage offices to establish and publish data quality plans for all agency data assets disseminated to the public. These plans will set measurable data quality targets that are appropriate for how the data will be used. Principal offices will also set explicit data quality expectations so the data they disseminate will be fit for its intended purpose and, accordingly, those offices will need to figure out how to resource their efforts to meet those expectations. Publication of the revised IQA Guidelines publication will initiate review of a new Data Governance Policy on Data Quality by the agency's Data Governance Board. The policy describes actions offices can take at each stage of the data management lifecycle so that the agency uses data for decision making to best serve our nation's students and educators.

The agency has consolidated access to a suite of data quality resources for staff with a new Data Quality page on the agency's internal website, connectED. The Department released a Data Quality Playbook that provides practical strategies, or plays, to improve data quality across the data management lifecycle, including checklists and questions to guide staff planning data collections for grants programs. The Department also conducted the

first quarterly instructor-led training on the Playbook in August 2023, and, in addition, on-demand, self-paced training has been posted to the agency's Learning Management System, FedTalent. Beginning in FY 2024, the agency plans to pilot a Data Quality Plan Template and instructions for completing the Data Quality Plan. The plan will help ensure that the quality of a Department data asset is planned for, documented, and assessed throughout the data management lifecycle.

Current data quality capacity is not sufficient to support principal offices as they start to use these resources to ensure their data quality is high enough for their intended uses. An additional agency staffer hired to lead the Data Quality Initiative, an agency-wide data quality coordinator, will serve a vital role in coordinating implementation and assessment of these policies and resources. The incumbent in that role will be responsible for reviewing data quality plans and providing feedback and technical assistance to principal offices, developing and monitoring the inventory of data quality plans, and reviewing the impact of these policies against both the agency's desired near-term and longer-term outcomes.

The Department's Learning Agenda

The Department's FY 2022–FY 2026 Learning Agenda was published in July 2022 in conjunction with the release of the Department's Strategic Plan. It establishes the plan for how the agency will improve high-quality evidence building to strengthen the nation's education system. The Learning Agenda is aligned to the Department's goals and strategic objectives, reflecting the Secretary's priorities for the Department over the next four years. The Learning Agenda is complemented by an Annual Evaluation Plan. The Annual Evaluation Plan includes a listing of the Department's most significant evaluation activities in a given fiscal year and is released in conjunction with the President's Budget request each spring. Both the Learning Agenda and the Department's Annual Evaluation Plan can be found at <https://evaluation.gov/agencies/department-of-education>.

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

In collaboration with the Department's Data Governance Board, the Evidence Leadership Group has begun work to align the Department's evidence-building and data strategies. This includes considering whether and how new information collections can be used to address agency priority learning questions; how existing collections might be put to use in new ways to build evidence related to the Department's Learning Agenda; and where gaps in Department data may suggest the need to collaborate with other partners to meet the Department's learning goals.

Continuous Improvement

Improving critical infrastructure, systems and overall capacity, and ensuring sound strategic decision-making regarding allocation of resources are essential to the Department's future progress and success. Implementing the new G6 modernization is one of the Department's key initiatives.

G5 Modernization/G6

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

Project Objectives

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

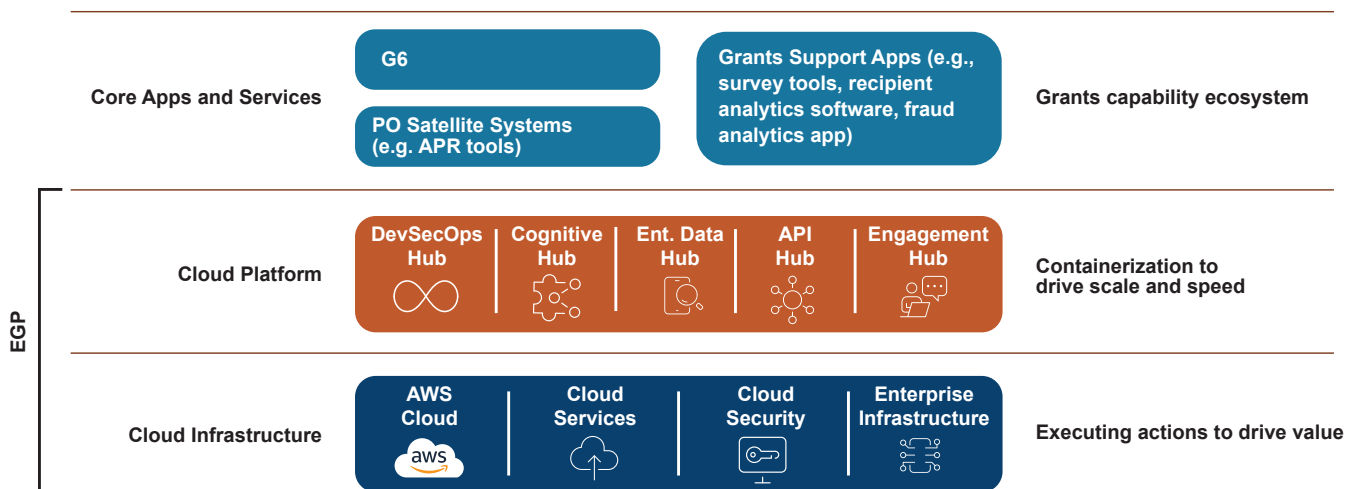
To effectively address the needs of all users, the Business Systems Support Division within the Office of Finance and Operations initiated the G5 Modernization Initiative to replace G5 and implement a state-of-the-art grants management system. The objective of this program is to implement an enterprise-wide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

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

System Components

The “system” consists of two main components.

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



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

Agile Development

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

G6 Capabilities

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

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

The G6 system will have the following characteristics:

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

Timeline

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

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

The Department is planning for the development effort for the remaining years and capabilities. FY 2024 to FY 2025 will be dedicated to Phases 2, 3 and 4, when we will migrate different modules to the new platform and decommission the corresponding modules from the legacy system, therefore stabilizing the G6. In FY 2026, we envision decommissioning the legacy G5 and moving into steady state G6.

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