U. S. Department of Education

Fiscal Year 2007 Performance and Accountability Report

U.S. Department of Education
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Secretary

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

November 15, 2007

About the Department of Education's *Fiscal Year 2007 Performance and Accountability Report*

The Department of Education's publicly available *Fiscal Year 2007 Performance and Accountability Report (PAR)* will be available on the Department's Web site at http://www.ed.gov/about/reports/annual2007report/index.html. A print version, provided in limited distribution, contains the exact content provided in the online version.

Additionally, a color print highlights document containing a CD of the entire *PAR* will be available in February 2008.

To request a copy of our *Highlights Report* in print, with CD of the full *Performance and Accountability Report*, contact http://www.edpubs.org/webstore/Content/search.asp

To provide comments and suggestions on both the content and presentation of the report, contact PARcomments@ed.gov.

November 15, 2007

It is my pleasure to present to you our Fiscal Year 2007 *Performance and Accountability Report*—an annual report card of the U.S. Department of Education's efforts and outcomes during the past fiscal year.

This year's report builds on our efforts to increase transparency, and more effectively communicate our goals and objectives. This report emphasizes our achievements and challenges associated with implementing the Department of Education's new mission statement: to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

Over the past year, we've been hard at work to reauthorize the *No Child Left Behind Act of 2001* and build on President George W. Bush's and the Congress's historic commitment to ensure a high-quality education for every child. Thanks to *No Child Left Behind*, student achievement is on the rise and the long-standing achievement gap continues to narrow. The recent 2007 Nation's Report Card confirms the tremendous progress we've made. The new results show across-the-board improvement in 4th and 8th grade reading and math, with African-American and Hispanic students posting all time highs in a number of categories.

Reauthorization provides an opportunity to make some commonsense improvements, such as using growth models, that will make the law more workable for educators. We're also continuing to focus on strengthening math and science education, increasing academic rigor in our high schools, and expanding access to higher education for more Americans.

Although our performance data are fundamentally complete and reliable, we continue to improve timeliness and accuracy as discussed in the Management's Discussion and Analysis section of this report. The report includes information and assurances about the Department's financial management systems and management controls required by the *Federal Managers' Financial Integrity Act of 1982*. The Department's financial management systems and management controls, taken as a whole, provide reasonable assurance that the objectives of the Act are being met, except for two material weaknesses identified by management. The two material weaknesses identified are related to Information Security and Program Management Controls. For further discussion, please see the Management's Assurances section of the Management's Discussion and Analysis on pages 26-29 of this report.

The Department is setting high expectations for itself with the creation of crosscutting goals focused on excellent management practices, fiscal integrity, and a culture of high performance. In support of these management goals, the Department has invested significantly in developing a Department-wide management tool. The tool is designed to ensure that our strategic priorities are aligned across the principal offices, that we have high standards of performance, and that we achieve our commitments.

Education touches everyone. The Department of Education is committed to the highest standards of accountability as we carry out our mission.

Sincerely,

/s/

Margaret Spellings

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Management's Discussion and Analysis

Our Mission

Adopted in May 2007, the new mission statement of the Department of Education (the Department) is, "*To promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*" This new mission statement retains the Department's historic role of "providing equal access to a high-quality education." It also emphasizes the complementary need to go beyond *providing access* to a high-quality education by affirming the need to *improve the academic performance* of all learners.

Of the many services our government provides to its citizens, few are as far-reaching as education. Communities throughout America have elementary and secondary schools that provide instruction in reading, writing, mathematics, and science, as well as immersion in American history and culture. Most communities also have high schools that educate students in science, mathematics, and other subjects that assist them in becoming knowledgeable American citizens. In addition, technical and postsecondary educational institutions are available to Americans to further improve their skills and education and enable them to become valuable members of our society.

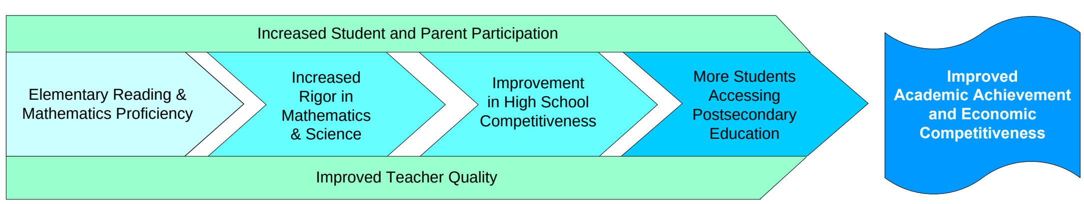
The Department is proud to be a part of this grand enterprise. The Department provides more than $67 billion of the national education expenditures of $1 trillion each year.

Our nation's schools are the basis for an economic resource that helps ensure that we are a country with educated citizens, full employment, and the ability to be fully competitive in the international marketplace.

To maintain our competitive standing at the national level, we must have world-class higher education systems derived from secondary education systems that graduate high school students with advanced mathematics and science skills. Students with advanced skills demonstrate the results of challenging mathematics and science programs, which engage all elementary and middle school students in challenging and comprehensive instruction using best practices and research-based techniques.

America has an expansive range of educational environments to meet the diverse needs of its students in public schools, public charter schools, specialized schools, and non-public schools. This report discusses how the Department has supported, and will continue to support, federal educational initiatives and activities.

Continuous National Improvement Through Education



History and Organization

The federal government recognized that furthering education is a national priority in 1867, when its initial role in education encompassed statistical data collection and reporting. Although the agency's form and location in the Executive Branch have changed over the years, the federal focus has remained on identifying and sharing what works in education with teachers and education policymakers. It was not until May 1980 that the Congress established the Department of Education as a Cabinet-level agency.

By that time, several major legislative actions had been taken to channel federal support to improve the quality of, and access to, education. Legislation in the late 1800s and early 1900s focused on the areas of education that would support America's overall economic progress, such as the creation of land-grant colleges and universities, and on agricultural, industrial, and home economics training for high school students.

Between World War II and 1980, several landmark legislative actions shaped America's education systems. The focus during this period was equal access, and the legislation included the *Lanham Act of 1941*, Impact Aid, and the "GI Bill"; Title VI of the *Civil Rights Act of 1964*; the *Elementary and Secondary Education Act of 1965*; the *Higher Education Act of 1965*; Title IX of the *Education Amendments of 1972*; Section 504 of the *Rehabilitation Act of 1973*; and the *Education of All Handicapped Children Act of 1975*, now known as the *Individuals with Disabilities Education Act*.

The Elementary and Secondary Education Act launched a comprehensive set of programs that are still administered by the Department today. To further enhance this legislation, President Bush recommended, and the Congress enacted, the *No Child Left Behind Act of 2001*, which further embodies the Department's dedication to promoting educational excellence in every corner of the country.

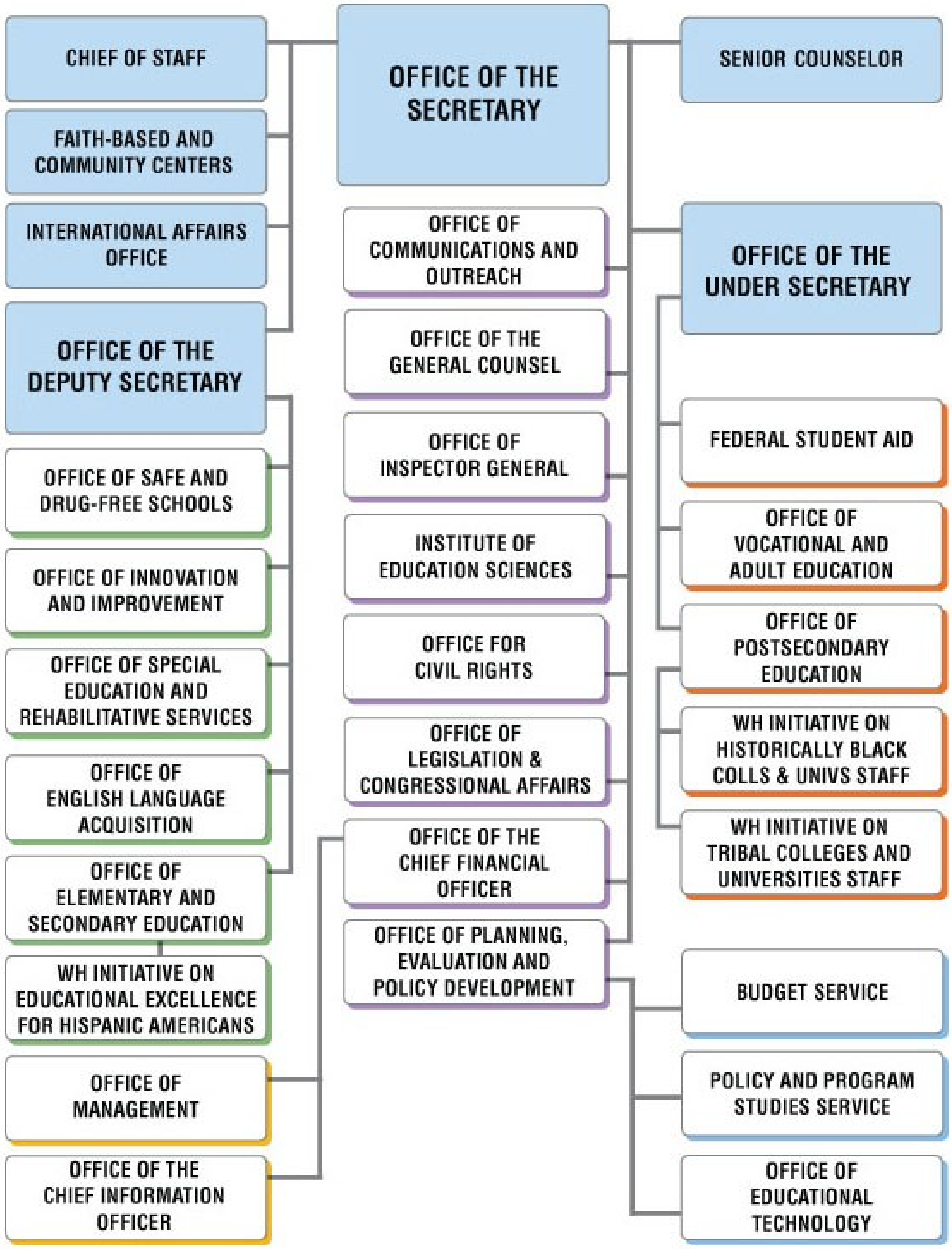
The U.S. Department of Education's Strategic Plan for fiscal years (FY) 2007–12 sets high expectations for America's schools, students and the Department. Although the Strategic Plan was created for fiscal years 2007–12, its goals will not be measured until fiscal year 2008 in accordance with Title 31, Section 1116 of the United States Code. Hence, the goals outlined in the 2002–07 strategic plan will continue to be measured in fiscal year 2007. The Department is committed to giving students the skills they need to succeed in a highly competitive global economy. To this end, the Department has set out three important goals in the plan for fiscal years 2007–12 that address the following three priorities:

- Increase student achievement, reward qualified teachers, and renew troubled schools so that every student can read and do math at grade level by 2014, as called for by the *No Child Left Behind Act*.
- Encourage more rigorous and advanced coursework to improve the academic performance of our middle and high school students.
- Work with colleges and universities to improve access, affordability, and accountability, so that our higher education system remains the world's finest.

The Department recognizes the primary role of states and school districts in providing a high-quality education, employing highly qualified teachers and administrators, and establishing challenging content and achievement standards. The Department is also setting high expectations for its management by creating a crosscutting goal focused on excellent management practices, fiscal integrity, and a culture of high performance.

The coordinating structure supports the Department's continuing role to be responsive to the needs of states, districts, schools, teachers, students, institutions of higher education, and other stakeholders in fostering academic achievement. The coordinating structure is displayed on the next page.

Department of Education Coordinating Structure FY 2007



Our Customers

Every American has a stake in the nation's educational success.

The Department's customers include students, teachers, parents, and institutions. With the *No Child Left Behind Act*, the federal government strengthened its commitment to elementary and secondary students. The Act benefits children, empowers parents, supports teachers, and strengthens schools. Higher education assistance provides access to postsecondary education for a significant number of the nation's 18 million undergraduates.

Elementary and Secondary Students

According to the Department's report, *The Condition of Education 2007*, there are signs of improved achievement at the elementary, middle and secondary levels:

- In 2004, high school graduates demonstrated an increase in credits, earning an average 4.3 credits in English, 3.6 credits in mathematics, and 3.2 credits in science.
- Between 1997 and 2005, the number of students taking Advanced Placement (AP) exams more than doubled to about 1.2 million, with the numbers for African Americans and Hispanics growing faster than those for other ethnic groups.

Since the inception of the *Individuals with Disabilities Education Act*, the number and percentage of youth aged 3–21 enrolled in public schools who receive special education services has steadily increased each year. In 2006–07, almost 6.8 million youth aged 3–21 were served under the Act.

Teachers

According to the National Center for Education Statistics, there were 3.2 million public school teachers and more than 87,000 principals working in 97,000 public elementary and secondary schools throughout the country during the 2005-06 school year (SY). The *No Child Left Behind Act* requires that all teachers be highly qualified in the core academic subjects they teach. In general, a highly qualified teacher must have a bachelor's degree, full certification as defined by the state, and demonstrated competency as defined by the state in each core academic subject in which he or she teaches.

Parents

The *No Child Left Behind Act* has made schools more accountable to parents and provided parents with information about their children and what they should expect from their schools. If the school does not make adequate yearly progress, parents are informed and students can be provided with supplemental educational services.

Postsecondary Students and Institutions

More students are acquiring degrees in colleges, and the undergraduate enrollment is projected to rise from an estimated 18 million in 2007–08 to nearly 20 million in 2015. The percentage of high school graduates who enrolled in college immediately following graduation rose to 69 percent in FY 2005. The number of bachelor's degrees awarded increased by 33 percent between 1989–90 and 2003–04; the number of associate's degrees awarded increased by 46 percent. Minority students accounted for about half of that growth in associate's and bachelor's degree programs.

To assist students who are otherwise unable to afford postsecondary education, the Department provides assistance through various programs such as the Pell Grant Program, the Federal Family Education Loan Program, the Federal Direct Loan Program, the Perkins Loan Program, and the Federal Work-Study Program, authorized under Title IV of the *Higher Education Act*. In FY 2007, the Department granted approximately $82 billion in financial aid to almost 11 million students attending approximately 6,200 institutions.

Performance Results and Highlights

In FY 2007, the Department administered 138 programs that had established performance measures under the *Government Performance and Results Act of 1993*. The key measures provided in this report represent those measures that provide an overall assessment of the Department's progress in achieving improvements in the educational system.

The table below summarizes the Department's performance results for FY 2007 key measures. There are 65 key performance measures that support the Department's mission and strategic goals. Most data for FY 2007 will be available during FY 2008.

For the most recent data available, FY 2006, the Department met or exceeded targets for 25 key measures, did not meet 12, and is awaiting data for 19 measures. The remaining 9 have no targets or data for FY 2006. The delay in data for some measures is the result of a time lag of between 6 and 18 months from the end of the measurement period. This is a six-month improvement over last year's 12- to 24-month lag.

Each year, the Department assesses key measures for that year's performance plan and evaluates the utility and appropriateness of those measures. As a result, key measures are continued, replaced, or completely removed from the objective key measurement process. This assessment process provides a method for continued improvement in Department programs.

Shown below are the results for each key measure. The table shows whether the result met, failed to meet, or exceeded the expected target. The shaded areas indicate that a measure was not in place during the time period. In some cases, establishing a baseline is the target and the target is recognized as met if the data are available and the baseline is established. For measures for which data are not currently available, the date the data are expected is indicated.

Legend

NA = No measure for period	**√ = Met target**	**+ = Exceeded target**
[] = Measure ID code used in VPS data system	**× = Less than target or prior year level**	

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
Strategic Goal 1 – Create a Culture of Achievement				
1.1 – Link federal education funding to accountability for results				
A. The number of states that have science assessments that align with the state's academic content standards for all students in grades three through eight and in high school. [1203]		Dec. 2008	Dec. 2007	NA
1.2 – Increase flexibility and local control				
A. Percentage of eligible school districts utilizing the Rural Education Achievement Program flexibility authority. [1473]		Aug. 2008	×	×
B. Overall American Customer Satisfaction Index as scored by Department grantees. [2200]		×	×	√
1.3 – Increase information and options for parents				
A. Number of charter schools in operation around the nation. [1146]		+	+	+
B. Amount of funding program grantees' leverage for the acquisition, construction or renovation of charter school facilities. [1208]		Mar. 2008	+	+
1.4 – Encourage the use of scientifically based methods within federal education programs				
A. Proportion of school-adopted approaches that have strong evidence of effectiveness compared to programs and interventions without such evidence. [2201]		×	×	NA

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
Strategic Goal 2 – Improve Student Achievement				
2.1 – Ensure that all students read on grade level by the third grade				
A. The percentage of fourth-grade students with disabilities scoring at or above Basic on the National Assessment of Educational Progress in reading. [1521]		+	NA	×
B. The percentage of economically disadvantaged students in grades 3–8 scoring at the Proficient or Advanced levels on state reading assessments. [89a04b]		Sept. 2008	×	×
C. The percentage of limited English proficient students receiving Title III services who have attained English language proficiency. [1830]		Dec. 2008	NA	NA
2.2 – Improve mathematics and science achievement for all students				
A. The percentage of eighth-grade students with disabilities scoring at or above Basic on the National Assessment of Educational Progress in mathematics. [1523]		√	NA	×
B. The percentage of economically disadvantaged students in grades 3–8 scoring at the Proficient or Advanced levels on state math assessments. [89a04c]		Sept. 2008	×	NA
2.3 – Improve the performance of all high school students				
A. Percentage of students with disabilities with individualized education plans who graduate from high school with a regular high school diploma. [1527]		Oct. 2008	+	√
B. Percentage of students with disabilities who drop out of school. [1528]		Oct. 2008	+	+
C. Number of Advanced Placement tests taken by low-income public school students nationally. [1149]		Jan. 2008	+	NA
2.4 – Improve teacher and principal quality				
A. Percentage of core academic classes in elementary schools taught by highly qualified teachers. [1182]		Dec. 2008	Dec. 2007	+
B. Percentage of core academic classes in secondary schools taught by highly qualified teachers. [1183]		Dec. 2008	Dec. 2007	+
Strategic Goal 3 – Develop Safe Schools and Strong Character				
3.1 – Ensure that our nation's schools are safe and drug free, and that students are free of alcohol, tobacco, and other drugs				
A. Percentage of Safe Schools/Healthy Students grant sites that experience a decrease in the number of violent incidents at schools during the three-year grant period (by cohort). [1825 & 2019]	04	Dec. 2007	√	√
	05	Dec. 2007	√	NA
	06	Dec. 2007	NA	NA
B. Percentage of Safe Schools/Healthy Students grant sites that experience a decrease in substance abuse during the three-year grant period (by cohort). [1826, 2020, & 2103]	04	Dec. 2007	√	√
	05	Dec. 2007	√	NA
	06	Dec. 2007	NA	NA
C. Percentage of Safe Schools/Healthy Students grant sites that improve school attendance during the three-year grant period (by cohort). [1827, 2021, & 2104]	04	Dec. 2007	√	√
	05	Dec. 2007	√	NA
	06	Dec. 2007	NA	NA
D. Percentage of Student Drug Testing grantees that experience a 5 percent annual reduction in the incidence of past-month drug use by students in the target population (by cohort). [1828 & 2105]	03	Dec. 2007	√	√
	05	Dec. 2007	Dec. 2007	NA
	06	Dec. 2007	NA	NA
E. Percentage of Student Drug Testing grantees that experience a 5 percent annual reduction in the incidence of past-year drug use by students in the target population (by cohort). [1829 & 2106]	03	Dec. 2007	√	√
	05	Dec. 2007	Dec. 2007	NA

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
	06	Dec. 2007	NA	NA
3.2 – Promote strong character and citizenship among our nation's youth.				
Strategic Goal 4 – Transform Education into an Evidence-Based Field				
4.1 – Raise the quality of research funded or conducted by the Department				
A. Percentage of new research proposals funded by the Department's National Center for Education Research that receive an average score of Excellent or higher from an independent review panel of qualified scientists. [1022]		×	×	√
B. Percentage of new research proposals funded by the Department's National Center for Special Education Research that receive an average score of excellent or higher from an independent review panel of qualified scientists. [1940]		+	√	NA
4.2 – Increase the relevance of our research in order to meet the needs of our customers				
A. Percentage of new research projects funded by the Department's National Center for Education Research that are deemed to be of high relevance to education practices as determined by an independent review panel of qualified practitioners. [00000000028]		Dec. 2007	NA	NA
B. Percentage of new research projects funded by the Department's National Center for Special Education Research that are deemed to be of high relevance by an independent panel of qualified practitioners. [1942]		Dec. 2007	√	NA
Strategic Goal 5 – Enhance the Quality of and Access to Postsecondary and Adult Education				
5.1 – Reduce the gaps in college access and completion among student populations differing by race or ethnicity, socioeconomic status, and disability while increasing the educational attainment of all				
A. Percentage of TRIO Educational Opportunity Centers participants enrolling in college. [1612]		Dec. 2008	Dec. 2007	×
B. Percentage of TRIO Student Support Services participants persisting at the same institution. [1617]		Dec. 2008	Dec. 2007	+
C. Percentage of TRIO Student Support Services participants completing an associate's degree at the original institution or transferring to a four-year institution within three years. [1618]		Dec. 2008	Dec. 2007	NA
D. Percentage of TRIO Student Support Services first-year students completing a bachelor's degree at the original institution within six years. [1619]		Dec. 2008	Dec. 2007	×
E. Percentage of TRIO McNair participants enrolling in graduate school. [1614]		Dec. 2008	Dec. 2007	+
F. Percentage of TRIO McNair participants persisting in graduate school. [1615]		Dec. 2008	Dec. 2007	+
5.2 – Strengthen the accountability of postsecondary institutions				
5.3 – Establish funding mechanisms for postsecondary education				
5.4 – Strengthen Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities				
A. Percentage of full-time undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same Historically Black College or University. [1587]		Dec. 2007	×	NA
B. Percentage of students enrolled at four-year Historically Black Colleges and Universities graduating within six years of enrollment. [1589]		Dec. 2008	Dec. 2007	NA
C. Number of Ph.D., first professional, and master's degrees awarded at Historically Black Graduate Institutions. [1595]		Dec. 2008	Dec. 2007	NA
D. Percentage of full-time undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same Tribally Controlled College or University. [1569]		Dec. 2007	+	NA
E. Percentage of students enrolled at four-year Tribally Controlled Colleges and Universities graduating within six years of enrollment. [1571]		Dec. 2008	Dec. 2007	NA
F. Percentage of students enrolled at two-year Tribally Controlled Colleges and Universities who graduate within three years of enrollment. [1572]		Dec. 2008	Dec. 2007	NA
G. Percentage of full-time undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same Hispanic-Serving Institution. [1601]		Dec. 2007	×	NA
H. Percentage of students enrolled at four-year Hispanic-Serving Institutions graduating within six years of enrollment. [1603]		Dec. 2008	Dec. 2007	NA
I. Percentage of students enrolled at two-year Hispanic-Serving Institutions who graduate within three years of enrollment. [1604]		Dec. 2008	Dec. 2007	NA

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
5.5 – Enhance the literacy and employment skills of American adults				
A. Percentage of general and combined state vocational rehabilitation agencies that assist at least 55.8 percent of individuals receiving services to achieve employment. [1681]		Apr. 2008	+	×
B. Percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent. [1386]		Dec. 2007	+	+
C. Percentage of adults enrolled in English literacy programs who acquire the level of English language skills needed to complete the levels of instruction in which they enrolled. [1384]		Dec. 2007	×	×
5.6 – Increase the capacity of U.S. postsecondary education institutions to teach world languages, area studies, and international issues				
A. Percentage of critical languages taught, as reflected by the list of critical languages referenced in the HEA, Title VI program statute. [1665]		Dec. 2009	Dec. 2008	Dec. 2007
B. Percentage of National Resource Center Ph.D. graduates who find employment in higher education, government and national security. [1664]		Dec. 2009	Dec. 2008	Dec. 2007
C. Average competency score of Foreign Language and Area Studies Fellowship Program recipients at the end of one full year of instruction minus the average score at the beginning of the year. [1671]		Dec. 2007	+	√
Strategic Goal 6 – Establish Management Excellence				
6.1 – Develop and maintain financial integrity and management internal controls				
A. Achieve an unqualified opinion. [2204]		√	√	√
6.2 – Improve the strategic management of the Department's human capital				
A. Index of quality human capital performance management activities. [2205]		Jan. 2008	×	√
6.3 – Manage information technology resources, using e-gov, to improve service for our customers and partners				
A. Percentage of grant programs providing online application capability. [2206]		+	√	+
6.4 – Modernize the Federal Student Assistance programs				
A. Customer service level for Free Application for Federal Student Assistance on the Web. [2207]		×	×	×
B. Customer service level for Direct Loan Servicing. [2208]		+	+	×
C. Customer service level for Common Origination and Disbursement. [2209]		+	+	+
D. Customer service level for Lender Reporting System. [2210]		√	×	×
6.5 – Achieve budget and performance integration to link funding decisions to results				
A. Percentage of Department program dollars associated with programs reviewed under the Program Assessment Rating Tool process that demonstrates Effectiveness. [2211]		+	+	+
6.6 – Leverage the contributions of faith-based and community organizations to increase the effectiveness of Department programs				
A. Percentage of applications in competitions of amenable discretionary programs that are faith-based or community organizations. [2212]		+	√	NA

Performance Achievements

This year, the Department celebrated the fifth anniversary of the *No Child Left Behind Act*. The achievement gap is finally beginning to close and student achievement overall is on the rise. All 50 states, the District of Columbia and Puerto Rico have accountability plans in place and assess students annually in grades three through eight and at least once in high school in reading and mathematics.

According to the Secretary's Fifth Annual Report on Teacher Quality, 95 percent of the new teachers completing preparation programs passed their state licensing exams, and more than 97 percent of the nation's classroom teachers are now fully certified or licensed. More than 500,000 eligible students have received tutoring or school choice.

Elementary and Middle School. More reading progress was made by 9-year-olds in five years than in the previous 28 years combined. Reading and math scores for fourth-graders have reached all-time highs. Forty-six states and D.C. improved or held steady in all categories of students tested in reading and math. The Nation's Report Card results, released in September 2007, showed across-the-board improvements in mathematics and reading.

- The percentage of fourth- and eighth-grade students at or above Basic in reading was higher in 2007 than in either 1992 or 2005.
- In mathematics, the percentages of students performing at or above Basic and Proficient were higher in 2007 than in all previous assessment years at grade four and grade eight.
- Scores were higher in 2007 than in all previous assessment years for white, African American, and Hispanic students at both grades four and eight in mathematics.
- African American and Hispanic students posted all-time highs in a number of categories.
- Overall, in science, fourth-graders scored higher in 2005 than in earlier years, with the percentage of students performing at or above Basic increasing from 63 percent in 1996 to 68 percent in 2005.

The Reading First program was created to provide grants to states to help schools and school districts improve children's reading achievement through scientifically proven methods of instruction. It is designed to help low-income students in kindergarten through third grade, while Early Reading First helps children in preschool. The findings of the National Evaluation of the Early Reading First Program indicate that the program showed improved outcomes on print and letter knowledge for preschool children.

Under *No Child Left Behind*, state educational agencies have received over $4.8 billion in Reading First grants. Reading First and Early Reading First are among the largest federal early reading initiatives in our nation's history. New achievement data show that Reading First students from nearly every grade and subgroup have made impressive gains in reading proficiency.

Children in Reading First schools receive significantly more reading instruction than those in non-Reading First schools according to the Reading First Implementation Evaluation: Interim Report. Thanks to Reading First, teachers from kindergarten through grade three are being trained to implement high-quality, scientifically based reading programs.

Efforts to Improve High Schools. In this global economy, it is critical that high schools succeed in preparing students to enter college or the workforce with the skills they need to succeed. According to ACT, formerly known as American College Testing, a nonprofit organization offering educational and workplace measurement and research services, less than half of America's high school graduates are prepared for college-level math and science.

Rigorous coursework in high school is critical to ensuring that students are learning the skills they need to compete in the global economy. Low-income students who complete a rigorous program of study in high school are eligible for a federal Academic Competitiveness Grant (ACG) to help with college costs. The ACG program provides additional grant aid to low-income first- and second-year college students who complete a rigorous program of study in high school.

The goal is to increase academic rigor and the number of students who may receive ACG grants by making Advanced Placement and International Baccalaureate classes available to more students and by training teachers to lead them.

School Choice. Expanding educational options for parents is one of the hallmarks of the *No Child Left Behind Act*. Under *No Child Left Behind*, children in schools in need of improvement must be given the opportunity to transfer to other public schools in their district, including public charter schools, and school districts are required to tell parents about this option and pay transportation to the other schools.

Also, under *No Child Left Behind*, children from low-income families who attend schools in need of improvement for two or more consecutive years are given the opportunity to receive free supplemental educational services such as tutoring from a variety of state-approved providers.

As of May 2007, 3,234 providers were approved by states to offer supplemental services. During the 2005–06 school year, more than 500,000 students took advantage of the supplemental services option.

In 2007, more than a million students in 40 states and the District of Columbia are being educated in more than 4,000 charter schools, according to data gathered by the National Alliance for Public

Charter Schools and the Center for Education Reform. More families are making choices about what school to attend.

In addition, the Credit Enhancement for Charter School Facilities Program supports competitive grants to public and nonprofit entities to help charter schools finance their facilities; the Magnet Schools Program provides distinctive educational programs that attract diverse student populations; and the Voluntary Public School Choice Program offers grants to states and school districts to establish or expand innovative public school choice programs.

Higher Education. In September 2005, the Secretary announced the formation of a Commission on the Future of Higher Education to develop a comprehensive national strategy for postsecondary education to meet the needs of America's diverse population and to address the economic and workforce needs of the country's future. An Action Plan was developed to implement the commission's findings.

Implementation of the Secretary's Action Plan is designed to improve higher education's performance and make higher education more accessible, affordable, and accountable to students, parents, and taxpayers. Access to American higher education is limited by inadequate preparation, lack of information about college opportunities, and persistent financial barriers.

While about 34 percent of white adults have obtained bachelor's degrees by age 25–29, the same was true for just 18 percent of African American adults and 10 percent of Hispanic adults in the same age group according to the Commission on the Future of Higher Education.

More than 60 percent of the U.S. population between the ages of 25 and 64 has no postsecondary education.

While funding for Pell Grants has increased nearly 50 percent over the past five years, the U.S. college graduation rate has fallen to 12th among major industrialized countries according to the Organization for Economic Cooperation and Development.

Nearly half of all undergraduates received some federal financial aid in 2003–04, up from 40 percent in 2000–01. The President's fiscal year 2008 budget includes $15.4 billion in Pell Grants, a 76 percent increase since 2001.

The National Science and Mathematics Access to Retain Talent Grants are available to students who maintain good grades and plan to major in math, science, technology, engineering, or a critical foreign language.

In March 2007, Secretary Spellings unveiled a new online tool to help students and families financially prepare and plan for college before a student's senior year of high school—the FAFSA4caster. The tool gives students an early estimate of their eligibility for federal financial aid.

Hurricane Relief

The federal commitment to the people of the Gulf Coast for recovery and rebuilding totaled more than $110 billion, including nearly $2 billion in federal education support under the *Hurricane Education Recovery Act*.

As part of the effort to assist students from Louisiana, Mississippi, Alabama, Texas, Florida, and elsewhere to sustain educational efforts in the aftermath of Hurricanes Katrina and Rita, the Secretary launched the 2007 Gulf Coast Summer Reading Initiative, which involved the distribution of 500,000 new books donated by Scholastic, Inc.

This initiative was a part of a yearlong Gulf Coast book distribution effort created by the Department and the nonprofit organization First Book and was designed to help replenish reading materials in the schools and communities devastated by the hurricanes. Overall 1.15 million books were distributed in the last year. The 2007 Gulf Coast Reading Initiative continues the Department's strong record of aid and support to children whose lives and educations were disrupted by the 2005 hurricanes. As of September 30, 2007, $61 million in foreign aid has been obligated from the earmarked funds to assist in the relief and recovery efforts and $22 million has been expended.

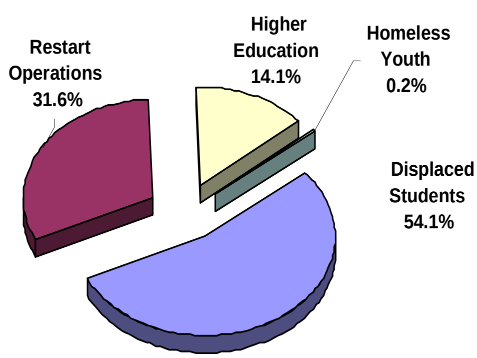
Recovery to Date. With assistance from the Department, the affected states continue to make significant progress toward recovery:

- More than 99 percent of K–12 schools have reopened in Mississippi.

- The number of schools open in Louisiana is at 95 percent of pre-Katrina levels.
- More than 50 percent of schools have reopened in New Orleans.
- All affected major institutions of higher education have reopened.
- The Department offered borrowers in federal student loan programs who were affected by the disaster six months of student loan-payment forbearance.
- Of the monetary contributions from other countries, the majority of funds boosted the reconstruction of libraries, science labs, and other physical assets.

As of September 30, 2007, a total of $1.9 billion had been obligated for Hurricane Relief of which $1.6 billion had been expended. Out of the $750 million obligated for the Immediate Aid to Restart School Operations, $492 million had been expended, and of the $878 million obligated for the Emergency Impact Aid for Displaced Students program, $842 million had been expended. For Higher Education, of the $280 million obligated, $220 million had been expended, and for Homeless Youth, of the $5 million obligated, $3 million had been expended, while zero funds out of the $30 million obligated for Special Compensation for Education Personnel had been expended.

Expended Funds for Hurricane Relief



Civil Rights Enforcement

The enforcement of civil rights laws drives student outcomes by ensuring that discrimination does not deny or limit student access to education programs and activities at any educational level.

The Department of Education enforces five civil rights laws that protect students against discrimination on the basis of race, color, national origin, sex, disability and age, primarily in educational institutions that receive federal financial assistance from the Department.

In addition, the Department ensures that the Boy Scouts of America and other designated youth groups have equal access to meet in elementary and secondary schools that receive funds through the Department.

These anti-discrimination laws protect more than 49 million students attending public elementary and secondary schools and more than 17.9 million students attending both public and private colleges and universities.

The Office for Civil Rights (OCR), an enforcement agency within the Department, performs the Department's civil rights enforcement responsibilities in a variety of ways, including:

- Investigating complaints alleging discrimination.
- Conducting compliance reviews in educational institutions to determine if they are in compliance with the laws.
- Providing technical assistance to educational institutions on how to comply with the law and to parents and students on their rights under the law.

The Department also issues regulations on civil rights laws, develops policy guidance interpreting the laws, and distributes the information broadly.

In FY 2007, the Department received 5,894 complaints of discrimination and resolved 5,737.

The goal of each investigation is to address the alleged discrimination promptly and to determine if civil rights laws and regulations have been violated.

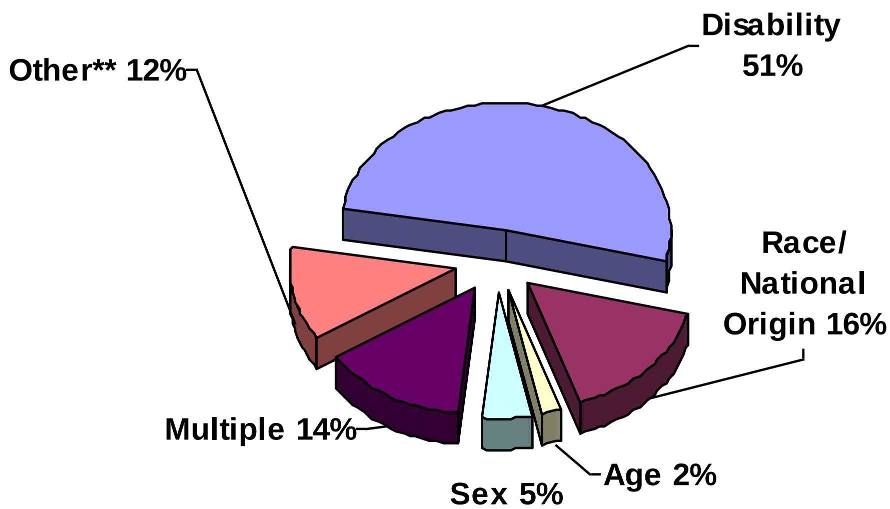
As shown in the chart on the following page, the majority of complaints received by the Department allege discrimination due to disability.

The Department's technical assistance deliveries take many forms, from responding to ad hoc phone calls to delivering formal presentations.

Through OCR's Internet site, http://www.ed.gov/about/offices/list/ocr/index.html?src=oc, the Department provides a wealth of civil rights information, including publications and policy guidance that can be used by educational institutions to assess their own compliance and by students and parents to understand their rights.

OCR's site also offers an online complaint form, http://www.ed.gov/about/offices/list/ocr/complaintintro.html.

FY 2007 Discrimination Complaints



** Indicates no jurisdiction or jurisdiction not yet determined.

Data Quality

Complete, accurate, and reliable data are essential for effective decision-making. State and local educational agencies have historically provided education performance data that do not fully meet information quality standards. Given the requirements of the *No Child Left Behind Act*, accuracy of state and local educational performance data is even more crucial. Funding decisions are made and management actions are taken on the basis of this performance information. Reliable information is a prerequisite for effective management and essential for implementing government-wide standards for disseminating information.

Performance Data

A prerequisite for data quality is data standardization. The Department is collaborating with state educational agencies and industry partners to provide a centralized tool for collection, access, and use of timely and accurate performance data in support of *No Child Left Behind* and to minimize burden on state educational agencies.

The Department data quality program focuses on two goals:

- External quality—Data collection at the school, district, and state levels will be conducted using well-organized and methodologically rigorous techniques.
- Internal validity—Data files submitted by state educational agencies will be validated through expert review.

External Quality. Standardization of data as they are collected by school districts, reported to state educational agencies, aggregated by states, and reported to the Department is the first critical step in collection and reporting of high-quality data. The Department is working with the Data Quality Campaign and the National Forum on Education Statistics to help state educational agencies implement, by 2009, high-quality, longitudinal data systems that include a state data audit system assessing data quality, validity, and reliability. The goals of the Campaign are to help states implement quality longitudinal data systems and to improve student achievement.

The goal of the National Forum on Education Statistics, sponsored by the National Center for Education Statistics, is to improve the quality, comparability, and usefulness of elementary and secondary education data while remaining sensitive to data burden concerns. Forum members include representatives from state educational agencies, local educational agencies, the federal government, and other organizations with an interest in education data. The forum's purpose is to plan, recommend, and implement strategies for building an education data system that will support local, state, and national efforts to improve public and private education throughout the United States.

Internal Validity. The Department is taking steps to improve the quality and reliability of data. In 2004, the Department launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network (EDEN) provides state educational agencies and the federal government with the ability to transfer and analyze information about education programs. Through EDEN, the Department strengthened data validation and verification steps and required states to address their data issues:

- Validate and improve data accuracy by identifying data collection gaps, inaccurate data, and data anomalies.
- Ensure that the data presented in reports represent valid comparisons.
- Display high-quality metrics on reports.
- Provide reporting tools and data access to Department leadership, federal program offices, state and local educational agencies, schools, and the public.
- Limit access to data based on security and privacy requirements.
- Provide predefined reports that display transmittal statistics on state submissions, and provide the Department with the same information at the national level.

The Department continues to implement data quality improvements including:

- An organizational process to ensure data quality.
- The ability for state educational agencies to view and resolve data submission errors via a user-friendly Web interface.
- A centralized data certification system and process.
- A single data repository for data usage.
- Access to financial data related to program management and monitoring.

As states, schools, students and their families, and others rely on the numerous programs and funding allotted through federal education programs, it is critical that the Department ensures effective and efficient operations.

Data Management

Management Excellence. The Department itself also develops and uses data to strengthen internal controls. One of the most visible areas in which this occurs is the annual budget development process. One goal of the Department is to use program performance data to formulate and execute the Department's budget, fulfilling a government-wide element of the *President's Management Agenda*.

Federal Student Aid. Federal Student Aid is improving information technology, data, and management systems to yield reliable performance data to make informed budget and policy decisions. These systems will enhance the budget process and increase the accuracy and reliability of information received from operating partners.

Internal Control Measures. The Department also produces financial data for official submission to the Congress, the Office of Management and Budget (OMB), and other federal authorities as mandated in the *Government Performance and Results Act of 1993*.

The data quality processes for financial data are reflected in our audit report and management's internal control over financial reporting assessment. The financial statements, associated notes, and auditor's reports can be found on pages 104–164, including the required Limitations of the Financial Statements. Management's assurance of internal control can be found on page 27.

Department Data Quality

The Department is committed to improving the completeness, accuracy, and reliability of data for *No Child Left Behind* reporting; integrated performance-based budgeting; and general program management. In addition to completeness, accuracy, and reliability, the Department has improved the timeliness of data reporting by several months. As recently as last year, data time lags of 12 and 24 months existed for some performance data. The implementation of ED*Facts,* an initiative designed to collect and use K–12 state performance data, will help to reduce the reporting burden on state and local educational agencies, resulting in an improvement in the timeliness of data submitted to the Department.

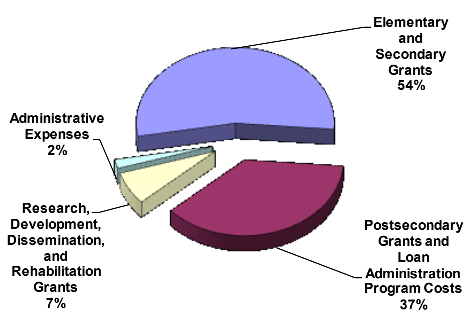
Financial Highlights

The Department consistently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operation. For the sixth consecutive year, we achieved an unqualified (clean) opinion from independent auditors on the annual financial statements. Since 2003, the auditors have found no material weaknesses in the Department's internal control over financial reporting. In accordance with the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control,* the Department continues to test and evaluate findings and risk determinations uncovered in management's internal control assessment.

Sources of Funds

The Department managed a budget in excess of $67 billion during FY 2007, of which 54 percent supported elementary and secondary education grant programs.

FY 2007 Education's Budget



Postsecondary education grants and administration of student financial assistance accounted for 37 percent, including loan programs costs that helped more than 10 million students and their parents to better afford higher education during FY 2007. An additional 7 percent went toward programs and grants encompassing research, development, and dissemination, as well as vocational rehabilitation services. Administrative expenditures were 2 percent of the Department's appropriations.

Nearly all of the Department's non-administrative appropriations support three primary lines of business: grants, guaranteed loans, and direct loans. The original principal balances of the Federal Family Education Loan (FFEL) Program and Federal Direct Student Loan Program loans, which compose a large share of federal student financial assistance, are funded by commercial bank guarantees and borrowings from the Treasury, respectively.

The Department's three largest grant programs are Title I grants for elementary and secondary education, Pell Grants for postsecondary financial aid, and Special Education Grants to States under the *Individuals with Disabilities Education Act.* Each of these programs' FY 2007 appropriations exceeded $10 billion.

The FFEL Program ensures that the loan capital for approximately 3,200 private lenders is available to students and their families. Through 35 active state and private nonprofit Guaranty Agencies, the Department administers the federal loan guarantee program to protect lenders against losses related to borrower default. As of the end of September 2007, the total principal balance of outstanding guaranteed loans held by lenders was approximately $363 billion. The government's estimated maximum exposure for defaulted loans was approximately $359 billion.

The William D. Ford Direct Student Loan Program, created by the *Student Loan Reform Act of 1993,* provides an alternative method for delivering assistance to students. This program uses Treasury funds to provide loan capital directly to postsecondary schools. These schools then disburse loan funds to students. As of September 30, 2007, the value of the Department's direct loan portfolio was $99 billion.

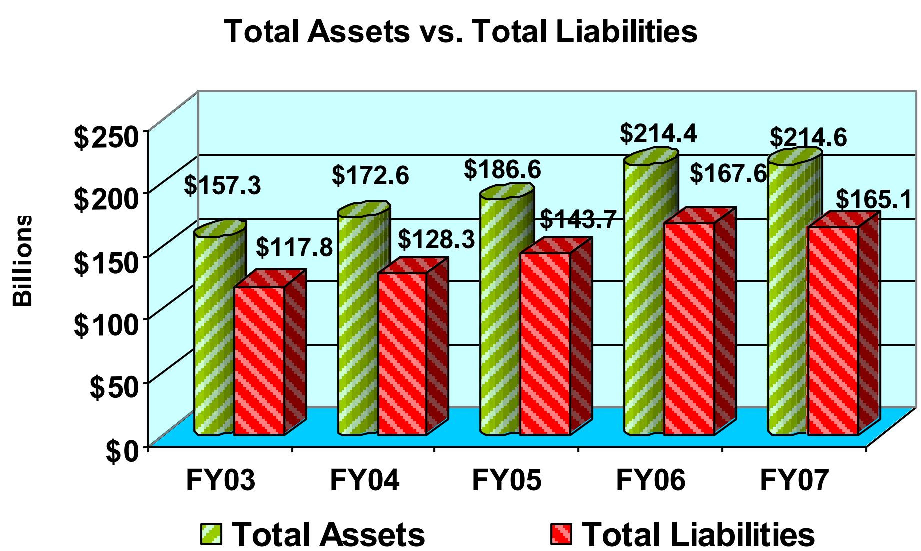
Financial Position

The Department's financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of Ernst & Young, LLP. Financial statements and footnotes for FY 2007 appear on pages 104–138. Beginning in FY 2007, the Statement of Financing is no longer required as a separate financial statement under the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, revised as of

June 29, 2007. An analysis of the principal financial statements follows.

Balance Sheet. The Balance Sheet presents, as of a specific point in time, the recorded value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department. The Balance Sheet displayed on page 104 reflects total assets of $214.6 billion, a less than 1 percent increase over FY 2006. Fund Balance with the Treasury decreased by 9 percent from FY 2006. This decrease is attributable to a reduction of Direct Loan originations and borrowings from the Treasury due to reduced loan consolidation volumes. Credit Program Receivables increased by $9.2 billion, a 9 percent increase over FY 2006. The majority of this loan portfolio is principal and interest owed by students on direct loans. The remaining balance is related to defaulted guaranteed loans purchased from lenders under terms of the FFEL Program. The net portfolio for direct loans increased by over $6 billion while FFEL Program loans increased by $3 billion during FY 2007. Total Liabilities for the Department decreased by 2 percent primarily due to a decrease in direct loan borrowings during FY 2007. Debt for the Department decreased $1.4 billion during FY 2007 primarily due to the decrease in direct loan disbursement volume. Liabilities for Loan Guarantees for the FFEL Program decreased $1.6 billion due primarily to a decrease in loan consolidation volume during the year. These liabilities present the estimated costs, on a present-value basis, of the net long-term cash outflows due to loan defaults net of offsetting fees. Loan guarantees encourage private lenders to provide student education loans.

The Department's Net Position as of September 30, 2007 was $49.6 billion, a $2.8 billion increase over the $46.8 billion Net Position as of September 30, 2006.

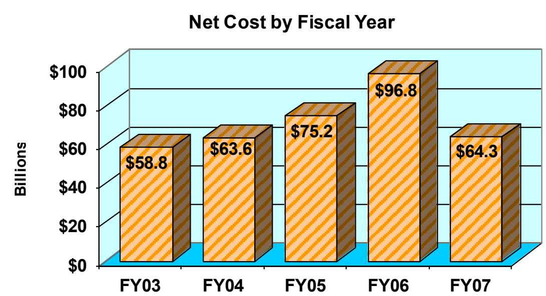


Statement of Net Cost. The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Department's total program net costs, as reflected on the Statement of Net Cost, page 105, were $64.3 billion, a 34 percent decrease from FY 2006. The decrease largely occurred for programs in support of the Enhancement of Postsecondary and Adult Education goal, which experienced a 57 percent decrease in costs from FY 2006. This decrease is largely attributed to a decrease in upward re-estimates and subsidy transfers due to decreased loan consolidation activity during the year.

The Statement of Net Cost is presented to be consistent with the Department's strategic goals and the *President's Management Agenda*. The preceding chart provides a detailed crosswalk of the Department's Net Cost programs linking them to *Strategic Plan* Goals 2 through 5. In FY 2008, the Department will realign the Statement of Net Cost Statement based on an updated strategic plan and this realignment will be reported in the Department's FY 2008 *Performance and Accountability Report.*

Net Cost Program	Goal No.	Strategic Goal
Enhancement of Postsecondary and Adult Education	5	Enhance the Quality of and Access to Postsecondary and Adult Education
Creation of Student Achievement, Culture of Achievement and Safe Schools	2 3	Improve Student Achievement Develop Safe and Drug-Free Schools
Transformation of Education	4	Transform Education into an Evidence-Based Field
Special Education and Program Execution		Cuts across Strategic Goals 2, 3, 4 and 5

The Department considers Strategic Goal 1, Create a Culture of Achievement, a synopsis of the four pillars on which educational excellence is established. Strategic Goal 6, Establishing Management Excellence, emphasizes administrative and oversight responsibilities. These two strategic goals support the Department's programmatic mission, and as a result specific program costs are not assigned to either of them for presentation in the Statement of Net Cost.



Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. The statement displayed on page 107 shows that the Department had $168.3 billion in total budgetary resources for the year ended September 30, 2007. These budgetary resources were composed of $80.8 billion in appropriated budgetary resources and $87.5 billion in non-budgetary credit reform resources, which primarily consist of borrowing authority for the loan programs. Of the $42.4 billion that remained unobligated at year end, $39 billion represents funding provided in advance for activities in future periods that was not available at year end. These funds will become available during the next, or future, fiscal years.

President's Management Agenda
Scorecard Results

Under the *President's Management Agenda*, the Executive Branch Management Scorecards track how well cabinet departments and major agencies are executing five government-wide initiatives and other agency-specific program initiatives.

Status. Scores for "status" are based on the scorecard standards for success developed by the President's Management Council and discussed with experts throughout government and academe, including the National Academy of Public Administration. The standards have subsequently been refined with continued experience implementing the *President's Management Agenda*. Under each of these standards, an agency is "green" or "yellow" if it meets all of the standards for a given level of success identified and agreed upon by the agency and the Office of Management and Budget; it is "red" if it has any one of a number of serious flaws identified for the agency.

Progress. OMB and Budget assess "progress" on a case-by-case basis against the agreed-upon deliverables and time lines established for the five initiatives as follows: "green: represents that implementation is proceeding according to plan; "yellow" indicates there is some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and "red" indicates the initiative is in serious jeopardy and the agency is unlikely to realize objectives absent significant management intervention.

Department of Education Results. During FY 2007 the Department maintained "green" on progress for seven out of eight target initiatives by making sufficient progress on its quarterly scorecard deliverables. e-Government experienced a downgrade to "yellow" due to a decrease in the percentage of secured information technology systems from 90 percent in FY 2006 to 88 percent in 2007. The Department received an upgrade from "yellow" to "green" for progress under Improved Credit Management based on the improved communications between management and OMB regarding various issues affecting the loans programs.

President's Management Agenda
FY 2007 Scorecard

		Q4-2007		Q4-2006	
Target Area		Status	Progress	Status	Progress
Government-wide Initiatives	Financial Performance	G	G	G	G
	Competitive Sourcing	G	G	G	G
	Human Capital	Y	G	Y	G
	e-Government	Y↓	Y↓	G	G
	Performance Improvement	G	G	G	G
Program Initiatives	Faith-Based and Community Initiatives	G	G	G	G
	Eliminating Improper Payments	Y	G	Y	G
	Improved Credit Management (New Initiative in FY 2006)	R	G↑	R	Y

G = green Y = yellow R = red NA = not applicable

Future Initiatives and Management Challenges

The Department's management challenges and future initiatives will involve the enhancement of the Department's governance process. This process will be based on accountability with a central focus on risk management and compliance. Numerous federal regulations have increased the pressure on government entities to measure and mitigate risks involving financial loss, as well as damage to the entities' reputations.

In order to continue the development and implementation of risk management throughout the Department, senior management recently established the Risk Management Service (RMS) in the Office of the Secretary. The RMS is responsible for identifying risks and taking effective actions to manage and mitigate risks that may adversely affect the advancement of the Department's mission.

The RMS, in collaboration with the Department's program offices and contractors such as the Oak Ridge National Laboratory, will identify common risk factors that have the potential to affect grantee performance, and will develop a systemic, risk-based approach to monitoring grant compliance and performance.

Responsibilities of the RMS include:

- Developing risk analysis strategies and tools for use throughout the Department and training Department staff to use these tools.
- Working with all components of the Department to ensure that each office has an effective risk identification and management strategy in place designed to take effective action to manage and mitigate risk.
- Supporting grant-making offices in developing annual grant monitoring plans that incorporate a risk management approach.

Implementation of these risk management strategies and tools will improve the sharing of risk information across Department offices and will allow the Department to better analyze the level of risk associated with its grantees.

The Department will use risk analysis to make more timely and informed management decisions, including actions needed to mitigate grantee risks, resulting in reduced audit findings and reduced potential for misuse of Department funds. In addition, it will permit the Department to make determinations regarding the most effective use of its resources, both staffing and funding, for oversight and monitoring by targeting assistance to those grant programs and grantees that present the highest levels of risk.

Grant Management

To improve grant processing through enhanced user communications, increased program performance monitoring, and the ability to link grant dollars to results and to take advantage of the most current technology, the Department is currently developing a new grant management tool called G5.

The potential value of such a tool has recently increased, as the Department has been selected to serve as one of three federal government-wide Grants Management Line of Business Consortia Leads. With this new responsibility comes the need to enable a wide range of grant management functionalities and technical capabilities for a broad spectrum of grantors.

The new G5 solution is designed to provide such capabilities by addressing more than 1,200 specific functional requirements, developed by grant program managers, Departmental staff and grant award recipients.

G5 will be implemented in three phases, with the first phase scheduled for implementation in the first quarter of FY 2008. Phase 1 will address the payment functionality of the grant management process, and encompass approximately 200 unique functional requirements.

The Department is closely managing individual functional requirements and actively communicating with its user base to ensure a successful implementation.

Credit Reform Management

President Bush signed the *College Cost Reduction and Access Act of 2007 (PL 110-84)* into law on September 27, 2007. It provides additional federal aid to college students, reduces federal subsidies to private loan companies, and increases Pell Grant funding by $11.4 billion over five years.

The Act gradually reduces interest rates on subsidized loans for low-income students, provides loan forgiveness for those who have served in public jobs for 10 years and caps payments on federal loans at a certain percentage of a college graduate's income.

These measures may contribute to a further decline in the national student loan cohort default rate, which declined to 4.6 percent for the FY 2005 cohort from a rate of 5.1 percent from the previous year.

Getting Ready for the Global Economy

Under the American Competitiveness Initiative, the President proposed $5.9 billion in FY 2007 and more than $136 billion over 10 years to increase investments in research and development, strengthen education, and encourage entrepreneurship and innovation.

The National Math Panel brought together experts in mathematics, cognitive science, and education to help evaluate and determine the most effective ways of teaching math and sharing that knowledge with schools and teachers around the country. The new Math Now Program for elementary and middle school students, pending in the FY 2008 President's budget request, would promote research-based practices to provide the basics of a good math education and target struggling students.

The Advanced Placement/International Baccalaureate Program (AP/IB) would expand the access of low-income students to advanced coursework by training 70,000 high school teachers over the next five years to lead AP/IB math and science courses. The proposed Adjunct Teacher Corps would provide 30,000 math and science professionals with real-life experience over the next eight years to teach in our nation's classrooms.

The Promise Scholarship Program, new in the President's 2008 budget proposal, would offer scholarships to low-income students in school that have consistently underperformed for five years.

Management Challenges Identified by the Inspector General

Other current and future management challenges include those identified by the Office of Inspector General (OIG) in the annual report to improve Departmental efficiencies. These recommendations are provided in the Other Accompanying Information section of this report (see pages 165–184).

The recommendations include: improving oversight and management of programs by establishing and maintaining appropriate internal control accountability, strengthening management of student financial assistance programs, improving performance monitoring of contracted services, human capital planning, and managing data quality and information security.

Department Response

The Department continues to address the challenges associated with management's oversight of internal controls related to programs, contracts, and information systems.

Accountability. To improve accountability and operation, the Department:

- Mandated internal controls training for all managers.
- Reduced improper payments.
- Institutionalized risk management principles.

In addition, the Department has addressed weaknesses in two programs, Reading First and Migrant Education programs.

For Reading First, the Secretary put new leadership in place to coordinate the program, and worked with the states to identify possible issues or concerns the states may have had with the implementation of the program.

With the Migrant Education Program, the Department proposed short-term steps to immediately prevent and detect over-counting of ineligible children, and long-term steps, including options for Congress to consider, to ensure that only eligible migrant children are served by the program and that migrant children are accurately counted for funding purposes.

Student Financial Assistance Programs and Operations. Federal Student Aid (FSA) has established controls over lender billings to ensure that only Federal Family Education Loan Program loans made and acquired with funds derived from tax-exempt financing sources acquire eligibility for special allowance payments at the 9.5 percent minimum return rate.

In April 2007, Secretary Spellings convened a task force to ensure that borrowers have more choice and that there is transparency throughout the college application and enrollment process.

The task force recommended new regulations to ensure every borrower has the right to choose any lender, and to prohibit institutions of higher education from favoring some lenders over others.

Proposed rules addressing inducements and preferred lender lists were published and final rules are scheduled to be issued before the end of 2007.

In addition, the Secretary issued a Dear Colleague letter on August 9, 2007 urging schools and lenders to begin to incorporate the principles of the new regulations into their institutional practices as soon as possible.

Grant and Contract Awards, Performance, and Monitoring. The Department has initiated steps to improve its performance in this area as outlined on page 21.

Data Integrity. The Department recognizes the need to improve its data quality and data reliability, as described on page 15.

Information Security and Management. The *Federal Information Security Management Act* requires each federal agency to develop, document, and implement an agency-wide program to provide information security including security for information and systems managed by another agencies or contractors.

The Department continues its efforts in response to security challenges. Among recent actions:

- Acquisition of a security technology and services contract that intends to provide independent verification and validation of security operations.
- Development of an impartial scoring and evaluation process for investments.
- Establishment of an initial framework to codify, measure, and report specific actions project managers are accountable for performing.
- Expansion of membership in Department-level decision-making entities, the Investment Review Board and the Planning and Investment Review Working Group, to include more stakeholders.
- Strengthening of individual business cases to make investments more transparent to and clearly understood by decision-makers within the Department and OMB, and to map proposed investments to the agency-wide enterprise architecture.

Human Capital. The Department reports significant progress to address human capital management and human resources services in FY 2007, including:

- In support of the President's Management Agenda for Human Capital during Proud-To-Be IV year (July 1, 2006 - June 30, 2007), the Department maintained yellow overall status, but was able to achieve "green" progress in two of the four quarters of the scoring cycle. Ending the last Proud-to-Be cycle with "green" progress was largely achieved by increased senior management focus on human capital management.
- The Department's Organizational Assessment is the primary performance management process affecting the principal offices. The Organizational Assessment includes human capital metrics that relate to the effectiveness of

the Department's investment in employees and the work environment.

The human capital metrics help to ensure positions are filled within the timeframe established for principal offices, that leadership development training is attended to close competency gaps, and performance plans are established and performance appraisals completed in accordance with the Department's policy to support a results-oriented performance culture.

- The Department's Succession Management Plan and Human Capital Accountability System increase management focus on achieving quarterly human capital commitments and on obtaining the Office of Personnel Management's approval of the Department's strategies to ensure there is a continuous pipeline of leaders in the Department to address the Department's workforce and succession planning issues.

  The accountability system provides the Department with a consistent means to monitor and analyze all aspects of human capital management policies, programs, and activities in support of the mission.

- The Department's Human Capital Metric Plan and FY 2008 Workforce Plan are under review by the Office of Personnel Management. The Human Capital Metric Plan has been updated to align with the Department's 2007–2012 Strategic Plan and the Workforce Plan, which identifies FY 2008 human capital needs.

  Both plans will be used as tools to drive mission success by ensuring the Department attracts, hires, and retains a diverse, high-quality workforce that demonstrates results. It is anticipated both plans will be finalized in early FY 2008.

Summary

Promoting student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access is our mission. Achieving management excellence is the foundation on which we are able to accomplish this mission.

Department management made great strides in improving the nation's educational opportunities through data collection and reporting strategies. Producing accurate, timely, and reliable financial reports and taking steps to strengthen the information security program enables the Department to execute its mission effectively.

The Department acknowledges the challenges it faces. By focusing on human capital management and further integrating performance and financial information the Department will continue to ensure access to and excellence in the nation's educational system.

Integration of Performance and Financial Information

The Department's emphasis on sound financial practices, performance results, and the accountability of its programs reflect its responsiveness to the effective use of taxpayer dollars. The Department works to align the performance of its programs with its budget requests and to strengthen the link between financial investments and program quality.

The Program Assessment Rating Tool. Since 2002, the Office of Management and Budget has required federal agencies to assess the quality of government programs using the Program Assessment Rating Tool (PART). The Office of Management and Budget uses this assessment across federal agencies to gauge the effectiveness of funded programs, ensure they meet statutory requirements, and demonstrate accountability for the federal expenditure.

PART assessments provide information that is used to establish funding priorities for budget justifications and submissions. Each program receives numeric scores for program purpose and design, strategic planning, program management, and program results. Once a program has undergone the PART process, the Department implements follow-up actions based on PART recommendations to improve program quality. The PART is particularly useful to ensure that resources are targeted toward those programs and activities most likely to achieve positive results.

The Department will continue to invest in programs receiving a PART rating of Effective, Moderately Effective, or Adequate, while programs rated Ineffective will be proposed for elimination or reform. For programs rated Results Not Demonstrated, the Department may support continued funding if the programs are likely to demonstrate results in the future and are not duplicative of other programs.

In 2007, the Department assessed a total of eight programs, of which four were reassessments, bringing the total number of programs assessed using the PART since 2002 to 93, including two programs that are no longer funded. Programs accounting for about 98 percent of the Department's budget authority have now been assessed using the PART.

Integrating Performance with Budget Submissions. To further integrate performance and budget, the Department combines its annual performance plan and annual budget to create an annual performance budget. The Department has identified significant program-based measures that reflect the Department's strategic goals.

The Department Faces Particular Challenges Linking the Performance of its Programs to Funding Expenditures. The Department's challenge of linking performance results, expenditures, and budget is complicated by the fact that more than 98 percent of the Department's funding is disbursed through grants and loans in which only a portion of a given fiscal year's appropriation is available to state, school, organization, and student recipients during the fiscal year in which the funds are appropriated. The remainder is available at or near the end of the appropriation year or in the subsequent year.

Funds for competitive grant programs are generally available when appropriations are passed by the Congress. However, the processes required for conducting the grant competitions often result in the award of grants near the end of the fiscal year with funding available to grantees for additional fiscal years.

Thus, the results presented in this report cannot be attributed solely to the actions taken related to FY 2007 funds but to a combination of funds from fiscal years 2005 through 2007. Further, the results of some education programs may not be apparent for several years after the funds are expended.

Although program results cannot be directly linked to a particular fiscal year's funding, for the purpose of this report, performance results during specific fiscal years will serve as proxies.

The entire program performance report required under the *Government Performance and Results Act of 1993* is available at http://www.ed.gov/about/reports/annual/2007report/index.html.

Management's Assurances

Federal Managers' Financial Integrity Act

As required under the *Federal Managers' Financial Integrity Act (*FMFIA) *of 1982*, the Department reviewed its management control system. The objectives of the management control system are to provide reasonable assurance that the following occur:

- Obligations and costs are in compliance with applicable laws.
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and maintain accountability over assets.
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from senior management serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statement provided on p. 27 is the result of our annual assessment and is based upon each senior officer's evaluation of controls.

Department organizations that identify material deficiencies are required to submit plans for correcting the cited weaknesses. The plans must include a risk assessment, cost of correction, and estimated date of completion. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving of the Department's management controls.

Inherent Limitations on the Effectiveness of Controls. Department management does not expect that our disclosure on controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints. The benefits of the controls must be considered relative to their associated cost. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Federal Financial Management Improvement Act

The Secretary has determined that the Department is in compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), although our auditor has identified instances in which the Department's financial management systems did not substantially comply with the act.

The Department is cognizant of our auditor's concerns relating to instances of non-compliance with FFMIA as noted in the Compliance with Laws and Regulations Report located on pages 160–162 of this report. The Department continues to strengthen and improve our financial management systems.

The FFMIA requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, our financial management systems substantially comply with the three following requirements under FFMIA—federal financial management system requirements, applicable federal accounting standards, and the use of U.S. Government Standard General Ledger at the transaction level.

We are cognizant of the Inspector General's concerns regarding the Department's challenges regarding the proper storage of personally identifiable information, the lack of progress in implementing a two-factor authentication and encryption and the completion of system migration of mission critical systems along with their certification and authentication. The Department has solid corrective action plans in place to address these concerns.

Federal Managers' Financial Integrity Act

Management for the Department of Education is responsible for establishing and maintaining effective internal control and financial management systems that meet the intent and objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). I am able to provide a qualified statement of assurance that the Department's internal control structure and financial management systems meet the objectives of FMFIA, with the exception of two material weaknesses. The details of these exceptions are provided on the next page in Exhibit 1.

The Department conducted its assessment of internal control in compliance with applicable laws and regulations, and in accordance with the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control*. Based upon the results of this evaluation, the Department identified two material weaknesses in its internal control over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, as of September 30, 2007. Other than the exceptions noted in Exhibit 1, the internal controls were operating effectively, and no material weaknesses were found in the design or operation of the internal controls. Based upon this evaluation the financial management systems meet the objectives of FMFIA.

In addition, the Department conducted an assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department of Education can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

Margaret Spellings

November 15, 2007

Exhibit 1 – *FMFIA* Material Weaknesses

ID	Material Weakness	Description	Corrective Action	Anticipated Correction Date
1	Information Technology (IT) Security	Instances of inadequate security controls, including password protection, encryption, and intrusion detection.	The Office of the Chief Information Officer (OCIO) is implementing a number of mitigating actions to correct IT security deficiencies found in management, operational, and technical controls.	
			Procuring a world class Managed Security Service Provider (MSSP) who would have Independent Verification &Validation responsibilities in the area of operational Intrusion Detection Monitoring and incident escalation, Situational Awareness, Vulnerability Management and Configuration Management, Software Assurance, and Security Operations Center (SOC) Management.	Awarded September 26, 2007.
			OCIO plans to mitigate weaknesses in password protection by implementing a two-factor authentication solution derived from Homeland Security Presidential Directive 12 (HSPD-12).	September 30, 2008.
			• Procure Service to Develop Enterprise Identity Management Framework	Awarded September 27, 2007.
			• Develop an integrated identity management framework that addresses minimum Identity and Access Management requirements inclusive of E-Authentication, Public Key Infrastructure HSPD-12 and multifactor authentication	March 2008
			OCIO also plans to correct deficiencies found in protecting personally identifiable information (PII) by encrypting backup tapes, laptop computers, and other mobile media instruments containing PII such as thumb drives, CDs, and DVDs.	September 30, 2008

ID	Material Weakness	Description	Corrective Action	Anticipated Correction Date
2	Monitoring and Oversight of Guaranty Agencies, Lenders and Servicers	Financial Partner Eligibility & Oversight had internal control deficiencies related to monitoring and oversight of Guaranty Agencies, Lenders and Servicers that aggregate to a material weakness.	To address the internal control deficiencies, Federal Student Aid has re-evaluated its overall approach to oversight and monitoring of financial institutions, resulting in numerous corrective actions. The more significant corrective actions include the following: 1) Clear delineation of functional responsibility within Federal Student Aid for oversight of these entities. 2) Development and full implementation of a more rigorous risk assessment methodology that will identify high-risk areas. This risk assessment methodology includes specific steps to incorporate recommendations from audits and reviews performed by organizations external to Federal Student Aid. 3) Standardization of the program review process to ensure consistency in decision-making. 4) Enforcement of appropriate corrective actions and the measurement of effectiveness of actions. Together, these corrective actions and numerous others form a broader plan to provide the necessary oversight and monitoring to ensure compliance with the HEA, regulations, and guidance.	Corrective Action Plans have been submitted for all audit findings and will be implemented by December 31, 2008.

Improper Payments Overview

The *Improper Payments Information Act of 2002* (IPIA) requires agencies to annually review and assess all programs and activities to identify those susceptible to significant improper payments. The guidance provided by OMB defines significant improper payments as those annual erroneous payments that exceed both $10 million and 2.5 percent of the program payments. For each program identified, agencies are required to report the annual estimated amount of improper payments and the steps taken to reduce or eliminate them.

The Department has undertaken the following initiatives relating to the implementation of the IPIA. See the Other Accompanying Information*, Improper Payments Information Act* Reporting Details section for more details on pages 166-176.

Student Financial Assistance Programs

Federal Student Aid operates and administers the majority of the Higher Education Act of 1965, as amended, Title IV Student Assistance (Title IV) programs for the Department. In FY 2007, nearly $82 billion was provided to students and families to help them overcome the financial barriers that make it difficult to attend and complete postsecondary education. Federal Student Aid administers a variety of grants, loans, and loan guarantees through its financial assistance programs. The processes developed to administer the programs are responsive to changes in statutes, the reauthorization of existing statutes, and the changing needs of educational institutions and their students.

Title IV student assistance programs are large and complex. Federal Student Aid relies on over 6,200 postsecondary institutions, approximately 3,200 lenders, 35 loan Guaranty Agencies, and a number of private loan servicers to administer its programs. Except for funds received as an administrative cost allowance, Federal Student Aid program funds received by a school are held in trust by the school for the students, the Department, and, in some cases, for private lenders and Guaranty Agencies.

As required by the IPIA, Federal Student Aid inventoried its programs during FY 2007, and reviewed program payments made during FY 2006 (the most recent complete fiscal year for which data are available), to assess the risk that a significant amount of improper payments were made. The review identified and then focused on five key programs (Federal Family Education Loan Program, Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant, Federal Work-Study Programs and Direct Loan Program).

The following Title IV programs were identified as potentially susceptible to risk: Federal Family Education Loan Program, Federal Pell Grant Program, Campus-based programs, the William D. Ford Federal Direct Loan Program, Loan Consolidations, and the Academic Competitiveness Program and SMART Grant Program. A detailed discussion of each of these programs as well as the outlook for three of the primary program estimates can be found in the Improper Payments Details section of this *Performance and Accountability Report* on pages 166–173.

Federal Student Aid Manager Accountability

Federal Student Aid program managers are responsible for making recommended improvements and achieving quantifiable savings. The Federal Student Aid Executive Leadership Team monitors these efforts. The Executive Leadership Team is composed of key managers and is the executive decision-making body within Federal Student Aid. Further, the Office of Inspector General conducts periodic audits of student aid programs and makes appropriate recommendations to management and the Congress.

Title I Programs

The Department performed a risk assessment of the Elementary and Secondary Education Act Title I Program, parts A, B, and D, during FY 2007. The Erroneous Payments Risk Assessment Project Report documented that the risk of improper payments under the current statutory requirements is very low. In order to validate the assessment data, the Department initiated a three-year review cycle in FY 2006. The review encompasses all states and territories receiving Title I funds. The Office of the Chief Financial Officer participated with the Office of Elementary and Secondary Education in the monitoring process, beginning March 2005, to provide technical support regarding fiduciary compliance. There were no findings in the monitoring reviews with questioned costs that contradicted the data in the risk assessment.

Manager Accountability. The Department categorized OMB Circular A-133 single audit findings to provide feedback to program managers regarding the frequency and type of findings within their programs. This feedback assists managers in tailoring their program monitoring efforts to the type of findings that most frequently occur. Additionally, post-audit follow-up courses have been developed to associate audit corrective actions with monitoring in order to minimize future risk and audit findings.

In FY 2007 the Department developed internal control training for managers that addressed controls to eliminate improper payments. The mandatory one-day seminar for all Department managers completed in September 2007 provided a framework for addressing the requirements of the IPIA utilizing applicable regulations, guidelines, and best practices. Part of the training presentation focused on management responsibility to utilize risk assessment criteria to properly assess the risk of improper payments in the Department's programs.

Remaining Grant Programs

The Department continued to work with the Department of Energy's Oak Ridge National Laboratory to perform data mining on information available in the Federal Audit Clearinghouse's Single Audit Database, the Department's Grant Administration and Payment System, and the Department's Audit Accountability and Resolution Tracking System.

The Department's approach to the risk assessment process was to develop a methodology to produce statistically valid measures that could be applied uniformly across non-Federal Student Aid grant programs. This approach establishes a level of quality control for all programs while simultaneously producing a cost-effective measure. The Department deemed it cost effective to utilize the results of the thousands of single audits already being conducted by independent auditors on grant recipients.

Recovery Auditing Progress

To effectively address the risk of improper administrative payments, the Department continued a recovery auditing initiative to review contract payments. Fiscal year 2006 payments were reviewed during FY 2007. Identified improper payments and potential recoveries were minimal. The Department's purchase and travel card programs remain subject to monthly reviews and reconciliations to identify potential misuse or abuse.

Summary

The Department is continuing its efforts to comply with the IPIA. Although there are still challenges to overcome, the Department is committed to ensuring the integrity of its programs. The Department continues to be scored by OMB as "green" on the implementation progress scorecard for the *President's Management Agenda* initiative on Eliminating Improper Payments.

The Department is focused on identifying and managing the risk of improper payments and mitigating the risk with adequate control activities. In FY 2008, the Department will continue to work with the OMB and the Inspector General to explore additional opportunities for identifying and reducing potential improper payments and to ensure continued compliance with the IPIA.

Performance Details

Performance Details Overview

The Department presents the key measures and results for each of the strategic goals. The presentation for each strategic goal is followed by a summary chart providing an overview of the results for the goal's key measures along with any Program Assessment Rating Tool results.

Key Measures

For each strategic goal, the Department has selected key program measures centered on the desired outcomes. Each goal chapter provides specific details about the performance progress for each key measure.

How to Read This Report

Each chapter presents a description of the goal and objectives. The objective discussion includes a table that describes the key measures, indicates the actual performance, and summarizes the results. The insert below describes the information that is presented for key measures.

Explanation of Documentation for Key Measures

Table. Provides trend data including the latest reported data. Boldface entries represent data not previously reported in an annual performance report. The status row shows the relationship between the new actual values and targets as follows:

- *Exceeded* if the measure performance was better than the target.
- *Met* if the measure performance reached the target without exceeding it.
- *Made progress* if the measure performance was better than the prior reported data, but fell short of the target.
- *Did not meet* if the measure performance fell short of the target and did not show progress.
- *Set baseline* if the Department collected data on the measure for the first time.

Source. Provides bibliographic information.

Analysis of Progress. Provides insights into the Department's progress, including explanations for unmet targets and actions being taken or planned.

Data Quality. Incorporates information such as the universe included in the measure; definitions; the way data were collected, calculated, and reviewed; data strengths and limitations; and plans for data quality improvement.

Target Context. Explains the rationale for targets, especially where anomalies exist.

Additional Information. Provides relevant background or other pertinent information about a particular measure.

Not all measures will include all data fields described above.

Program Assessment Rating Tool Analysis

The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget as a standardized process for determining program effectiveness in a consistent way across government agencies. Programs are assessed and receive scores on a scale of 0 to 100 in each of four weighted sections: program purpose and design (weighted 20 percent), strategic planning (10 percent), program management (20 percent), and program results and accountability (50 percent). Weighted scores are combined and translated into one of four ratings: effective, moderately effective, adequate, and ineffective. A rating of "results not demonstrated" is given if the program does not have agreed-upon performance measures or lacks performance data against an established target. For detailed information about the results of the Department's PARTed programs, please visit http://www.whitehouse.gov/omb/expectmore/agency/018.html.

Programs

In fiscal year (FY) 2007 the Department administered 138 programs that have performance measures under the *Government Performance and Results Act of 1993*. Each program supports one of our strategic goals. In applicable goal chapters, a table provides a summary of each program's performance results over four years, and FY 2007 budget and expenditures.

Methodology for Program Performance Summary

In keeping with the *Government Performance and Results Act of 1993*, the Department has established program-specific annual plans with measures and targets for the majority of the grant and loan programs, and has provided the corresponding program performance reports in conjunction with the publication of the annual *Performance and Accountability Report*. Since 2002, these program performance plans and reports have been published on the Department's Web site at http://www.ed.gov/about/reports/annual/index.html?src=pn.

In the Program Performance Summary tables that are part of each goal chapter of this *FY 2007 Performance and Accountability Report*, we provide an overview of the performance results on the program measures for each of the past four years from FY 2004 through FY 2007. For each year, the Department assesses performance on the measures that were established for that year in a program's published plan, and provides the percentage of measures whose targets were met or exceeded, the percentage whose measure targets were not met, and the percentage of measures that lack data.

The percentages with no data may include measures for which the Department was unable to collect data and/or measures with pending data. In some cases, the target was defined as the establishment of a baseline. This was necessary when *No Child Left Behind* created a new program environment and trend data were not available for many important concepts. In the case of these measures, if data were collected and a baseline established, then that measure was considered "met." If the Department was unable to collect the data to establish the baseline, that measure was counted as having "no data."

The tables also identify, by shading, those programs that did not have a performance plan for a particular year from FY 2004 through FY 2007.

The table includes the PART assessment rating for each program.

The full individual program performance reports for FY 2007 are available at http://www.ed.gov/about/reports/annual/2007report/program.html. The FY 2007 program performance reports also show the targets and actual values for prior years (except for measures that were discontinued prior to FY 2007).

Goal 1: Create a Culture of Achievement

Key Measures

The Department's first strategic goal is to create a culture of achievement in education. Achievement can only be determined if measures are identified and tracked, and accountability for results is required. Accountability for results is the foundation for the other five goals. While this goal is the foundation for all Department programs and activities, no specified programs or funding streams directly support Goal 1. However, six key measures are identified that indicate progress in meeting the objectives of Goal 1.

State Accountability Systems in Compliance

The *No Child Left Behind Act of 2001* placed specific requirements on state accountability systems requirements that are designed to improve student achievement. The basic components of a state accountability system, as outlined in the law, are: standards and assessments, goals for adequate yearly progress for schools and districts to have all students meet state standards, public school choice, supplemental services, and teacher quality.

The Department originally measured states' progress on implementing state accountability systems by calculating the number of states with approved assessment systems in reading and mathematics, and the number of states that are field-testing reading and mathematics assessments. In FY 2006, the Department added a key measure that addressed the number of states that developed science assessments as required by *No Child Left Behind* by school year (SY) 2007–08. For FY 2007, the measures for assessment systems in reading and mathematics and the number of states that field-tested reading and mathematics assessments were no longer considered as key measures because the actual data for these measures were, for the most part, 100 percent.

Analysis of Progress. Under NCLB, states were required to have their reading/language arts and mathematics assessments in place by SY 2005–06. The state assessments for science are not required to be completed until the end of SY 2007–08. However, five states have administered science assessments.

1.1.A State Assessments. The number of states that have science assessments that align with the state's academic content standards for all students in grades three through eight and in high school. [1203]	Fiscal Year	Actual
	2007	**Target is 25**
	2006	Target is 15
	2005	NA
	2004	NA
New key measure in 2006; 2006 data expected Dec. 2007; 2007 data expected Dec. 2008.		

U.S. Department of Education, Consolidated State Performance Reports, SEA Submissions

Data Quality. The universe for this measure is the 52 entities (50 states, the District of Columbia and Puerto Rico) that are required by *No Child Left Behind* to develop science assessments for grades three through eight and high school by SY 2007–08.

Target Context. The targets for these measures represent the 52 entities that are required to have their standards and assessments peer-reviewed and approved. The 52 entities are required to have a science assessment plan in place by the end of SY 2007–08, and the targets represent the number of states that will have plans submitted and approved for FY 2006 and FY 2007.

Additional Information. Each state develops a schedule by which its science assessments will be developed, field-tested, and submitted to the Department for review and approval prior to implementation. States are required to complete field-testing of the assessments for science prior to the submission and approval of the state assessment plan. Field-testing is one of the initial phases of establishing statewide science assessments prior to the actual administration of the assessment. Field-testing helps ensure the validity and reliability of test items and permits states to omit those test items that are deemed biased, too difficult, or too easy, thus affecting the rigor of the test.

Note: This measure refers to states with assessment systems that have been approved by the Department as meeting the requirements of *No Child Left Behind*.

Local Flexibility for Targeting Federal Funds

A collection of federal provisions gives states, school districts, and schools the authority to target specified federal program funds toward unique local education needs. These provisions include the following:

- Funding Transferability for State and Local Educational Agencies.
- State Flexibility Demonstration Program.
- Local Flexibility Demonstration Program.
- Rural Education Achievement Program.

The Alternative Uses of Funds Authority under the Rural Education Achievement Program allows eligible local educational agencies the authority to combine funding under certain federal programs to carry out activities under other specified federal programs. Eligible districts are those that serve relatively small numbers of students and are located in rural areas (ESEA Section 6211(b) (1)).

The Department measured the use of flexibility authorities by collecting data on the percentage of eligible local educational agencies that used the Rural Education Achievement Program flexibility (REAP-Flex) authority.

1.2.A Rural Education Program. The percentage of eligible school districts utilizing the Rural Education Achievement Program flexibility authority. [1473]	**Fiscal Year**	**Actual**
	2007	**Target is 65**
	2006	60
	2005	56
	2004	59
	2003	61
2006 target of 65 not met; 2007 data expected Aug. 2008.		

U.S. Department of Education, Consolidated State Performance Report, SEA submissions.

Analysis of Progress. Only districts eligible for the Small Rural Schools Achievement (SRSA) Program are allowed to use the Rural Education Achievement Program flexibility authority. In school year 2006-07, a total of 4,621 local educational agencies (LEAs) nationwide were eligible for REAP-Flex. The number of LEAs that made use of the REAP-Flex authority in school year 2006-07 will not be reported until February 2008 in the Consolidated State Performance Report, Part II. Despite outreach to states, professional education organizations, and districts, the Department has not been able to increase the percentage of eligible school districts utilizing the Rural Education Achievement Program flexibility authority, indicating that there is not a need among non-participating districts.

Data Quality. In the Consolidated State Performance Report, states reported the number of eligible LEAs that notified the state of their intention to use the Alternative Uses of Funding Authority under section 6211 during the 2006–2007 school year. As part of the OMB-approved annual Rural Education data collection, states provided data on their LEAs from which the Department calculated LEA eligibility.

Target Context. Despite outreach to states, professional education organizations, and districts, the Department has not been able to increase the percentage of eligible school districts utilizing the REAP-Flex authority, indicating that there is not an unmet demand among non-participating districts. Therefore, the Department is maintaining an ambitious and consistent annual target of 65 percent, and is continuing active outreach efforts targeting districts that could benefit from the REAP-Flex authority.

Customer Satisfaction with the Department

To measure how well the Department's products and services meet the needs of the people we serve, we conduct several customer satisfaction surveys. The Grantee Satisfaction Survey queries the chief state school officers and nine groups of state-level education leaders who direct federal programs in their states. The questionnaire includes general questions about the Department's performance in five areas: use of technology, online resources, documents, technical assistance provided by Department-funded providers, and technical assistance provided by Department staff. The questionnaire also includes customized questions for each group. In the final section of the survey, respondents are asked to answer three culminating questions that provide the score for the American Customer Satisfaction Index. The index score allows the Department to benchmark customer satisfaction against that of businesses and other federal agencies.

Other major Department surveys include a biennial customer survey conducted by the National Center for Education Statistics, and an annual survey conducted by Federal Student Aid. The results from the Federal Student Aid survey are reported in Goal 6, under Student Financial Assistance programs.

1.2.B The overall American Customer Satisfaction Index (ACSI) as scored by Department grantees. [2200]	Fiscal Year	Actual
	2007	**63**
	2006	62
	2005	63
2007 target of 65 not met.		

U.S. Department of Education, Grantee Satisfaction Survey.

Analysis of Progress. Overall, there has been no statistically significant change in aggregate score across the three years in which the survey was done. For perspective on how to interpret the Department's American Customer Satisfaction Index score of 63, it is notable that the most recent average score for federal agencies was in the low 70s. It is important to note that federal agencies that serve grantees or interact in a regulatory role typically score in the low 60s. A score of 63, while below the federal agency average, is on par with the typical scores of comparable grant-making agencies. The scores of grant-making agencies range from the high 50s to the low 60s. In response to survey results, Department program offices that participated in the survey identified areas of greatest impact, which will guide their direction for making improvements.

Data Quality. The CFI Group reports business and federal agency customer satisfaction indices quarterly in major news outlets, which allows for standardization of customer satisfaction information. Under contract with the Department, CFI Group conducted the 2007 survey using the methodology of the American Customer Satisfaction Index. The index was developed by the University of Michigan Business School, the CFI Group, and the American Society for Quality and meets their standards for data quality. Grantee Satisfaction Survey respondents included the chief state school officers and the state-level directors and coordinators of the Education Data Exchange Network, and the Early Intervention, Special Education, Career and Technical Education, Adult Education and Literacy, English Language Acquisition (ESEA Title III), Improving the Academic Achievement for Disadvantaged Students Grants to Local Educational Agencies (ESEA Title I), and Educational Technology Programs. There were 357 respondents to the survey out of 556 contacted, giving a response rate of 69 percent. Data were collected between June 20, 2007 and August 31, 2007. Twenty respondents indicated they had not been affiliated with one of the programs in the last 12 months and were, therefore, disqualified.

Target Context. The FY 2007 actual value of 63 is the American Customer Satisfaction Index score reported by our customer survey. It is not a percentage. Rather, the score is best thought of as a weighted scale based on multiple responses to questions in the survey. Survey scores are indexed on a 100-point scale. Agencies that score in the 80s are ranked as "world class."

Expansion of Choice Options for Parents

Parents of public school children who attend a Title I school that has been determined by the state to be in need of improvement have choices under the provisions of *No Child Left Behind*. They may send their child to another public school in the district, and, if the school's status remains "in need of improvement" for more than one year, families whose children stay in the home school may enroll their children in supplemental educational services (i.e., tutoring). Parents' options within the public school system have also increased with the growing numbers of public charter schools that create alternatives to the traditional public school.

New evidence shows that more families are choosing charter schools and voucher programs to meet the educational needs of their children. According to data gathered by the National Alliance of Public Charter Schools, more families are making choices about what school to attend. More than 1.25 million students nationwide will be enrolled in charter schools as of September 2007.

Department data collected from the Center for Education Reform indicate that the number of charter schools in operation around the nation has increased from 3,997 in September 2006 to 4,147 in September 2007. To help inform parents, the Department created a listserv whereby interested parents can automatically receive periodic notification of relevant charter school information posted on the Department's Web site, www.ed.gov.

As of May 2007, state lists posted online included 3,234 approved supplemental service providers, compared to 3,168 in May 2006. Of the 3,685,241 eligible students for the SY 2005-06, the number of students nationwide receiving services under the Supplemental Educational Services Program grew from 245,267 in SY 2003-04 to 515,522 by SY 2005-06, resulting in a participation rate of 14 percent.

In a 2006 letter to all chief state school officers, the Secretary directed states to help their districts become fully compliant with supplemental educational services in SY 2006–07 through monitoring and the provision of technical assistance.

Additionally, the Department has assigned to the Comprehensive Center on Innovation and Improvement the task of providing technical assistance to regional centers and states in the area of supplemental educational services. This includes assistance to help states with the approval, monitoring, and evaluations of providers, as well as to help states and districts with outreach to parents.

1.3.A Charter Schools Grants. The number of charter schools in operation. [1146]

Fiscal Year	Actual
2007	**4,147**
2006	3,997
2005	3,344
2004	2,996
2003	2,700
2002	2,431
2001	2,110
2000	1,700
1999	1,100
1998	790
1997	428
1996	255

2007 target of 3,900 exceeded.

Center for Education Reform

Analysis of Progress. The number of charter schools continues to grow steadily at a rate of approximately 10-12 percent, meeting Department goals. The Department's Charter Schools Grants program will continue to enhance national awareness of the charter schools model by funding national leadership activities that result in the dissemination of successful charter schools practices and policies. In addition, the Charter Schools Program has conducted case studies and disseminated information through a series of coordinated publications about highly successful charter elementary, middle, and high schools with demonstrated results in closing the achievement gap and bringing all students closer to proficiency.

Data Quality. Data are verified by Department program staff through data collections, research, and studies conducted by the National Alliance of Public Charter Schools, National Association of Charter School Authorizers, the National Association of State Directors of Special Education, and the Center for Education Reform. Additional data are verified through site-monitoring visits, technical assistance activities, and reviews of the Government Accountability Office and Office of Inspector General reports.

There are substantial differences in the definition of charter schools among states in average per pupil funding and facilities provisions. Some states count a single charter with multiple sites as a single charter school, while other states count a single charter with multiple sites as multiple charter schools, causing variability in the counts reported by state educational agencies. Reported data are based on each state's definition of charter schools and the enactment of state charter law and policies.

Target Context. Targets are set based on previous growth trends. The Education Commission of the States compiles statistics, policy reviews, and case studies on charter schools as part of its public education issues data collection.

Additional Information. Growth in the number of charter schools is largely under the control of state legislatures, which maintain the authority to pass laws authorizing the creation and regulation of charter schools. While some states have reached capacity in terms of the number of charter schools allowed by their laws, other states have amended their statutes to allow for multiple authorizers and, therefore, greater flexibility. Twenty-nine communities including New Orleans, Louisiana, Detroit, Michigan, Dayton, Ohio, Washington, D.C., and Kansas City, Missouri have at least 20 percent of their student populations enrolled in charter schools. In addition, some states have used *No Child Left Behind* provisions that allow local educational agencies to convert low-performing Title I schools into charter schools.

1.3.B Credit Enhancement for Charter School Facilities. The amount of funding grantees leverage for the acquisition, construction, or renovation of charter school facilities. [1208]	Fiscal Year	Actual
	2007	**Target is $120 million**
	2006	$160 million
	2005	$109 million
	2004	$74 million
	2003	$66 million
2006 target of $100 million exceeded; 2007 data expected March 2008.		

U.S. Department of Education, Credit Enhancement for Charter School Facilities Program Performance Reports.

Analysis of Progress. The Credit Enhancement for Charter School Facilities program helps charter schools with their facility needs typically by guaranteeing debt and some leases used to obtain their facilities.

Data Quality. Data are self-reported annually by grantees. Department program staff verify these data during site visits to grantees and to the schools that grantees serve. The number of dollars leveraged consists of the dollar amount raised as a direct result of the guarantee.

Some grantees under the Credit Enhancement for Charter School Facilities Program have loan pools through which they work with a number of lenders to raise a given amount of funds for charter school facility loans. If the grantee received a non-Department of Education grant (such as a New Markets Tax Credit allocation[1]) and is using it to provide additional leveraging for a school served by the federal grant, such leveraging may also be counted as funds leveraged by the federal grant. A grantee may count senior debt toward the total amount of funds leveraged if it uses grant funds to guarantee or insure subordinate debt. Likewise, grantees may count subordinate debt toward the total amount of funds leveraged if they only use grant funds to credit-enhance senior debt.

The Department originally computed the dollars pledged by lenders as the amount of dollars leveraged in the year the loan pool closed. After learning that these pledges have contingencies, the Department revised the methodology to reflect only the funds in loans that have closed. Trend data shown in the table reflect this revised approach.

Additional Information. Grantees for this program receive multiyear funding at the beginning of the first project period. The federal funds and earnings on those funds remain available until they have been expended for the grant's purposes or until financing facilitated by the grant has been retired, whichever is later. Most of the Department's grantees are required to report midyear performance data to qualify for continuation awards, but, because there are no continuation awards for this program, we allow these grantees to report after the end of each fiscal year to give them a full year of performance before reporting data.

[1] The U.S. Treasury Department provides New Markets Tax Credits on a competitive basis. These tax credits are used to attract development in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to 5 percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is 6 percent annually. Investors may not redeem their investments prior to the conclusion of the seven-year period.

Evidence-Based Approaches to Instruction

The *No Child Left Behind* goal that all students be proficient in reading and mathematics by SY 2013–14 has the best chance of being met if classroom instruction is built around what works. The What Works Clearinghouse (WWC) was established in 2002 by the Department's Institute of Education Sciences to provide educators, policymakers, researchers, and the public with a central and trusted source of scientific evidence of what works in education. The WWC can be found at http://www.whatworks.ed.gov.

The WWC provides education consumers with high-quality reviews of the effectiveness of educational interventions including programs, products, practices, and policies that are designed to improve student outcomes. The WWC promotes informed education decision-making through a set of easily accessible databases and user-friendly reports that provide education consumers with high-quality reviews of the effectiveness of replicable educational interventions. To do this, the WWC uses standards for reviewing and synthesizing research. The WWC is currently conducting systematic reviews of existing research, and producing intervention and topic reports. Topics being explored include character education, dropout prevention, early childhood education, English language learning, mathematics and reading interventions.

1.4. A The proportion of school-adopted approaches that have strong evidence of effectiveness compared to programs and interventions without such evidence. [2201]	Fiscal Year	Actual
	2007	**Target is baseline + 10%**
	2006	Establish baseline
2006 and 2007 data will not be collected.		

U.S. Department of Education, Institute of Education Sciences, National Center for Education Research survey.

Analysis of Progress. Although the WWC released a large number of intervention and topic reports during FY 2007, very few reports were available during FY 2006. Given when adoption decisions are made, it is still too soon for WWC reports to have influenced schools' adoption of particular approaches. Data have not been collected on this measure. Data on the use of evidence-based interventions cannot be collected until the WWC has released more information on such interventions. Because reports from the WWC take significant time to affect schools' adoption of identified scientifically proven approaches to learning, this measure will be dropped for FY 2008.

Discontinued Strategic Measures

The following measures were discontinued after FY 2006 and data were reported as pending in the *FY 2006 Performance and Accountability Report.* The information below reports the results of the 2007 established targets.

Measure		Fiscal Year	Target	Actual	Status
1.1.B	The number of states that have reading/language arts assessments that align with the state's academic content standards for all students in grades three through eight and in high school. [1201]	2007	52	52	Target met

Measure		Fiscal Year	Target	Actual	Status
1.1.C	The number of states that have mathematics assessments that align with the state's academic content standards for all students in grades three through eight and in high school. [1202]	2007	52	52	Target met
1.1.D	The number of states that have completed field-testing of the required assessments in reading/language arts. [1204]	2007	52	52	Target met
1.1.E	The number of states that have completed field-testing of the required assessments in mathematics. [1205]	2007	52	52	Target met
1.1.F	The number of states that have completed field-testing of the required assessments in science. [1206]	2007	20	26	Exceeded target

Goal 2: Improve Student Achievement

Key Measures

Improving student proficiency and closing the achievement gap are the cornerstones of the Department's work. In FY 2007, the Department administered 77 distinct programs that supported Goal 2, Improve Student Achievement. From the universe of measures that help determine these programs' effectiveness, the Department identified 10 key measures to report our progress. Results on these key measures are shown below. See page 34 for an explanation of the documentation fields for the key measures.

Reading Achievement

Research shows that students who fail to read well by the fourth grade have a greater likelihood of dropping out of school and encountering diminished life opportunities. Providing consistent support for reading success from the earliest age has critically important benefits. National reading initiatives support local efforts through competitive grants that enhance the school readiness of young children. Additional federal support for reading instruction goes to states through the large formula grants for disadvantaged students (Title I Grants to Local Educational Agencies), for special education (Special Education Grants to States), and for vocational education (Career and Technical Education State Grants).

2.1.A IDEA: Special Education Grants to States. The percentage of fourth-grade students with disabilities scoring at or above Basic on the National Assessment of Educational Progress (NAEP) in reading. [1521]

Fiscal Year	Actual
2007	**36**
2005	33
2003	29
2002	29

2007 target of 35 exceeded.

U.S. Department of Education, National Assessment of Educational Progress.

2.1.B Title I Grants to Local Educational Agencies. The percentage of economically disadvantaged students in grades 3–8 scoring at the proficient or advanced levels on state reading assessments. [89a04b]

Fiscal Year	Actual
2007	**Target is 60.9**
2006	**55.3**
2005	52.6
2004	49.7

2006 target of 57.9 not met; 2007 data expected Sept. 2008.

U.S. Department of Education, Consolidated State Performance Report (CSPR), EDEN/ED*Facts*.

Analysis of Progress. In measure 2.1.A, the 2007 target of 35 was exceeded. In measure 2.1.B, the 2006 target of 57.9 was not met. Measures 2.1.A and 2.1.B are new key measures for FY 2006, replacing measures targeting the number of states reporting an increase in the percentage of fourth-grade low-income students and the number of states reporting an increase in the percentage of fourth-grade students with disabilities meeting state performance standards by scoring at or above proficient on state assessments in reading/language arts.

In measures 2.1.A and 2.1.B, year refers to school year. For example, 2006 refers to school year 2005–06. For 2004 and 2005, the targets for measure 2.1.B were not in place because the measures were not developed until 2006 for the Program Assessment Rating Tool (PART) review of Title I, Part A. The new baseline (SY 2005–06) and future comparison year (SY 2006–07 and beyond) data used students tested within grades 3–8 during the given year to establish a national percentage of students at least proficient for each year. Prior to SY 2005–06, states tested a different number of grades because they were not required to test all students in grades 3-8 until SY 2005–06.

Data Quality. 2.1.A data are validated by the National Assessment of Educational Progress. 2.1.B data are self-reported by grantees and given a thorough review by Department staff who conducted follow-up as necessary. Beginning for SY 2004-05 reporting Consolidated State Performance Report data are submitted electronically by states.

Target Context. As planned and documented in the 2006 PART of ESEA, Title I, Part A, the Department calculated new baselines using SY 2005–06 data. The targets are based on the statutory goal of 100 percent proficiency by SY 2013–14.

Additional Information. For measure 2.1.A, the next national collection of data will be 2009. For measure 2.1.B, all states, except Nebraska, submitted SY 2005–06 performance data for students in grades 3–8. Nebraska provided data for grades 4 and 8 only.

2.1.C ESEA: English Language Acquisition The percentage of limited English proficient students receiving Title III services who have attained English language proficiency. [1830]	Fiscal Year	Actual
	2007	**Target is 20**
New key measure in 2007; 2007 data expected Dec. 2008.		

U.S. Department of Education, Consolidated State Performance Report (CSPR) EDEN/ED*Facts*

Analysis of Progress. Measure 2.1.C was a new key measure for FY 2007, replacing a measure targeting the number of states with programs that achieved English language proficiency.

Data Quality. Data for measure 2.1.C are self-reported by grantees.

Additional Information. Beginning in FY 2007, data will be available through ED*Facts*.

Mathematics Achievement

American students' performance on international mathematics assessments provides a compelling rationale for intensive, targeted initiatives designed to strengthen the mathematics skills of our students. Results from the 2003 Program for International Student Assessment suggest that American high school students continue to lag behind students in other countries in mathematics. The gap in mathematics learning between American students and students in other countries is widening. A second survey will be conducted in 2012.

On the Program for International Student Assessment, 15-year-old students in the United States scored lower than students in 20 other countries belonging to the Organization for Economic Cooperation and Development.

To raise the number of highly qualified teachers in mathematics and science, and to increase the number of students reaching proficiency in these subjects, school districts use federal resources from the Mathematics and Science Partnership program. The program connects university professors, business leaders, and staff from nonprofit or for-profit organizations with educators from high-need school districts to improve science and mathematics learning. The results from a descriptive analysis of successful applications to the program indicate that this partnership program is on track in meeting its goals.

Highlights of the descriptive analysis show that 90 percent of the partnership projects link content to state mathematics and science standards. Ninety-two percent offer teachers summer institutes with an average of 64 hours of instruction and 48 hours of follow-up instruction. Two-thirds administer content knowledge tests to teachers, conduct observations, and make pretest and posttest comparisons, and 92.2 percent include partnerships with professors from mathematics or science departments in key planning or oversight roles. The preliminary evaluation pointed to one potential problem area for many of the projects: the quality of project evaluation plans. In response to this finding, the Department enlisted the Coalition for Evidence-Based Policy to produce "How to Solicit Rigorous Evaluations of Mathematics and Science Partnerships Projects" for state coordinators of the programs.

2.2.A IDEA: Special Education Grants to States. The percentage of eighth-grade students with disabilities scoring at or above Basic on the National Assessment of Educational Progress (NAEP) in mathematics. [1523]

Fiscal Year	Actual
2007	**33**
2005	31
2003	29

2007 target of 33 met.

U.S. Department of Education, National Assessment of Educational Progress.

2.2.B Title I Grants to Local Educational Agencies. The percentage of economically disadvantaged students in grades 3–8 scoring at the proficient or advanced levels on state math assessments. [89a04c]

Fiscal Year	Actual
2007	**Target is 58.3**
2006	**52.3**
2005	50.7
2004	47.6

2006 target of 56.2 not met; 2007 data expected Sept. 2008.

U.S. Department of Education, Consolidated State Performance Report (CSPR) EDEN/ED*Facts*.

Analysis of Progress. In measure 2.2.A, the 2007 target of 33 was met. In measure 2.2.B, the 2006 target of 56.2 was not met. Measures 2.2.A and 2.2.B are new key measures for FY 2006, replacing measures targeting the number of states reporting an increase in the percentage of eighth-grade low-income students and the number of states reporting an increase in the percentage of eighth-grade students with disabilities meeting state performance standards by scoring proficient or above on state assessments in mathematics.

In measure 2.2.B, the 2006 target of 56.2 was not met. Measure 2.2.B is a new key measure for FY 2006, replacing a measure of targeting the number of states reporting an increase in the percentage of eighth-grade students with disabilities meeting state performance standards by scoring at or above proficient on state assessments in mathematics.

For measures 2.2.A and 2.2.B, year refers to school year. For example, 2006 refers to school year 2005–06. For 2004 and 2005, the targets for the measure 2.2.B were not in place because the measure was not developed until 2006 for the PART review of Title I, Part A. The new baseline (SY 2005–06) and future comparison year (SYs 2006–07 and beyond) data used students tested within grades 3–8 during the given year to establish a national percentage of students at least proficient for each year. Prior to SY 2005–06, states tested a different number of grades because they were not required to test all students in grades 3–8 until that year.

Data Quality. Data in measure 2.2.A are validated by the National Assessment of Educational Progress. Data in measure 2.2.B are self-reported by grantees and given a thorough review by Department staff who conducted follow-up as necessary. Beginning with SY 2004–05 reporting, Consolidated State Performance Report data are submitted electronically by states.

Target Context. For measure 2.2.B, all states, except Nebraska, submitted SY 2005–06 performance data for students in grades 3–8. Nebraska provided data for grades 4 and 8 only. As indicated in the 2006 PART, the Department calculated new baselines using SY 2005–06 data because this was the first year that states were required to test all students in the grades 3–8 range.

Additional Information. For measure 2.2.A, the next national collection of data will be 2009. For measure 2.2.B, of the states for which SY 2003–04 estimates were developed, the District of

Columbia, Kentucky, Missouri, New Hampshire, Puerto Rico, Vermont, and Washington had submitted data through EDEN. The math and reading/language arts data (reading only for Missouri, Vermont, and Washington), however, appeared inaccurate compared with the SY 2003–04 and SY 2004–05 collections, so the SY 2003–04 estimates were used instead of the submitted data.

High School Completion

There is a consensus for high school reform among governors, business leaders, for-profit and nonprofit leaders, and the Department. This reform must start with an honest calculation of graduation rates. Accurate graduation rates are crucial to meeting the requirements of *No Child Left Behind.* States are required to set high school graduation rate targets as one indicator for measuring a high school's progress.

One of the major complications for states to accurately calculate high school graduation rates is the lack of a comprehensive data collection system that tracks students over time. Until states have the capacity to collect these data, the Department has committed to publishing two sets of state graduation rates: state-reported rates and standardized rates prepared by the Department. According to a Government Accountability Office report, as of July 2005, 12 states used a graduation rate definition referred to as the cohort definition, which tracks students from when they enter high school to when they leave. Thirty-two states used a definition based primarily on the number of dropouts over a four-year period and the number of graduates. For its calculation, the Department uses enrollment and other data found in the Common Core of Data at the National Center for Education Statistics.

Additional effort to reform our nation's high schools is evident in the Department's initiative to support formula grants to state educational agencies that reserve a portion of the funds to support the development of additional reading/language arts and mathematics assessments as part of their state assessment systems and award the remaining funds competitively to local educational agencies to implement targeted interventions in high-need secondary schools to increase student achievement and narrow achievement gaps.

2.3.A Special Education Grants to States. The percentage of students with disabilities that graduate from high school with a regular high school diploma. [1527]

Fiscal Year	Actual
2007	**Target is 57**
2006	**56.5**
2005	54
2004	54
2003	52
2002	51
2001	48
2000	46
1999	47
1998	45
1997	43
1996	42

2006 target of 56 exceeded; 2007 data expected Oct. 2008.

U.S. Department of Education, Office of Special Education and Rehabilitative Services, Office of Special Education Programs, section 618 state-reported data.

Analysis of Progress. For measure 2.3.A, the FY 2006 target of 56 has been exceeded. The nation is continuing to make steady progress ensuring that students with disabilities graduate from high school at increasing rates within the mainstream curriculum.

Data Quality. Data are self-reported by grantees.

Target Context. The graduation rate is calculated by dividing the number of students aged 14 and older with disabilities who graduated with a regular diploma by the total number of students with disabilities in the same age group who graduate with a regular diploma, receive a certificate of completion, reach the maximum age for services, die, drop out, or move and are not known to have continued in education.

Additional Information. This includes calculations for 57 entities (50 states, the District of Columbia, Puerto Rico, Guam, American Samoa, the Virgin Islands, Northern Marianas and the Bureau of Indian Affairs).

2.3.B Special Education Grants to States. The percentage of students with disabilities who drop out of school. [1528]

Fiscal Year	Actual
2007	**Target is 28**
2006	**26.2**
2005	28
2004	31
2003	34
2002	38
2001	41
2000	42
1999	42
1998	44
1997	46
1996	47

2006 target of 29 exceeded; 2007 data expected Oct. 2008.

U.S. Department of Education, Office of Special Education and Rehabilitative Services, Office of Special Education Programs, section 618 state-reported data.

Analysis of Progress. For measure 2.3.B, the FY 2006 target of 29 was exceeded. Dropout rates for students with disabilities continue to decline proportionally with the increase in graduation rates.

Data Quality. Data are self-reported by grantees.

Target Context. The dropout rate is calculated by dividing the number of students aged 14 and older with disabilities who dropped out or moved and are not known to have continued in education by the total number of students with disabilities in the same age group who graduate with a regular diploma, receive a certificate of completion, reach the maximum age for services, die, drop out, or move and are not known to have continued in education.

Additional Information. This includes calculations for 57 entities (50 states, the District of Columbia, Puerto Rico, Guam, American Samoa, Virgin Islands, Northern Marianas and the Bureau of Indian Affairs).

Advanced Placement Participation

Enrollment in Advanced Placement courses has nearly tripled over the past decade. Participation by minority and low-income students has increased, but an access gap continues. According to the College Board, the number of public school students from low-income families who took the Board's Advanced Placement exams increased by more than 25 percent between 2005 and 2006, and the total number of low-income students taking AP exams has doubled since 2001. However, participation in Advanced Placement programs is still highly correlated with family income. In 2006, low-income students took only 13.7 percent of all AP tests. The College Board currently identifies only the number of tests taken by low-income students, as opposed to the number of low-income students who took the exams.

Some minority groups continue to be underrepresented among students who take Advanced Placement exams. In 2006, according to the College Board, African American students made up 13.7 percent of the nation's student population but only 6.9 percent of AP test-takers in 2006 were African American. Hispanic students, on the other hand, accounted for 14 percent of all AP test-takers, the same rate as their share of the high school population. However, Hispanic students in the class of 2006 took over 53 percent of the total number of AP Spanish Language exams and 81 percent of AP Spanish Literature exams taken by all students in the class of 2006 during their high school years. The overall Hispanic participation rate is, thus, somewhat distorted by the inclusion of data on the two tests on which many Hispanic students may have an advantage. In all other subjects, the rate of participation of Hispanic students is below the national average.

2.3.C Advanced Placement. The number of Advanced Placement tests taken by low-income public school students nationally. [1149]	Fiscal Year	Actual
	2007	**Target is 230,352**
	2006	**267,286**
	2005	223,263
	2004	187,691
	2003	157,334
	2002	132,459
	2001	105,138
	2000	92,083
	1999	87,149
2006 target of 209,411 exceeded; 2007 data expected Jan. 2008		

The College Board, Fee Reduction Summary Report.

Analysis of Progress. For measure 2.3.C, the FY 2006 target of 209,411 was exceeded. The FY 2005 measure was adjusted to focus on low-income students, and the Department obtained data from previous years to report on the new measure. The prior year data in the report and in budget submissions were adjusted to focus on low-income public school students only, as opposed to all low-income students. Prior year data included data for public and non-public school students.

Data Quality. The Fee Reduction Summary Report is a year-end accounting file that provides a final count of Advanced Placement test fee reductions granted. Test fee reductions are provided to students with acute need.

Target Context. The FY 2006 target was established based on public and non-public school data. The FY 2007 target was adjusted to focus on public school students. Targets for FY 2007 and forward are calculated based on the previous year's target plus 10 percent.

Teacher Quality

The Department continues to work with states and school districts to ensure that all teachers are highly qualified, especially in core academic subjects. Monitoring visits to states indicate that states have made changes to their certification requirements. These changes include requiring more content knowledge, having teacher candidates pass written examinations, encouraging alternative certification programs, requiring teacher preparation institutions to improve their programs, requiring secondary school teachers to have a major in the subjects they teach, and implementing incentive systems to attract and retain highly qualified teachers.

Many local educational agencies had difficulty ensuring that special education and secondary mathematics and science teachers were highly qualified. In spring 2006, the Department reviewed states' progress in meeting the requirement that all teachers be highly qualified and requested states to submit revised plans for reaching the requirement by the end of SY 2006–07. *No Child Left Behind* requires that all public school teachers of core academic subjects meet the qualifications outlined in the definition by the end of SY 2005–06.

For the first time, the Congress legislated the requirement that teachers in every core academic class have a bachelor's degree, have a state license or a certificate, and be competent in the subjects they teach. In addition, the recently reauthorized *Individuals with Disabilities Education Act* addresses teacher qualification and requires all special educators to be highly qualified. Resources provided to states to meet the requirement of a "highly qualified teacher" in every core academic class include major funding from the $3 billion Improving Teacher Quality State Grants and the $68 million Teacher Quality Enhancement Programs.

2.4.A Improving Teacher Quality State Grants. The percentage of core academic classes in elementary schools taught by highly qualified teachers. [1182]	
Fiscal Year	**Actual**
2007	**Target is 100**
2006	Target is 95
2005	93
2004	91
2003	85
2005 target of 90 exceeded; 2006 data expected Dec. 2007; 2007 data expected Dec. 2008	

2.4.B Improving Teacher Quality State Grants. The percentage of core academic classes in secondary schools taught by highly qualified teachers. [1183]	
Fiscal Year	**Actual**
2007	**Target is 100**
2006	Target is 92
2005	89
2004	88
2003	80
2005 target of 85 exceeded; 2006 data expected Dec. 2007; 2007 data expected Dec. 2008	

U.S. Department of Education, Consolidated State Performance Report, grantee submissions.

Analysis of Progress. The data reported through the *Consolidated State Performance Report* show that states are about 90 percent of the way toward having all classes taught by highly qualified teachers.

Data Quality. The Department continues to monitor states to ensure that the data they provide are determined using a definition of highly qualified teacher that is consistent with the statutory requirement. During monitoring visits to states over the past three years, the Department found that many states were confused about the definition of "highly qualified teacher," particularly for special education teachers. Most states now use the correct definition, and data are now generally accurate.

Discontinued Strategic Measures

The following measures were discontinued after FY 2006 but were reported as pending in the *FY 2006 Performance and Accountability Report.* The latest data are reported below.

Measure		Fiscal Year	Target	Actual	Status
2.1.A	The number of states reporting an increase in the percentage of fourth-grade low-income students meeting state performance standards by scoring at or above proficient on state assessments in reading/language arts. [1066]	**2006**	25	29*	Exceeded target
2.1.B	The number of states reporting an increase in the percentage of fourth-grade students with disabilities meeting state performance standards by scoring at or above proficient on state assessments in reading. [1519]	**2006**	25	25**	Target met
2.1.C	The number of states that met the target for attainment of English language proficiency [1830/2006]	**2007**	29	19	Target not met
2.2.A	The number of states reporting an increase in the percentage of eighth-grade low-income students meeting state performance standards by scoring proficient or above on state assessments in mathematics. [1067]	**2006**	25	34***	Exceeded target
2.2.B	The number of states reporting an increase in the percentage of eighth-grade students with disabilities meeting state performance standards by scoring at or above proficient on state assessments in mathematics. [1520]	**2006**	25	20****	Target not met
2.4.A	The percentage of core academic classes in high-poverty schools taught by highly qualified teachers. [1180]	**2006**	95	Not Collected	Replaced with Current Measures

* 39 states tested fourth-grade students in reading in both SY 2004–05 and SY 2005–06.

** 38 states tested fourth-grade students in reading in both SY 2004–05 and SY 2005–06.

*** 45 states tested eighth-grade students in mathematics in both SY 2004–05 and SY 2005–06.

**** 47 states tested eighth-grade students in mathematics in both SY 2004–05 and SY 2005–06

Sources and Notes

2.1.A U.S. Department of Education, Consolidated State Performance Report.

2.1.B U.S. Department of Education, Consolidated State Performance Report.

2.1.C U.S. Department of Education, Consolidated State Performance Report EDEN/ED*Facts*

2.2.A U.S. Department of Education, Consolidated State Performance Report EDEN/ED*Facts*

2.2.B U.S. Department of Education, Consolidated State Performance Report EDEN/ED*Facts*

2.4.A U.S. Department of Education, Consolidated State Performance Report EDEN/ED*Facts*

Goal 2: Improve Student Achievement
Program Performance Summary

Seventy-nine of our grant programs most directly support Goal 2. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See page 35 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2007report/program.html. Appropriation and expenditure data for FY 2007 are included for each of these programs.

Program Name	PART Rating	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
APEB: American Printing House for the Blind	RND	18	18	73	0	27	67	33	0	100	0	0	100	0	0
CFAA: Supplemental Education Grants	NA	18	16										/// (not funded)		
CRA: Training and Advisory Services	RND	7	7	80	20	0	100	0	0						
CTEA: Career and Technical Education National Programs	NA	10	12	0	0	100	0	20	80	60	40	0	60	40	0
CTEA: Career and Technical Education State Grants	I	1,182	1,354	0	0	100	47	53	0	50	50	0	27	73	0
CTEA: Occupational and Employment Information	RND	0	3	60	40	0	60	40	0	60	40	0	60	40	0
CTEA: Tech-Prep Demonstration	NA	0	4	0	0	100	67	33	0	33	37	0	0	100	0
CTEA: Tech-Prep Education State Grants	RND	105	103	0	0	100	67	33	0	33	67	0	0	100	0
ESEA: 21st Century Community Learning Centers	A	981	721	0	0	100	44	50	6	0	100	0	50	50	0
ESEA: Academies for American History and Civics	NA	2	1	0	0	100									
ESEA: Advanced Credentialing	NA	17	0	0	0	100	100	0	0	100	0	0	100	0	0
ESEA: Advanced Placement	ME	37	32	0	0	100	80	20	0						
ESEA: Alaska Native Education Equity	NA	34	38	0	100	0	33	67	0	100	0	0	0	100	0
ESEA: Arts In Education	NA	35	36	0	0	100	75	0	25	0	50	50			
ESEA: Charter Schools Grants	A	215	191	25	0	75	25	13	63	50	50	0	0	100	0

Program Name	PART Rating	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Civic Education: Cooperative Education Exchange	NA	12	12												
ESEA: Comprehensive School Reform	A	2	142	0	0	100	0	0	100	0	0	100	100	0	0
ESEA: Credit Enhancement for Charter School Facilities	NA	37	36	0	0	100	100	0	0	100	0	0	50	50	0
ESEA: Dropout Prevention Programs	NA	0	3												
ESEA: Early Childhood Educator Professional Development	NA	15	13	0	0	100	100	0	0	0	50	50	50	50	0
ESEA: Early Reading First	ME	118	95	0	0	100	100	0	0	100	0	0	100	0	0
ESEA: Education for Native Hawaiians	NA	34	39	0	100	0	33	67	0	100	0	0	0	100	0
ESEA: Educational Technology State Grants	RND	272	354	20	0	80	0	100	0	0	100	0	0	100	0
ESEA: English Language Acquisition	NA	669	660	0	17	83	40	60	0	100	0	0			
ESEA: Even Start	I	82	143	0	0	100	60	40	0	0	25	75	50	50	0
ESEA: Excellence in Economic Education	NA	1	2	0	0	100	0	0	100	0	0	100			
ESEA: Foreign Language Assistance	RND	24	18	0	0	100	0	100	0	100	0	0			
ESEA: Fund for the Improvement of Education Programs of National Significance	NA	16	85												
ESEA: Impact Aid Basic Support Payments/ Payments for Children with Disabilities	RND	1,141	1,063	50	0	50	50	50	0						
ESEA: Impact Aid Construction	A	18	33	67	0	33	0	100	0	0	100	0	0	100	0
ESEA: Impact Aid Facilities Maintenance	NA	5	7												
ESEA: Impact Aid Payments for Federal Property	RND	64	60	0	100	0	0	100	0						
ESEA: Improving Teacher Quality State Grants	ME	2,887	2,953	0	0	100	33	0	67	100	0	0	100	0	0
ESEA: Indian Education Grants to Local Educational Agencies	A	95	90	0	0	100	33	50	17	29	71	0			

Program Name	PART Rating	Appropriations†	Expenditures‡	Program Performance Results: Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Javits Gifted and Talented Education	NA	8	12	0	0	100	33	0	67	100	0	0			
ESEA: Literacy Through School Libraries	NA	19	20	0	0	100	100	0	0	0	50	50	50	0	50
ESEA: Magnet Schools Assistance	A	107	99	0	0	100	0	0	100	0	0	100			
ESEA: Mathematics and Science Partnerships	RND	182	142	0	0	100	0	0	100	0	0	100	0	50	50
ESEA: Migrant State Agency Program	A	387	343	0	0	100	58	8	33	92	8	0	83	17	0
ESEA: National Writing Project	RND	22	22	0	0	100	0	0	100	0	0	100	0	100	0
ESEA: Neglected and Delinquent State Agency Program	A	50	48	0	0	100	67	0	33	100	0	0	0	100	0
ESEA: Parental Information and Resource Centers	RND	40	36	0	0	100	100	0	0	100	0	0	100	0	0
ESEA: Reading First State Grants	E	1,029	1,025	0	0	100	100	0	0						
ESEA: Reading Is Fundamental/ Inexpensive Book Distribution	NA	25	25	0	0	100	100	0	0	0	100	0	0	100	0
ESEA: Ready to Teach	NA	11	13	0	0	100	0	0	100						
ESEA: Ready-to-Learn Television	RND	24	19	0	0	100	0	0	100						
ESEA: Rural Education	RND	169	165	13	0	88	0	100	0	67	33	0	0	100	0
ESEA: School Improvement Grants	NA	125	0				0	0	100	33	67	0	100	0	0
ESEA: School Leadership	NA	15	15	0	0	100	100	0	0						
ESEA: Smaller Learning Communities	RND	94	110	0	29	71	0	0	100	33	67	0	33	67	0
ESEA: Special Programs for Indian Children	NA	19	20	0	0	100	0	0	100	0	0	100			
ESEA: Star Schools Program	NA	12	17	0	0	100	0	0	100						
ESEA: State Assessments	A	408	418	0	0	100	100	0	0	0	100	0	100	0	0
ESEA: State Grants for Innovative Programs	RND	99	146	33	0	67	50	50	0	75	25	0	50	50	0
ESEA: Striving Readers	NA	32	24	0	0	100									
ESEA: Teaching American History	RND	120	95	0	0	100	0	0	100	0	0	100	0	0	100
ESEA: Teacher Incentive Fund	NA	0	14												

Program Name	PART Rating	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Title I Grants to Local Educational Agencies	ME	12,838	12,587	0	0	100	0	50	50						
ESEA: Transition to Teaching	A	44	43	0	0	100	100	0	0	0	100	0	0	100	0
ESEA: Troops-to-Teachers	A	15	16	0	0	100	67	33	0	100	0	0			
ESEA: Voluntary Public School Choice	NA	26	29	0	0	100	0	0	100	100	0	0			
ESEA: Women's Educational Equity	NA	2	3	0	0	100	100	0	0	0	100	0			
ESRA: Comprehensive Centers	RND	56	57	25	0	75	0	100	0		///			/// (not funded)	
ESRA: National Assessment	E	93	116	100	0	0		(off year for collection)		100	0	0		(off year for collection)	
ESRA: Regional Educational Laboratories	NA	65	68	0	0	100	0	0	100	0	0	100	0	0	100
ESRA: Statewide Data Systems	NA	25	11								///			/// (not funded)	
HEA: High School Equivalency Program	RND	19	18	0	0	100	0	0	100	0	0	100	100	0	0
HEA: State Grants for Incarcerated Youth Offenders	NA	23	19	100	0	0	100	0	0	0	100	0	100	0	0
HEA: Teacher Quality Enhancement	RND	60	71	0	0	100	100	0	0	100	0	0			
HERA: Aid for Elementary and Secondary Education (Hurricane Relief)	NA	0	370												
IDEA: Special Education Grants for Infants and Families	RND	436	431	20	40	40	33	67	0	33	67	0	33	67	0
IDEA: Special Education Grants to States	A	10,783	10,719	17	17	67	67	0	33	60	40	0			
IDEA: Special Education Parent Information Centers	RND	26	26	0	0	100	67	0	33						
IDEA: Special Education Personnel Preparation	RND	90	84	0	13	88	67	33	0	100	0	0			
IDEA: Special Education Preschool Grants	RND	381	387	33	33	33	50	50	0	0	100	0	0	100	0
IDEA: Special Education State Personnel Grants	NA	0	49	100	0	0	100	0	0		///			/// (not funded)	
IDEA: Special Education Technical Assistance and Dissemination	RND	49	46	0	0	100	33	0	67						

Program Name	PART Rating	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
IDEA: Special Education Technology and Media Services	RND	38	25	0	0	100	67	0	33	50	50	0			
MVHAA: Education for Homeless Children and Youths	NA	62	73	0	0	100	100	0	0	100	0	0			
Administrative and Support Funding for Goal 2#	NA	0	0												
TOTAL		**36,281**	***36,420**												

† Budget for each program represents program budget authority.
‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2007 expenditures may include funds from prior years' appropriations.
A shaded cell denotes that the program did not have targets for the specified year.
/// Denotes programs not yet implemented. (Programs are often implemented near the end of the year they are first funded.)
The Department does not plan to develop performance measures for programs, activities, or budgetary line items that are administrative in nature or that serve to support other programs and their performance measures.
* Expenditures by program do not include outlays in the amount of $24 million for prior years' obligations for Goal 2 programs that were not funded in FY 2007 and FY 2007 estimated accruals in the amount of $394 million.

APEB: *Act to Promote the Education of the Blind*
CFAA: *Compact of Free Association Act, Amendments of 2003*
CRA: *Civil Rights Act*
CTEA: *Perkins Career and Technical Education Act*
ESEA: *Elementary and Secondary Education Act of 1965*
ESRA: *Education Sciences Reform Act of 2002*
HEA: *Higher Education Act of 1965*
HERA: *Hurricane Education Recovery Act*
IDEA: *Individuals with Disabilities Education Act*
MVHAA: *McKinney-Vento Homeless Assistance Act*

PART Rating
E = Effective
ME = Moderately Effective
A = Adequate
I = Ineffective
RND = Results Not Demonstrated
NA = Program has not been assessed

Goal 3: Develop Safe and Drug-Free Schools

Key Measures

In FY 2007, the Department designated 15 existing key measures to track the performance of two programs: Safe Schools/Healthy Students, and Student Drug Testing. The data for these key measures track specific indicators of success related to the activities of those two programs. The Department's third strategic goal also addresses the development of strong character. We have not identified measures for this objective; however, the 12 programs identified as supporting Goal 3 include programs that support character development and safe and drug-free schools. See p. 35 for an explanation of the documentation fields for the key measures.

Drug use, violence, and crime are serious problems for school-age youth. Students cannot be expected to learn to the high standards envisioned by *No Child Left Behind* in schools where they feel unsafe or are engaged in drug use. Generally, rates of current student marijuana and alcohol use by high school students continue to decline. Data released last year indicate a small increase in the percentage of students who report being engaged in a fight, though there was no measurable change in the percentage of students who reported fighting on school property.

Despite these generally positive trends, several significant instances of violence on our nation's college campuses and schools occurred in FY 2007, including the shooting deaths of 33 students, faculty, and staff at Virginia Polytechnic Institute and State University in April 2007. The event was one of the deadliest mass shootings in our nation's history. Elementary and secondary schools were also impacted by serious violent events this year as a gunman entered the West Nickel Mines Amish School in Pennsylvania and shot ten female students, killing five; and an armed intruder took six female students hostage at Platte County High School in Bailey, Colorado, eventually killing one of the hostages.

The Department has responded to several violent incidents during this year by providing assistance to support efforts for recovery and to restore the learning environment. In FY 2007, we made School Emergency Response to Violence (SERV) grants to nine different sites to help schools recover from shootings, cohorts of student suicides, and a fatal school bus accident. We also provided assistance to Virginia Tech to support its efforts to develop a coordinated system to assess and address the mental health and related needs of students, staff, and faculty and avoid fragmented services and discontinuous treatment. The Virginia Tech project also may serve as a model for other institutions of higher education to benefit by examining their own practices in this area.

The Department also awarded a new cohort of 105 Readiness and Emergency Management for Schools grants in FY 2007 to help local school districts and their community-based first responders prevent, mitigate, prepare for, respond to, and recover from crisis situations. Other activities implemented to support this goal include the award of grants in many programs designed to help students create safe and drug-free learning environments and healthy lives by identifying and preventing student problem behaviors. New projects were started in communities around the country in FY 2007 for the Safe Schools/Healthy Students Initiative, Student Drug Testing grants, Grants to Reduce Alcohol Abuse, Mentoring Programs, Elementary and Secondary School Counseling Program, Grants to Integrate Schools and Mental Health Systems, Foundations for Learning grants, Partnerships in Character Education awards, Civic Education programs, and the Carol M. White Physical Education Program.

Safe Schools/Healthy Students

Grants support local educational agencies in the development of community-wide approaches to creating safe and drug-free schools and promoting healthy childhood development. Programs are intended to prevent violence and the illegal use of drugs and to promote safety and discipline. Coordination with other community-based organizations is required. This program is jointly funded and administered by the departments of Education, Justice, and Health and Human Services.

3.1.A Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that experience a decrease in the number of violent incidents at schools during the three-year grant period. ***2004 cohort*** [1825]

Fiscal Year	Actual
2007	**Target is 90**
2006	**70**
2005	Baseline data collected

2007 data expected Dec. 2007.

3.1.B Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that experience a decrease in substance abuse during the three-year grant period. ***2004 cohort*** [1826]

Fiscal Year	Actual
2007	**Target is 75**
2006	**75**
2005	Baseline data collected

2007 data expected Dec. 2007.

3.1.C Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that improve school attendance during the three-year grant period. ***2004 cohort*** [1827]

Fiscal Year	Actual
2007	**Target is 90**
2006	**33**
2005	Baseline data collected

2007 data expected Dec. 2007.

3.1.A Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that experience a decrease in the number of violent incidents at schools during the three-year grant period. ***2005 cohort*** [2019]

Fiscal Year	Actual
2007	**Intermediate data collected**
2006	Baseline data collected

2007 data expected Dec. 2007.

3.1.B Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that experience a decrease in substance abuse during the three-year grant period. ***2005 cohort*** [2020]

Fiscal Year	Actual
2007	**Intermediate data collected**
2006	Baseline data collected

2007 data expected Dec. 2007.

3.1.C Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that improve school attendance during the three-year grant period. ***2005 cohort*** [2021]

Fiscal Year	Actual
2007	**Intermediate data collected**
2006	Baseline data collected

2007 data expected Dec. 2007.

3.1.A Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that experience a decrease in the number of violent incidents at schools during the three-year grant period. ***2006 cohort*** [2102]

Fiscal Year	Actual
2007	**Establish baseline**

2007 data expected Dec. 2007.

3.1.B Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that experience a decrease in substance abuse during the three-year grant period. ***2006 cohort*** [2103]

Fiscal Year	Actual
2007	**Establish baseline**

2007 data expected Dec. 2007.

3.1.C Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Safe Schools/Healthy Students grant sites that improve school attendance during the three-year grant period. ***2006 cohort*** [2104]

Fiscal Year	Actual
2007	**Establish baseline**

2007 data expected Dec. 2007.

U.S. Department of Education, Office of Safe and Drug-Free Schools, Safe and Drug-Free Schools and Communities, Other National Programs Annual Grantee Performance Report.

Analysis of Progress. Data to set baseline have been collected for the 2004, 2005, and 2006 cohorts.

Data Quality. There are 24 grantees in the 2004 cohort of Safe Schools/Healthy Students, 40 grantees in the 2005 cohort, and 19 grantees in the 2006 cohort. All three measures established for this program require three years of data, as the performance measures look at grantee performance at the conclusion of the three-year grant period. Grantees submitted their first annual reports in 2005. Nineteen grantees in the 2004 cohort provided the baseline data requested, resulting in a 79 percent response rate. These data are reported via school incident reports and self-report behavioral surveys conducted by evaluators at each site.

Grantees in the 2004 cohort are expected to submit their three-year performance reports in December 2007. The data will be compared with year one data to determine the percentage of grantees that experienced improvement in each measure's data over the three-year grant period. Baseline data were collected in 2005. They will be compared with 2007 data to determine if the target was met over the three-year period.

Similarly, the 40 grantees for the Safe Schools/Healthy Students 2005 cohort submitted baseline data in 2006 and are expected to submit their year-two performance reports in December 2007. The 2006 cohort collected baseline data during 2007, and data will be available in December 2007. Year three performance reports are expected in December 2009.

Targets have not been established for the intermediate year (year two of the project) for any cohort, but actual performance data are provided to help gauge grantee progress.

Student Drug Testing

This program provides funds to develop and implement, or expand, school-based mandatory random or voluntary drug-testing programs for students. Drug-testing programs that awarded funds under this program in FY 2003 and FY 2005 were limited to one or more of the following: students who participate in the school's athletic program; students who are engaged in competitive, extracurricular, school-sponsored activities; or students who agree to voluntarily participate in the program. In FY 2006, drug-testing programs that awarded funds under the program were limited to students who participate in the school's athletic program and students who are engaged in competitive, extracurricular, school-sponsored activities.

3.1.D Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Student Drug Testing grantees that experience a five percent annual reduction in the incidence of past-*month* drug use by students in the target population. ***2003 cohort*** [1828]

Fiscal Year	Actual
2007	**Target is 50**
2006	33
2005	Baseline data collected

2007 data expected Dec. 2007.

3.1.E Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Student Drug Testing grantees that experience a five percent annual reduction in the incidence of past-*year* drug use by students in the target population. ***2003 cohort*** [1829]

Fiscal Year	Actual
2007	**Target is 50**
2006	25
2005	Baseline data collected

2007 data expected Dec. 2007.

U.S. Department of Education, Office of Safe and Drug-Free Schools, Safe and Drug-Free Schools and Communities, Other National Programs Annual Grantee Performance Report.

3.1.D Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Student Drug Testing grantees that experience a five percent annual reduction in the incidence of past-*month* drug use by students in the target population. ***2005 cohort*** [2105]	
Fiscal Year	**Actual**
2007	**Target is 33**
2007 data expected Dec. 2007.	

3.1.E Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Student Drug Testing grantees that experience a five percent annual reduction in the incidence of past-*year* drug use by students in the target population. ***2005 cohort*** [2106]	
Fiscal Year	**Actual**
2007	**Target is 25**
2007 data expected Dec. 2007.	

U.S. Department of Education, Office of Safe and Drug-Free Schools, Safe and Drug-Free Schools and Communities, Other National Programs Annual Grantee Performance Report.

3.1.D Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Student Drug Testing grantees that experience a five percent annual reduction in the incidence of past-*month* drug use by students in the target population. ***2006 cohort*** [89a0ay]	
Fiscal Year	**Actual**
2007	**Establish baseline**
2007 data expected Dec. 2007.	

3.1.E Safe and Drug-Free Schools and Communities Other National Programs. The percentage of Student Drug Testing grantees that experience a five percent annual reduction in the incidence of past-*year* drug use by students in the target population. ***2006 cohort*** [89a0az]	
Fiscal Year	**Actual**
2007	**Establish baseline**
2007 data expected Dec. 2007.	

U.S. Department of Education, Institute of Education Sciences, National Center for Education Evaluation, Evaluation of the Impact of Mandatory Random Student Drug Testing.

Analysis of Progress. There were eight grantees in the 2003 cohort of Drug Testing grantees, 55 in the 2005 cohort, and 9 in the 2006 cohort. These measures require two years of data because the measure is an assessment of the grant sites that experience a decrease in student drug use. No data were available for the 2003 cohort until 2006 for setting the performance baseline because of the nature of the measure and the Institutional Review Board-related delays.

Grantees from the 2005 cohort reported baseline data in their 2006 performance reports and will provide a second data point in 2007.

Grantees from the 2006 cohort are part of an evaluation of student drug testing programs being conducted under contract for the Institute of Education Sciences. Data for the GPRA measures for this cohort are being collected and reported by the evaluation contractor. Baseline data for the cohort have been collected and will be reported in December 2007.

Data Quality. Cohort data quality issues include the requirement for two years of data from self-report use surveys, which creates potential data quality issues if the grantee does not use identical measurements in both years or surveys a different pool of students in succeeding years. The decrease in past-month and past-year drug use must be by at least 5 percent to meet the threshold established for this measure. Of the 8 grantees from the 2003 cohort, 3 provided two years of comparable data (38 percent response rate) for the 30-day or current drug use measure. Of those, one experienced a decrease in past-month drug use of 5 percent or more. Due to the very low response rate, caution is recommended when interpreting the data and drawing conclusions about the program's performance. For past-year drug use, of the eight grantees, four provided two years of valid data (a 50 percent response rate). Of those, one experienced a decrease in past-year drug use of 5 percent or more.

Discontinued Strategic Measures

The following measures were discontinued after FY 2005 but were reported as pending in the *FY 2005 Performance and Accountability Report.* The latest data are reported below.

Measure		Fiscal Year	Target	Actual	Status
3.1.1	The rate of violent crimes experienced at school by students aged 12 through 18	2003	24/1000	28/1000	Target not met
		2004	23/1000	22/1000	Target exceeded
3.1.2	The rate of serious violent crimes experienced at school by students aged 12 through 18	2003	4/1000	6/1000	Target not met
		2004	4/1000	4/1000	Target met

Sources

3.1.1–3.1.2 U.S. Departments of Education and Justice, *Indicators of School Crime and Safety.*

Goal 3: Develop Safe and Drug-Free Schools

Program Performance Summary

Twelve of our grant programs most directly support Goal 3. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See p. 35 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2007report/program.html. Appropriation and expenditure data for FY 2007 are included for each of these programs.

Program Name	PART Rating	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Alcohol Abuse Reduction	NA	32	31	0	0	100	0	0	100						
ESEA: Character Education	NA	24	26	0	0	100	0	0	100				0	0	100
ESEA: Civic Education: We the People	NA	17	18	0	0	100									
ESEA: Close-Up Fellowships	NA	1	1	0	0	100	0	0	100	0	0	100	0	0	100
ESEA: Elementary and Secondary School Counseling	NA	35	33	0	0	100	0	0	100						
ESEA: Exchanges with Historic Whaling and Trading Partners	NA	9	7	0	0	100	60	40	0	80	20	0	100	0	0
ESEA: Foundations for Learning	NA	1	1	0	0	100								/// (not funded)	
ESEA: Mental Health Integration in Schools	NA	5	4								///			/// (not funded)	
ESEA: Mentoring Program	RND	49	46	0	0	100				100	0	0			
ESEA: Physical Education Program	RND	73	69	0	0	100				100	0	0			
ESEA: Safe and Drug-Free Schools and Communities Other National Programs	NA	150	111	0	0	100	100	0	0	100	0	0			
ESEA: Safe and Drug-Free Schools and Communities State Grants	RND	347	349	0	0	100				42	29	29			
TOTAL		**743**	***696**												

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2007 expenditures may include funds from prior years' appropriations.

A shaded cell denotes that the program did not have targets for the specified year.

/// Programs not yet implemented. (Programs are often implemented near the end of the year they are first funded.)

* Expenditures by program do not include outlays in the amount of $4 million for prior years' obligations for Goal 3 programs that were not funded in FY 2007 or FY 2007 estimated accruals in the amount of $40 million.

ESEA: Elementary and Secondary Education Act of 1965

PART Rating — I = Ineffective — RND = Results not demonstrated — NA = Program has not been assessed

Goal 4: Transform Education Into an Evidence-Based Field

Key Measures

The *No Child Left Behind Act* serves as a foundation for education improvement in the application of scientifically based research that is rigorous, systematic, and objective. By identifying what works, what doesn't and why, we can improve educational outcomes for all students, especially those at risk of failure. Our goal is the transformation of education into an evidence-based field in which decision-makers routinely seek out the best available research and data in order to adopt programs or practices that will improve academic achievement for students. In FY 2007, the Department administered six programs supporting the objectives of Goal 4. Each program established measures and targets to assess its performance. From these measures, the Department identified four key measures that focus on the quality and relevance of its educational research.

Quality of Education Research

The Department has elevated the standards and methodologies for Department-sponsored education research. Funding of research proposals is based on clear criteria for research excellence. As in other scientifically based fields, rigorous research methods in education contribute to reliable and valid conclusions. The Department demonstrated a thorough commitment to research quality by expanding the use of scientifically based procedures for the evaluation of Department programs, training a new generation of education researchers in rigorous methodologies, and improving the quality of data collections. Additionally, the Department requires all research proposals to be reviewed by an independent panel of qualified scientists.

4.1.A Research, Development, and Dissemination. The percentage of new research proposals funded by the Department's National Center for Education Research that receive an average score of excellent or higher from an independent review panel of qualified scientists. [1022]	Fiscal Year	Actual
	2007	**88**
	2006	94
	2005	100
	2004	97
	2003	88
2007 target of 90 not met.		

U.S. Department of Education, National Center for Education Research, independent external review panels.

Analysis of Progress. Data on this measure were first collected in FY 2003. Although there was initially an increase in the percentage of proposals for newly funded education research that receive an average score of excellent or higher, the score decreased because the Department elected to fund several proposals that scored slightly below excellent. These proposals addressed gaps in the research portfolio, and the deficiencies in the proposals noted by the review panel were problems that could be remedied prior to implementation.

Data Quality. The Department established a system of peer review that is similar in many ways to the peer review process used by the National Institutes of Health. Independent review panels of leading researchers evaluate the scientific and technical merit of research proposals.

Target Context. The measure is calculated as the average review panel score for newly funded research proposals.

4.1.B Research in Special Education. The percentage of new research proposals funded by the Department's National Center for Special Education Research that receive an average score of excellent or higher from an independent review panel of qualified scientists. [1940]	Fiscal Year	Actual
	2007	**100**
	2006	89
2007 target of 90 exceeded.		

U.S. Department of Education, National Center for Education Research, independent external review panels.

Analysis of Progress. Data on this measure have been collected since 2006. The percentage of newly funded proposals for special education research that received a score of excellent or higher has increased and, in FY 2007, exceeded the target of 90 percent.

Data Quality. The Department has established a system of peer review that is similar in many ways to the peer review process used by the National Institutes of Health. Independent review panels of leading researchers evaluate the scientific and technical merit of research proposals.

Relevance of Education Research

In addition to a focus on sound methodology, education researchers need to address practical problems in powerful ways. The Department aligns its priorities with the needs of education practitioners and policymakers to ensure that it is providing information that is relevant to the improvement of education. Too few high-quality evidence-based studies have been done to provide education policymakers and practitioners with the level and type of information they need for educational decision-making. The Department supports research that contributes to improved academic achievement for all students, particularly those whose educational prospects are hindered by conditions associated with poverty, minority status, family circumstance, and inadequate educational services. The Department supports research that identifies, develops, and validates effective educational programs and practices.

The Department ensures the production of relevant education research by having a sample of all newly funded research reviewed by an independent panel of qualified practitioners. For FY 2007, research grants were awarded on such topics as high school reform, cognition and student learning, reading and writing education, mathematics and science education, teacher quality, education leadership and policy, postsecondary education, special education secondary and transition services, early intervention and early childhood special education, serious behavior disorders, autism spectrum disorders, and assessment for accountability.

4.2.A Research, Development, and Dissemination. The percentage of new research projects funded by the Department's National Center for Education Research that are deemed to be of high relevance to education practices as determined by an independent review panel of qualified practitioners. [000000000000028]	
Fiscal Year	**Actual**
2007	**Target is 75**
2007 data expected Dec. 2007.	

U.S. Department of Education, National Center for Education Research, independent external review panels.

Analysis of Progress. This is a new measure for FY 2007. The measure published in the FY 2006 *Performance and Accountability Report* was discontinued in FY 2007 because it included data from evaluation projects that were funded from program appropriations other than the appropriation for Research, Development, and Dissemination (RDD). It was replaced with a similar measure that includes only data from evaluation projects funded under the appropriation for RDD.

Data Quality. To evaluate the relevance of newly funded research projects, a panel of experienced education practitioners and administrators reviews descriptions of a randomly selected sample of newly funded projects, and rates the degree to which the projects are relevant to education practice. These panels are convened after the close of the fiscal year to review the proposals of the prior year.

Target Context. The target of 75 percent recognizes that some important research may not seem immediately relevant, but will make important contributions over the long term.

4.2.B Research in Special Education. The percentage of new research projects funded by the Department's National Center for Special Education Research that are deemed to be of high relevance by an independent review panel of qualified practitioners. [1942]	Fiscal Year	Actual
	2007	**Target is 55**
	2006	**50**
2006 target to set baseline met; 2007 data expected Dec. 2007.		

U.S. Department of Education, National Center for Education Research, independent external review panels.

Analysis of Progress. This measure was established in 2006. Data for 2006 set the baseline and our target for 2007 is 55.

Data Quality. To evaluate the relevance of newly funded research projects, a panel of experienced education practitioners and administrators reviews descriptions of a randomly selected sample of newly funded projects and rates the degree to which the projects are relevant to education practice. These panels are convened after the close of the fiscal year to review the proposals of the prior year.

Discontinued Strategic Measure

This measure was discontinued in FY 2007, but data were reported as pending in the *FY 2006 Performance and Accountability Report.*

Measure	Fiscal Year	Target	Actual	Status
The percentage of new research projects funded by the Department's National Center for Education Research and National Center for Education Evaluation and Regional Assistance that are deemed to be of high relevance to education practice as determined by an independent review panel of qualified practitioners. [1082]	2007	75	Not Collected	Not Collected
	2006	75	74	Made Progress
	2005	65	33	Target not met

Source: U.S. Department of Education, National Center for Education Research, independent external review panels.

Goal 4: Transform Education Into an Evidence-Based Field

Goal 4 is most directly supported by six of our programs. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See p. 35 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2007report/program.html. Appropriation and expenditure data for FY 2007 are included for each of these programs.

Program Name	PART Rating	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Indian Education National Activities	NA	4	7	0	0	100	0	0	100						
ESEA: Title I Evaluation	NA	9	13												
ESRA: Research, Development and Dissemination	E	163	127	0	43	57	60	40	0	80	20	0	100	0	0
ESRA: Research in Special Education	RND	72	44	25	25	50	100	0	0				/// (not funded)		
ESRA: Statistics	E	90	71	63	37	0	33	67	0	0	0	0	0	100	0
RA: National Institute on Disability and Rehabilitation Research	A	107	97	22	0	78	22	33	44	33	67	0	0	100	0
Administrative and Support Funding for Goal 4#		10	6		#			#			#			#	
TOTAL		**455**	***365**												

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2007 expenditures may include funds from prior years' appropriations.

A shaded cell denotes that the program did not have targets for the specified year.

/// Programs not yet implemented. (Programs are often implemented near the end of the year they are first funded.)

The Department does not plan to develop performance measures for programs, activities, or budgetary line items that are administrative in nature or that serve to support other programs and their performance measures.

* Expenditures by program do not include outlays in the amount of $2 million for prior years' obligations for Goal 4 programs that were not funded in FY 2007.

ESEA: Elementary and Secondary Education Act of 1965
ESRA: Education Sciences Reform Act of 2002
RA: Rehabilitation Act of 1973

PART Rating
E = Effective
A = Adequate
RND = Results not demonstrated
NA = Program has not been assessed

Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education

Key Measures

During FY 2007, the Department established new measures and goals, aligned with the recommendations of the Commission on Higher Education, the Academic Competitiveness Council and the Secretary's Action Plan for Higher Education. These strategies focus on ensuring the accessibility, affordability and accountability of higher education institutions, and better preparing students for employment and future learning. In order to remain competitive in the dynamic global economy, and to meet America's current and future needs, higher education must continue to be innovative, use technology effectively, measure student outcomes and conduct rigorous evaluations of its own performance.

The data presented here show the progress we have made to date and provide the starting point for forward movement to meet the challenges postsecondary and adult students, their families and institutions currently face.

See page 34 for an explanation of the documentation fields for key measures.

Postsecondary Persistence and Completion

Affordability is fundamental for promoting access to higher education, and academic preparation is also fundamental for access and critical for success once students are enrolled. Grants and loans are the largest source of federal financial support to postsecondary students. In FY 2007, the Department delivered an estimated $82 billion in federal aid to more than 10 million postsecondary students and their families throughout America. This came at a cost of $22 billion to the federal government. We are seeing progress in promoting access. The percentage of high school completers who enrolled in college in the fall immediately after high school graduation rose to 69 percent in FY 2006. This is an increase from 67 percent in FY 2005 and 64 percent in FY 2004. The percentage of students completing a four-year degree within six years of enrollment also improved, moving up to 57.1 percent in FY 2005 from 56.4 percent in FY 2004, and 54.3 percent in FY 2003.

To successfully complete their higher education, students must be academically prepared for the rigors of college. The new Academic Competitiveness Grants, which awarded the first grants to more than 300,000 students during the 2006-07 academic year, encourage students to take more challenging courses in high school. Additionally, the federal TRIO programs help low income, first generation students, who are traditionally underrepresented in higher education, prepare for, enroll in and succeed in college. TRIO Educational Opportunity Centers help adults enroll in college; Student Support Services fosters retention and graduation support to students who are enrolled in postsecondary schools; and McNair Post-Baccalaureate Achievement prepares undergraduate students who are underrepresented in graduate education for doctoral study. With a focus on student outcomes, the Department measured TRIO program performance by assessing the persistence and completion rates for Student Support Services and McNair participants and the percentage of McNair participants enrolling in graduate school.

The new National SMART Grant Program, which awarded the first grants to nearly 64,000 students during the 2006-07 academic year, encourages students to pursue college majors in high demand in the global economy, such as science, mathematics, technology, engineering, and critical foreign languages.

5.1.A TRIO Educational Opportunity Centers. The percentage of TRIO Educational Opportunity Centers participants enrolling in college. [1612]	Fiscal Year	Actual
	2007	**Target is 58.5**
	2006	Target is 58
	2005	56.9
	2004	57.4
	2003	56
	2002	66
	2001	66
	2000	57
2006 data expected Dec. 2007; 2007 data expected Dec. 2008.		

U.S. Department of Education, Office of Postsecondary Education, TRIO Annual Performance Report, grantee submissions.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007. The Department did not meet its FY 2005 target of 57.5.

Data Quality. The annual performance report is self-reported data; a variety of data quality checks are used to assess the completeness and reasonableness of the data submitted.

Target Context. Increasing targets reflect the aim of the TRIO Educational Opportunity Centers program to increase the percentage of adult participants enrolling in college.

5.1.B TRIO Student Support Services. The percentage of Student Support Services participants persisting at the same institution. [1617]

Fiscal Year	Actual
2007	**Target is 73**
2006	Target is 72
2005	74.1
2004	73.1
2003	72
2002	72
2001	70
2000	67
2006 data expected Dec. 2007; 2007 data expected Dec. 2008.	

U.S. Department of Education, Office of Postsecondary Education, Student Support Services Program Annual Performance Report, grantee submissions.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007. The Department exceeded its FY 2005 target of 69.

Data Quality. The annual performance reports comprise self-reported data; a variety of data quality checks are used to assess the completeness and reasonableness of the data submitted.

Target Context. Targets for FY 2006 and beyond were recalculated in FY 2006, as the persistence rate has increased since the initial years of data collection (1999 and 2000).

5.1.C TRIO Student Support Services. The percentage of Student Support Services participants completing an associate's degree at the original institution or transferring to a four-year institution within three years. [1618]

Fiscal Year	Actual
2007	**Target is 27.5**
2006	Target is 27
2005	24.5
2004	25.6
2003	27.7
2002	26
2001	23.1

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, Office of Postsecondary Education, Student Support Services Program Annual Performance Report, grantee submissions.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. The annual performance reports comprise self-reported data; a variety of data quality checks are used to assess the completeness and reasonableness of the data submitted.

Target Context. Targets were not established until 2006, the first year of this measure. Target values were established before actual values for 2004 and 2005 were available.

5.1.D TRIO Student Support Services. The percentage of Student Support Services first-year students completing a bachelor's degree at the original institution within six years. [1619]

Fiscal Year	Actual
2007	**Target is 29**
2006	Target is 28
2005	29.4
2004	28.1

2006 data expected Dec. 2007; 2007 data is expected Dec. 2008.

U.S. Department of Education, Office of Postsecondary Education, Student Support Services Program Annual Performance Report, grantee submissions.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. The annual performance reports comprise self-reported data; a variety of data quality checks are used to assess the completeness and reasonableness of the data submitted.

Target Context. Targets for FY 2006 and 2007 were set at levels lower than previous years' targets to reflect the actual values first collected for FY 2004.

5.1.E TRIO McNair Postbaccalaureate Achievement. The percentage of McNair participants enrolling in graduate school. [1614]

Fiscal Year	Actual
2007	**Target is 39**
2006	Target is 37
2005	56.8
2004	45.3
2003	36
2002	39
2001	40
2000	35
1999	35

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, Office of Postsecondary Education, TRIO Annual Performance Report, grantee submissions.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007. The Department exceeded its FY 2005 target of 36.

Data Quality. The annual performance report is self-reported data; a variety of data quality checks are used to assess the completeness and reasonableness of the data submitted.

Target Context. The targets for FY 2007 were established before actual values for FY 2005 and 2006 were available.

5.1.F TRIO McNair Post-Baccalaureate Achievement. The percentage of McNair participants persisting in graduate school. [1615]

Fiscal Year	Actual
2007	**Target is 79**
2006	Target is 79
2005	80
2004	77.7
2003	78

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, Office of Postsecondary Education, TRIO Annual Performance Report, grantee submissions.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007. The Department exceeded its FY 2005 target of 70.

Data Quality. These data are self-reported by grantees. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted.

Target Context. Targets for FY 2004 and FY 2005 were set before data for FY 2003 were available. Targets for FY 2006 and beyond are more ambitious.

Strengthening Institutions That Serve Underrepresented Populations

To promote access to quality postsecondary education and to better prepare students for employment and future learning, federal institutional aid programs strengthen and improve the quality of programs in hundreds of postsecondary education institutions that serve low-income and minority students. These institutions, which help to reduce gaps in college access and completion among differing student populations, include Historically Black Colleges and Universities, Historically Black Graduate Institutions, Hispanic-Serving Institutions, Tribally Controlled Colleges and

Universities, Alaska Native and Native Hawaiian-Serving Institutions, and participants in the Strengthening Institutions Program and the Minority Science and Engineering Improvement Program. To measure the effectiveness of the institutional aid programs, the Department assesses student outcomes in terms of persistence and completion rates. The data for these two key measures are grouped by postsecondary education institutions that serve low-income and minority students.

5.4.A AID Strengthening Historically Black Colleges and Universities. The percentage of full-time undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same Historically Black College and University institutions. [1587]

Fiscal Year	Actual
2007	**Target is 66**
2006	**64**
2005	65
2004	64

2006 target of 65 not met; 2007 data expected Dec. 2007.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. The target is derived from applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for school year 2003-04, which was 3.6 percent. Therefore, the HBCU program actual persistence rate of 64 percent in FY 2004 was multiplied by 1.0363 to generate the long-term target (for 2009) of 66 percent. Annual increases are estimated to be 0.6 percent each year through 2009 and 0.3 percent beginning in 2010.

5.4.B AID Strengthening Historically Black Colleges and Universities. The percentage of students enrolled at four-year Historically Black Colleges and Universities graduating within six years of enrollment. [1589]

Fiscal Year	Actual
2007	**Target is 39**
2006	Target is 37
2005	38
2004	39
2003	39

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. The 2006 target for the four-year graduation rate was derived from applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for a school year. Beginning with the FY 2007 target, values were established based on program experience.

5.4.C AID Strengthening Historically Black Graduate Institutions. The number of Ph.D., first professional, and master's degrees awarded at Historically Black Graduate Institutions. [1595]

Fiscal Year	Actual
2007	**Target is 4,498**
2006	Target is 4,178
2005	4,410
2004	4,219
2003	4,055

2006 data expected Dec. 2007; 2007 data is expected Dec. 2008.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. Targets for 2007–12 have been revised to reflect a 2 percent annual increase from the FY 2005 value.

5.4.D AID Strengthening Tribally Controlled Colleges and Universities. The percentage of full-time undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same Tribally Controlled Colleges and Universities institution. [1569]

Fiscal Year	Actual
2007	**Target is 42**
2006	44
2005	48
2004	41

2006 target of 41 exceeded; 2007 data expected Dec. 2007

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. Target values for FY 2007 were established before data for FY 2005 and FY 2006 became available.

5.4.E AID Strengthening Tribally Controlled Colleges and Universities. The percentage of students enrolled at four-year Tribally Controlled Colleges and Universities graduating within six years of enrollment. [1571]

Fiscal Year	Actual
2007	**Target is 32**
2006	Target is 32
2005	36
2004	32
2003	23

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. This was a new key measure for FY 2006. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. The target for FY 2007 was established before actual data for FY 2005 became available.

5.4.F AID Strengthening Tribally Controlled Colleges and Universities. The percentage of students enrolled at two-year Tribally Controlled Colleges and Universities who graduate within three years of enrollment. [1572]

Fiscal Year	Actual
2007	**Target is 29**
2006	Target is 29
2005	26
2004	34
2003	40

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. This was a new key measure for FY 2006. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. Target values for 2007 and beyond were revised based on actual 2005 data. Given the small number of institutions, estimation of this rate lacks precision.

5.4.G AID Developing Hispanic-Serving Institutions. The percentage of full-time undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same Hispanic-Serving Institution. [1601]

Fiscal Year	Actual
2007	**Target is 68**
2006	**64**
2005	66
2004	66.5

2006 target of 67 not met; 2007 data expected Dec. 2007.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. This was a new key measure for FY 2006. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. The target is derived by applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for school year 2003-04, which was 1.12 percent. Therefore, the HSI program's actual persistence rate of 66.5 percent in FY 2004 was multiplied by 1.0112 to generate the long-term target (for 2009) of 68 percent. Annual increases are estimated to be 0.2 percent each year through 2009 and 0.1 percent beginning in 2010.

5.4.H AID Developing Hispanic-Serving Institutions. The percentage of students enrolled at four-year Hispanic-Serving Institutions graduating within six years of enrollment. [1603]

Fiscal Year	Actual
2007	**Target is 37**
2006	Target is 34
2005	35
2004	36
2003	35

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress. This was a new key measure for FY 2006. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. The target for the four-year graduation rate is derived from applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for school year 2002-03, which was 3.54 percent. The HSI program actual four-year graduation rate of 36 percent in FY 2004 was multiplied by 1.0354 (times 5/6) to generate the long-term target (for 2009) of 37 percent. Annual increases are estimated to be 0.6 percent through 2009 and 0.3 percent beginning in 2010.

5.4.I AID Developing Hispanic-Serving Institutions. The percentage of students enrolled at two-year Hispanic-Serving Institutions who graduate within three years of enrollment. [1604]

Fiscal Year	Actual
2007	**Target is 22**
2006	Target is 36
2005	21
2004	22
2003	21

2006 data expected Dec. 2007; 2007 data expected Dec. 2008.

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System. Web site is http://nces.ed.gov/ipedspas.

Analysis of Progress This was a new key measure for FY 2006. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are supplied by institutions, which certify the accuracy of the data.

Target Context. Program experience was used to estimate targets. An increase of 0.5 percent was used to generate annual targets each year through FY 2009, and an increase of 0.3 percent will be used beginning in FY 2010.

Vocational Rehabilitation

The Department's vocational rehabilitation programs help individuals with physical or mental disabilities obtain employment and live more independently by providing grants that support job training and placement, medical and psychological services, and other individualized services. Annually, the Vocational Rehabilitation State Grants program helps over 200,000 individuals with disabilities obtain employment. The Department measures the progress of state vocational rehabilitation agencies by monitoring the percentage of individuals receiving services that achieve employment.

5.5.A Vocational Rehabilitation State Grants. The percentage of general and combined state vocational rehabilitation agencies that assist at least 55.8 percent of individuals receiving services to achieve employment. [1681]

Fiscal Year	Actual
2007	**Target is 71**
2006	**82**
2005	71
2004	66
2003	66
2002	75
2001	75

2006 target of 70 exceeded; 2007 data expected Apr. 2008.

U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration, state agency data from performance report RSA-911.

Analysis of Progress. The Department continues to make steady progress in achieving the performance targets.

Data Quality. Verified by the Department's attestation process and the Department's Standards for Evaluating Program Performance Data. Accuracy/consistency of reporting is contingent upon counselors' interpretations of definitions.

Target Context. This indicator is derived from state vocational rehabilitation agency performance expectations defined in the program regulations. For each vocational rehabilitation agency, the Rehabilitation Services Administration examines the percentage of individuals who achieve employment compared to all individuals whose cases were closed after receiving services. To pass this indicator, a general or combined agency must achieve a rate of 55.8 percent, while an agency for the blind must achieve a rate of 68.9 percent.

Adult Learning

In an age of rapid economic and technological change, lifelong learning can provide benefits for individuals and for society as a whole. This year, data are continuing to show steady increases in the following measures:

- The percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent.
- The percentage of adults enrolled in English literacy programs who acquire the level of English language skills needed to complete the levels of instruction in which they are enrolled.

5.5.B Adult Education State Grants. The percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent. [1386]

Fiscal Year	Actual
2007	**Target is 52**
2006	**49**
2005	51
2004	45
2003	44
2002	42
2001	33
2000	34
1999	34
1998	33
1997	37
1996	36

2006 target of 46 exceeded; 2007 data expected Dec. 2007.

U.S. Department of Education, Office of Vocational and Adult Education, National Reporting System for Adult Education.

Analysis of Progress. The Department continues to make steady progress in achieving the performance targets.

Data Quality. As a third-tier recipient of this data, the Department must rely on the states and local programs to collect and report data within published guidelines. The Department has developed a data quality review process for states based on the Department's Standards for Evaluating Program Performance Data.

Target Context. Increasing targets reflect the aim of the Adult Education State Grants program to increase the percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent. FY 2007 and future-year targets have been adjusted because trend data suggest that they were inappropriately projected and not ambitious enough.

5.5.C Adult Education State Grants. The percentage of adults enrolled in English literacy programs who acquire the level of English language skills needed to complete the levels of instruction in which they enrolled. [1384]

Fiscal Year	Actual
2007	**Target is 40**
2006	**37**
2005	37
2004	36
2003	36
2002	34
2001	31
2000	20
1999	49
1998	28
1997	28
1996	30

2006 target of 38 not met; 2007 data expected Dec. 2007.

U.S. Department of Education, Office of Vocational and Adult Education, National Reporting System for Adult Education.

Analysis of Progress. The Department has not met the performance target for the past several years.

Data Quality. As a third-tier recipient of these data, the Department must rely on the states and local programs to collect and report data within published guidelines. The Department has developed a data quality review process for states based on the Department's Standards for Evaluating Program Performance Data.

Target Context. FY 2007 and future-year targets have been adjusted because trend data suggest that they were inappropriately projected.

Expanding the Coverage of Critical-Needs Languages and Area Studies

The Title VI, HEA programs are key to the teaching and learning of languages vital to the national interest. The foreign language development programs support projects in over 130 foreign languages, and have helped students, particularly at the graduate level, prepare for careers in areas of national need. These international and domestic programs address both the breadth and depth of our nation's foreign language needs. The domestic programs, in particular, focus their resources on those areas of the world often neglected in the curricula of postsecondary institutions, and on the foreign languages spoken in those areas. Many of these languages, especially the least commonly taught languages, would not be taught in the United States, or at advanced levels, without Title VI support. In FY 2007, the Department announced invitational and competitive priorities to help focus program resources on the most critical needs languages and world areas.

The Department measures progress in the International Education and Foreign Language Studies domestic programs, in part, by the expansion of critical languages taught at National Resource Centers, the employment of center Ph.D. graduates in targeted areas, and by improved student language competency in the Foreign Language and Area Studies (FLAS) Fellowship program.

Note: the first and second key measures are being phased out. The first measure will be replaced by the percentage of least commonly taught languages (as defined by the Secretary of Education) taught at Title VI National Resource Centers. The second measure will be replaced by the percentage of Masters and Ph.D. graduates employed in occupations that make use of their foreign language and/or area studies.

5.6.A International Education and Foreign Language Studies Domestic Programs. The percentage of critical languages taught, as reflected by the list of critical languages referenced in the *Higher Education Act,* Title VI program statute. [1665]

Fiscal Year	Actual
2007	**Target is 63**
2006	Target is 60
2005	Target is 74
2004	56
2003	56

2005 data expected Dec. 2007; 2006 data expected Dec. 2008; 2007 data expected Dec. 2009.

5.6.B International Education and Foreign Language Studies Domestic Programs. The percentage of National Resource Centers Ph.D. graduates who find employment in higher education, government service, and national security. [1664]

Fiscal Year	Actual
2007	**Target is 48.5**
2006	Target is 48
2005	Target is 47.5
2004	71.8
2003	55
2002	53.7
2001	48.5

2005 data expected Dec. 2007; 2006 data expected Dec. 2008; 2007 data expected Dec. 2009.

5.6.C International Education and Foreign Language Studies Domestic Programs. The average competency score of Foreign Language and Area Studies Fellowship recipients at the end of one full year of instruction (post test) minus the average competency score at the beginning of the year (pre test). [1671]

Fiscal Year	Actual
2007	**Target is 1.2**
2006	**1.22**
2005	1.2
2004	1.2
2003	1.3

2006 target of 1.2 exceeded; 2007 data expected Dec. 2007.

Note: These measures report on the National Resource Centers and Foreign Language and Area Studies Fellowship program under the International Education and Foreign Language Studies Domestic Programs, authorized by Title VI of the *Higher Education Act*.

U.S. Department of Education, Office of Postsecondary Education, International Education and Foreign Language Studies Domestic Programs Annual Performance Report.

Analysis of Progress. Due to pending data, we are unable to produce a sufficient analysis of progress for FY 2007.

Data Quality. Data are self-reported by institutions. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted.

Target Context. The Department set targets for FY 2007 on the basis of historical trends and program experience before data for FY 2004 were available.

Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education

Program Performance Summary

Fifty-six of our grant programs most directly support Goal 5. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See page 35 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2007report/program.html. Appropriation and expenditure data for FY 2007 are included for each of these programs.

Program Name	PART Rating	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
AEFLA: Adult Education National Leadership Activities	NA	9	7	0	0	100	0	100	0	0	100	0	0	100	0
AEFLA: Adult Education State Grants	E	564	356	0	0	100	50	25	25	40	60	0	40	60	0
AEFLA: National Institute for Literacy	NA	7	9	0	67	33	0	100	0						
ATA: Assistive Technology Alternative Financing	RND	0	4										/// (not funded)		
ATA: Assistive Technology Programs	NA	30	33	0	100	0	0	100	0						
CTEA: Tribally Controlled Postsecondary Vocational and Technical Institutions	RND	0	7	0	0	100	0	100	0	0	100	0	0	0	100
EDA: Gallaudet University	A	107	75	25	44	31	54	46	0	42	58	0	42	58	0
EDA: National Technical Institute for the Deaf	A	56	32	25	33	42	67	33	0	43	57	0	29	71	0
FCRA: HBCU Capital Financing Federal Administration	RND	14	319												
HEA: AID Developing Hispanic-Serving Institutions	RND	95	92	0	0	100	0	33	67						
HEA: AID Minority Science and Engineering Improvement	NA	9	9	0	0	100	0	25	75						
HEA: AID Strengthening Alaska Native and Native Hawaiian-Serving Institutions	NA	12	10	0	0	100	33	0	67						

Program Name	PART Rating	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
HEA: AID Strengthening Historically Black Colleges and Universities	RND	238	234	0	0	100	0	50	50						
HEA: AID Strengthening Historically Black Graduate Institutions	RND	58	52	0	0	100	0	0	100						
HEA: AID Strengthening Institutions	RND	80	77	0	0	100	0	33	67						
HEA: AID Strengthening Tribally Controlled Colleges and Universities	NA	24	24	0	0	100	33	0	67						
HEA: Academic Competitiveness and SMART Grants	NA	850	448	New Program											
HEA: B.J. Stupak Olympic Scholarships	RND	1	1	0	0	100	0	0	100						
HEA: Byrd Honors Scholarships	RND	41	38	0	0	100	0	0	100	0	100	0	100	0	0
HEA: Child Care Access Means Parents In School	A	16	14	0	0	100				50	50	0	75	25	0
HEA: College Assistance Migrant Program	RND	15	14	0	0	100	0	0	100	0	0	100	100	0	0
HEA: Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities	NA	7	6	0	0	100	0	0	100						
HEA: Fund for the Improvement of Postsecondary Education	NA	22	64	0	0	100	100	0	0	50	50	0	0	100	0
HEA: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	A	303	293	0	0	100	60	40	0	80	20	0	100	0	0
HEA: Graduate Assistance in Areas of National Need (GAANN)	A	30	31	0	0	100	50	50	0	86	14	0	100	0	0
HEA: GPRA Data/HEA Program Evaluation	NA	1	1												
HEA: International Education and Foreign Language Studies Domestic Programs	RND	92	89	0	0	100	6	13	81	33	0	67	100	0	0

Program Name	PART Rating	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
				FY 2007			FY 2006			FY 2005			FY 2004		
		FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
HEA: International Education and Foreign Language Studies Institute for International Public Policy	NA	2	1	0	0	100	0	0	100						
MECEA: International Education and Foreign Language Studies Overseas Programs	NA	13	13	0	0	100	0	0	100						
HEA: Javits Fellowships	A	10	9	0	0	100	100	0	0	100	0	0	100	0	0
HEA: SFA Federal Direct Student Loans	A	5,176	47	0	50	50									
HEA: SFA Federal Family Education Loan Program & Liquidating	A	854	3,578	0	50	50									
HEA: SFA Federal Pell Grants	A	13,661	11,713	0	0	100	100	0	0	100	0	0	100	0	0
HEA: SFA Federal Perkins Loans	I	65	66	0	50	50									
HEA: SFA Federal Supplemental Educational Opportunity Grants	RND	771	747	0	100	0									
HEA: SFA Federal Work-Study	RND	980	944	0	100	0									
HEA: SFA Leveraging Educational Assistance Partnerships	RND	65	60	0	100	0									
HEA: Student Aid Administration	A	718	809				100	0	0						
HEA: Thurgood Marshall Legal Education Opportunity	NA	3	3				/// (not funded)								
HEA: TRIO Educational Opportunity Centers	RND	47	48	0	0	100	0	0	100	0	100	0	100	0	0
HEA: TRIO McNair Postbaccalaureate Achievement	ME	45	41	0	0	100	0	0	100	100	0	0	100	0	0
HEA: TRIO Student Support Services	ME	271	101	0	20	80	0	25	75	50	50	0	50	50	0
HEA: TRIO Talent Search	ME	143	143	0	0	100	0	0	100	100	0	0	100	0	0
HEA: TRIO Upward Bound	I	314	301	0	33	67	0	33	67	0	50	50	50	50	0
HEA: Underground Railroad Program	NA	2	3	0	0	100	100	0	0	0	100	0			
HERA: Aid for Institutions of Higher Education	NA	0	68												

Program Name		PART Rating	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
					FY 2007			FY 2006			FY 2005			FY 2004		
			FY 2007 $ in millions	FY 2007 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
HKNCA:	Helen Keller National Center for Deaf-Blind Youths and Adults	NA	9	9	0	0	100	38	13	50	50	50	0	50	50	0
RA:	Client Assistance State Grants	NA	12	11	0	0	100	100	0	0	100	0	0	50	50	0
RA:	Independent Living State Grants and Centers for Independent Living	RND	97	95	0	0	100	60	0	40	0	0	100			
RA:	Independent Living Services for Older Individuals who are Blind	NA	33	32	0	0	100	0	0	100	67	0	33			
RA:	Migrant and Seasonal Farmworkers	RND	2	2	0	0	100	0	0	100	100	0	0	50	50	0
RA:	Projects with Industry	A	20	19	0	0	100	75	25	0	50	50	0	50	50	0
RA:	Protection and Advocacy of Individual Rights	NA	16	18	0	0	100	100	0	0	100	0	0	100	0	0
RA:	Supported Employment State Grants	RND	30	26	0	0	100	100	0	0	0	100	0	100	0	0
RA:	Vocational Rehabilitation Demonstration and Training Programs	RND	7	15	0	0	100	67	33	0	67	33	0	0	100	0
RA:	Vocational Rehabilitation Grants for Indians	A	34	31	0	0	100	100	0	0	100	0	0	0	100	0
RA:	Vocational Rehabilitation Recreational Programs	NA	3	2	0	0	100	100	0	0	100	0	0	0	100	0
RA:	Vocational Rehabilitation State Grants	A	2,803	2,551	0	0	100	71	29	0	60	40	0	50	50	0
RA:	Vocational Rehabilitation Training	A	38	40	0	0	100	100	0	0	100	0	0	75	25	0
USC:	Howard University	A	237	244	0	0	100	100	0	0	0	0	100	100	0	0
Administrative and Support Programs for Goal 5[#]			0	6												
TOTAL			**$29,162**	***$24,135**												

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2007 expenditures may include funds from prior years' appropriations.

A shaded cell denotes that the program did not have targets for the specified year.

/// Denotes programs not yet implemented. (Programs are often implemented near the end of the year they are first funded.)

The Department does not plan to develop performance measures for programs, activities, or budgetary line items that are administrative in nature or that serve to support other programs and their performance measures.

* Expenditures by program do not include outlays in the amount of $4 million for prior years' obligations for Goal 5 programs that were not funded in FY 2007 or FY 2007 estimated accruals in the amount of $1,660 million.

AEFLA: *Adult Education and Family Literacy Act*
AID: *Aid for Institutional Development*
ATA: *Assistive Technology Act*
CTEA: *Perkins Career and Technical Education Act*
EDA: *Education of the Deaf Act*
ESEA: *Elementary and Secondary Education Act of 1965*
HEA: *Higher Education Act of 1965*
HERA: *Hurricane Education Recovery Act*
HKNCA: *Helen Keller National Center Act*
MECEA: *Mutual Educational and Cultural Exchange Act of 1961*
NLA: *National Literacy Act*
RA: *Rehabilitation Act of 1973*
SFA: *Student Financial Assistance programs*
USC: *United States Code*

PART Rating
E = Effective
ME = Moderately Effective
A = Adequate
I = Ineffective
RND = Results Not Demonstrated
NA = Program has not been assessed

Goal 6: Establish Management Excellence

Key Measures

Since 2002, the President's Office of Management and Budget (OMB) has required all Cabinet-level departments and other major federal agencies to report quarterly on their progress toward superior fiscal stewardship and excellence in customer service and program performance. To these ends, the *President's Management Agenda* comprises multiple initiatives designed to assure Americans of the efficient use of federal funds and the effective responsiveness of the federal government to their needs.

The Department of Education's sixth strategic goal, Establish Management Excellence, aligns nine key measures with the initiatives of the *President's Management Agenda*. Success in meeting challenging targets for these measures ensures maximum value for taxpayers, the channeling of available resources toward high-performing programs, and more help for students to reach their academic potential.

Financial Integrity and Management

Improved financial performance is a major initiative of the *President's Management Agenda*. The Department has maintained the highest (green) status in this initiative since December 2003, indicating that financial systems produce accurate and timely information to support the Department's operational, budgetary and policy decisions. In addition to achieving clean opinions on the annual financial statements each year since FY 2002, the Department has made further upgrades to its grants management, procurement management, and financial management systems, resulting in greater accuracy and speedier processing of financial information. These actions have been accompanied by a commitment to linking financial information and program improvements, an active presence in federal lines-of-business consolidation activities, and the ongoing publication of *Fast Facts*, the monthly internal business intelligence report for senior Department managers.

6.1.A The achievement of an unqualified audit opinion. [2204]	Fiscal Year	Actual
	2007	**Unqualified**
	2006	Unqualified
	2005	Unqualified
	2004	Unqualified
	2003	Unqualified
	2002	Unqualified
	2001	Qualified
	2000	Qualified
	1999	Qualified
2007 target met.		

Independent Auditors' Financial Statement and Audit Reports, FY 1999 through FY 2007.

Analysis of Progress. The Department has earned a sixth consecutive unqualified or "clean" audit opinion from independent auditors. This means that the Department's financial statements present fairly, in all material respects, the financial position of the Department in conformity with accounting principles generally accepted in the United States.

Data Quality. Independent auditors follow professional standards and conduct the audit under the oversight of the Department's Office of Inspector General. There are no data limitations.

Strategic Human Capital Management

The Strategic Management of Human Capital initiative of the *President's Management Agenda* addresses the need for federal agencies to hire capable staff to fulfill their missions effectively. Not only must the federal government compete with the private sector for top talent, but also it faces a potential shortage of experienced staff. The Partnership for Public Service and the Office of Personnel Management estimate that approximately 550,000 federal employees will leave the government between now and 2012, most of them via retirement.

The Department is approaching historic lows in total personnel while managing increasing annual discretionary budgets. Department employees must manage expanding responsibilities while maintaining exemplary performance to guarantee the effective use of federal dollars for the benefit of America's students. Human capital activities during FY 2007 sought to identify and improve performance in key focus areas, including closing leadership competency gaps in performance management, closing competency and staffing gaps in mission critical occupations, and reducing hiring cycle time. These activities helped to resolve challenges identified in the Department's Human Capital Management Plan, which was updated this year to align with the new Department strategic plan. Also, the use of human capital metrics established under a new Organizational Assessment initiative better enables the Department to determine the effectiveness of human capital strategies both Department-wide and at the principal office level.

6.2.A Index of quality human capital performance management activities. [2205]	Fiscal Year	Actual
	2007	**Target is 74**
	2006	58
	2005	72
2007 data expected Jan. 2008.		

U.S. Department of Education, Office of Management, via data from the Education Department Performance Appraisal System and the U.S. Department of the Interior's Federal Personnel/Payroll System. The latter system provides personnel and payroll support to numerous federal agencies, including the Department of Education.

Analysis of Progress. After an anomalous performance decline on this measure in FY 2006, the Department anticipates a return to a level similar to that attained in FY 2005. In FY 2005 and FY 2006, all components of this measure were computable prior to report publication because those years' employee rating cycles began in the previous fiscal year and ended on April 30; in FY 2007, the rating cycle now matches the October 1-September 30 federal fiscal year.

Target Context. This measure is a composite of three measurements: the percentage of employees who have performance standards in the performance appraisal system within 30 days after the beginning of the rating cycle, the percentage of employees who have documented ratings of record in the performance appraisal system within 30 days after the close of the rating cycle, and the percentage of awards paid out to employees with outstanding performance ratings. Prior to FY 2007, the first component of this measure was based on the percentage of employees who established effective performance standards prior to the beginning of the rating cycle. This component is changed for FY 2007 to link this component to the second measure component with regard to entry of such standards into the performance appraisal system, and the 30-day window allows for entry of the previous year's ratings prior to establishment and entry of a new year's standards.

Information Technology Management

Excellence in the Expanded Electronic Government initiative of the *President's Management Agenda* requires the Department to manage information technology investments with benefits far outweighing costs. Excellence also means that citizens and government decision makers have the ability to find information easily and securely.

Given the large number of discretionary grants it awards annually, the Department has established the migration of discretionary grant competitions from paper to electronic format as its primary progress measure in electronic government, and FY 2007 results show this transformation to be nearly complete. When the Grants.gov Apply function was introduced in FY 2003, the Department was the first agency to post an application package on the system. The Department has continued to participate with Grants.gov by increasing the number of competitions posting application packages, as Table 6.3.A demonstrates.

Additionally, the Department continues to play a leading role in the streamlining of grant application and award processes across the federal government. In FY 2006, the Department was selected as a "center of excellence" in the government-wide Grants Management Line of Business project, which positions the Department to be a grant administration service center for other federal agencies in the near future.

6.3.A The percentage of discretionary grant programs providing online application capability. [2206]	Fiscal Year	Actual
	2007	**98**
	2006	84
	2005	86
	2004	77
	2003	57
	2002	29
	2001	20
	2000	5
2007 target of 92 exceeded.		

U.S. Department of Education, Office of the Chief Financial Officer, Grant Administration and Payment System.

Analysis of Progress. For FY 2007, OMB mandated that all discretionary grant competitions use Grants.gov for posting application packages. With this impetus, the Department exceeded its FY 2007 target for discretionary grant programs providing online application capability. The Department currently posts all packages on Grants.gov except for three fellowship programs with unique business processes that Grants.gov cannot currently support.

Data Quality. This statistic is a comparison between active schedules in the Grant Administration and Payment System and e-Grants participation. Grant competitions providing Grants.gov applications are counted as participating in the electronic submission.

Customer Service for Student Financial Assistance

A major foundation of the *President's Management Agenda* is that the federal government must focus on the citizens it serves, and student financial assistance programs constitute the busiest area of Department customer service activity. In overseeing a student loan portfolio comprising more than $400 billion and exceeding 28 million borrowers, and in managing the federal Pell Grant program, which provided approximately $14 billion in FY 2007 for low-income postsecondary students, the Department demonstrates the quality of its customer service activities before a large audience. The Department tracks progress via performance measures encompassing major areas of service delivery within student financial assistance operations.

6.4.A Customer service level for Free Application for Federal Student Aid on the Web. [2207]

Fiscal Year	Actual
2007	**80**
2006	80
2005	81
2004	81
2003	86
2007 target of 85 not met.	

FY 2007 American Customer Satisfaction Index Survey.

6.4.B Customer service level for Direct Loan Servicing. [2208]

Fiscal Year	Actual
2007	**80**
2006	79
2005	76
2004	78
2003	77
2007 target of 78 exceeded.	

FY 2007 American Customer Satisfaction Index Survey.

6.4.C Customer service level for Common Origination and Disbursement. [2209]	
Fiscal Year	**Actual**
2007	**81**
2006	77
2005	76
2004	72
2003	66
2007 target of 76 exceeded.	

FY 2007 American Customer Satisfaction Index Survey.

6.4.D Customer service level for Lender Reporting System. [2210]	
Fiscal Year	**Actual**
2007	**75**
2006	71
2005	72
2004	73
2003	71
2007 target of 75 met.	

FY 2007 American Customer Satisfaction Index Survey.

Analysis of Progress. The FY 2007 American Customer Satisfaction Index (ACSI) ratings for Federal Student Aid's highest volume products and services – including Direct Loan Servicing, *Free Application for Federal Student Aid* (*FAFSA)* on the Web, the Common Origination and Disbursement system and the Lender Application and Reporting System – score in the "Excellent" or "Good" range in comparison to other entities that appear in the ACSI index.

Direct Loan Servicing and the Common Origination and Disbursement system realized satisfaction measurements that exceeded their FY 2007 performance targets. Notably, the Common Origination and Disbursement score increased by four points from last year, continuing a 15-point improvement trend from the initial measurement taken in 2003. The Lender Application and Reporting System improved by four points to meet its 2007 target. *FAFSA on the Web* continued to score an 80, a high score by ACSI standards, but it missed its performance target by five points. *FAFSA on the Web* faces continually challenging expectations from Web-based customers that now comprise more than 90 percent of total applicants. However, an improved PIN Number replacement process to be implemented in 2008 should result in a higher score next year.

Data Quality. The Department's Office of Federal Student Aid annually conducts customer surveys of its most high-profile, highly used products and services by means of the ACSI Survey. The survey is produced annually by a partnership of the National Quality Research Center (University of Michigan), CFI Group and the American Society for Quality. The index provides a national, cross-industry, cross-public-and-private-sector economic indicator, using widely accepted methodologies to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The Department began tracking the index as a measurement in FY 1999 and has tracked the index in each subsequent year except for FY 2002.

Target Context. According to CFI Group, companies with "business to business" customers scoring between 75 and 84 points on the index and businesses with "business to consumer" customers scoring between 80 and 89 points are considered "Excellent." These categories include companies such as Wachovia Bank, UPS, Amazon and Mercedes.

Budget and Performance Integration

Changes in the size of a federal education program's budget should correlate with the program's efficacy in improving student achievement. If a program works, more funding is justified; if it doesn't, the program either should undergo corrective action or be eliminated. The Department's work on the Budget and Performance Integration initiative of the *President's Management Agenda* reflects this focus and has resulted in the highest (green) status score available for this criterion.

The Office of Management and Budget and the Department have worked together to measure program effectiveness by means of the Program Assessment Rating Tool (PART). By analyzing a program's purpose, strategic planning functions, management capability, and demonstrated results, this tool has identified the strengths and weaknesses of large and small Department programs. The Department has used the PART process to make significant changes to ineffective programs or, in some cases, to recommend their termination. The overriding goal is that Department-funded programs demonstrate proven effectiveness.

6.5.A The percentage of Department program dollars associated with programs reviewed under the Program Assessment Rating Tool process which were rated effective. [2211]	Fiscal Year	Actual
	2007	**86**
	2006	**86**
	2005	78
	2004	47
	2003	52
	2002	55
2006 target of 79 exceeded; 2007 target of 79 exceeded.		

U.S. Department of Education, analysis of Program Assessment Rating Tool findings.

Analysis of Progress. As of October 2007, 91 currently funded Department programs have undergone a PART review, representing 98 percent of the Department's FY 2007 budget authority for programs subject to the PART. Although 41 programs constituting 86 percent of this budget authority have been rated adequate or higher in their PART reviews, four programs were found to be ineffective, and 46 programs were rated as "Results Not Demonstrated."

Four programs were assessed for the first time in 2007. The Research, Development, and Dissemination Program in the Institute of Education Sciences was assessed for the first time in 2007 and received an effective rating based on the Department's successful efforts to improve the quality and relevance of its education research activities. Supported Employment State Grants, HBCU Capital Financing, and TRIO Educational Opportunity Centers received "Results Not Demonstrated" ratings because evidence was insufficient to rate their effectiveness. Three additional programs that received "Results Not Demonstrated" ratings in prior years – Child Care Access Means Parents in School, Neglected and Delinquent State Agency Program, and Indian Education Grants to Local Educational Agencies – were reassessed in 2007 and received adequate ratings.

Target Context. The Department bases effectiveness for this measure on an "adequate" or higher program rating resulting from the PART analysis. The rationale for the lower FY 2007 target is that it was established and fixed before final FY 2006 data were received. While the Department's new *Strategic Plan for Fiscal Years 2007-12* provides an upgraded target for FY 2007, the target established for the FY 2007 Annual Performance Plan takes precedence here.

Faith-Based and Community Organization Grantees

In addition to the aforementioned *President's Management Agenda* initiatives, OMB also grades the Department on eliminating barriers that hinder faith-based and community organizations from providing appropriate federal social services. The Department has actively encouraged faith-based and community organizations to apply for discretionary grant competitions deemed amenable to their participation. Of particular significance, the Department in FY 2006 developed clear guidance for program offices on the equal treatment of grant applicants regardless of their organizational background. This effort has had a side benefit of increasing Department awareness of the efforts of novice (first-time) applicants other than faith-based and community organizations. The Department has attained the highest (green) status score on this criterion.

6.6.A The percentage of applications in competitions of amenable discretionary programs that are from faith-based or community organizations. [2212]	Fiscal Year	Actual
	2007	**61.2**
	2006	41.9
2007 target of 43.9 exceeded.		

U.S. Department of Education, Office of the Secretary, Center for Faith-Based and Community Initiatives.

Analysis of Progress. The Department established a baseline of 41.9 percent for this measure in FY 2006 and well exceeded the FY 2007 target. An FY 2007 competition in the Safe and Drug Free Schools—Mentoring Program, historically a program with high participation by faith-based and community organizations, contributed to the significant increase.

Data Quality. The Department tracks the application process for amenable programs and analyzes the data at the end of the fiscal year.

Target Context. The measure is calculated as the number of discretionary grant competition applications from faith-based and community organizations divided by the total number of applications, within programs determined by the Department to be open by statute to and suitable for participation by these organizations. These programs include the Carol M. White Physical Education Program, Safe and Drug-Free Schools—Mentoring Program, Parental Information and Resource Centers, and Migrant Education—High School Equivalency Program and College Assistance Migrant Program.

Goal 6: Establish Management Excellence

Performance Summary

The Department attributes the accounts of the programs below to Goal 6. In the table, an overview is provided for the results of each program on its program performance measures. (See p. 35 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2007report/program.html. Appropriation and expenditure data for FY 2007 are included for each of these programs.

Program Name	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2007 $ in millions	FY 2007 $ in millions	FY 2007			FY 2006			FY 2005			FY 2004		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
Office for Civil Rights	91	91	100	0	0	100	0	0	100	0	0	100	0	0
Office of Inspector General	50	48	100	0	0	100	0	0	0	100	0			
Program Administration #	419	401		#			#			#			#	
TOTAL	**$560**	**$540**												

† Budget for each account represents function budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2007 expenditures may include funds from prior years' appropriations.

A shaded cell denotes that the program did not have targets for the specified year.

The Department does not plan to develop performance measures for programs, activities, or budgetary line items that are administrative in nature or that serve to support other programs and their performance measures.

Summary of Inspector General And Government Accountability Office Reports

Summary of Inspector General and Government Accountability Office Reports

The previous pages of this document have explained in detail how the Department is doing in meeting its *Strategic Plan* performance goals. The Office of Inspector General (OIG) promotes the efficiency, effectiveness and integrity of the Department's programs through independent and objective audits, among other activities. These activities, along with reports from the Government Accountability Office (GAO), allow the Department to focus its attention and resources on areas of particular importance in meeting the *Strategic Plan* performance goals. Additionally, program evaluations enhance efforts towards accountability in meeting the Department's goals and objectives and promote ongoing program improvements in meeting key performance measures.

Below is an abbreviated list of the FY 2007 Inspector General and Government Accountability Office reports presented by Strategic Plan Goal as well as a synopsis of the Department's program evaluations.

Goal	Report Name Organization	Issue	Department's Response
2	The Department's Administration of Selected Aspects of the Reading First Program Final Audit Report (ED-OIG/A03G0006) February 2007	The Department did not have controls in place in its administration of the Reading Leadership Academies to ensure compliance with the *Department of Education Organization Act* and the *No Child Left Behind (NCLB)* curriculum provisions. It also did not adequately assess issues of bias and lack of objectivity when approving individuals to be technical assistance providers.	The Department generally concurred but did not agree with all findings. The Department stated the report did not present a balanced summary of the activities.
5	Review of Federal Student Aid's Monitoring of Guaranty Agency Compliance with the Establishment of the Federal Fund and the Operating Fund: Final Inspection Report (ED-OIG/I13H0001) September 2007	The work performed by Federal Student Aid (FSA) on the 27 guaranty agencies not previously audited by OIG provides no assurance that the Federal and Operating Funds were established in compliance with the *Higher Education Act*. The Department should perform onsite program reviews to examine supporting records to quantify as erroneous payments any lost revenue and identify any improper purchases.	FSA will ensure that independent onsite reviews of the remaining 27 guaranty agencies not previously reviewed by OIG are performed by individuals with the requisite accounting knowledge. It will also report as erroneous payments any lost revenue, identify any improper payments, and require full repayment to the Federal Fund.

Goal	Report Name Organization	Issue	Department's Response
5	Federal Family Education Loan Program: Increased Department of Education Oversight of Lender and School Activities Needed to Help Ensure Program Compliance, GAO-07-750, July 31, 2007	While the Department has some processes to oversee compliance in FFELP, it has no oversight tools to detect potential instances of lenders providing improper inducements to limit borrower choice.	In June 2007, the Department issued proposed regulations that address improper inducements and limitations on borrower choice. These regulations could become effective in 2008. Additionally, the Department has developed procedures to support reviews of both lender inducement and limitations on borrower choice.
5	Higher Education: Including Public, Nonprofit, and For-Profit Institutions in a Single Definition Is Unlikely to Immediately Affect Federal Spending, but Long-term Effects Are Unclear, GAO-07-857, July 31, 2007	The *Higher Education Act* (HEA) includes two definitions of "institution of higher education." The second narrower definition excludes for-profits from access to aid.	A single definition could increase federal spending by increasing access to some special postal rates and tax benefits.
5	Federal Family Education Loan Program: Eliminating the Exceptional Performer Designation Would Result in Substantial Savings without Adversely Affecting the Loan Program, GAO-07-1087, July 26, 2007	The exceptional performer program has not materially affected loan servicing and default claims have not declined in the years following the first exceptional performer designation.	The Department concurred with the recommendation to eliminate the exceptional performer program.

Goal	Report Name Organization	Issue	Department's Response
5	Higher Education: Information Sharing Could Help Institutions Identify and Address Challenges Some Asian Americans and Pacific Islander Students Face, GAO-07-925, July 25, 2007	Asian Americans and Pacific Islander subgroups, while in high school, face challenges that may affect their ability to persist in college, and they differ in their levels of academic preparedness, ability to pay for college, and needs to balance academic, employment, and family obligations. The Department should facilitate the sharing of information among institutions about strategies that foster low-income postsecondary student recruitment, retention, and graduation and also share information about strategies to reach out to Asian American and Pacific Islanders beginning in high school.	The Department currently shares information about minority-serving institutions' successful practices on its Success Stories Web site. The Department will explore options for encouraging more grantees to report successful practices related to recruitment, retention, and graduation rates, including strategies related to Asian American and Pacific Islander students.
5	Vocational Rehabilitation: Improved Information and Practices May Enhance State Agency Earnings Outcomes for SSA Beneficiaries, GAO-07-521, May 23, 2007	The Department should revise its performance measures to account for economic differences between states, make better use of incentives for VR agencies to meet performance goals, and create a means for disseminating best practices.	The Department disagreed on when economic conditions and state demographics should be considered in assessing performance but takes these into account when monitoring agency performance results.
2	No Child Left Behind Act: Education Should Clarify Guidance and Address Potential Compliance Issues for Schools in Corrective Action and Restructuring Status, GAO-07-1035, September 2007	The Department should provide guidance on when schools in corrective action may continue previously implemented corrective actions rather than implementing new ones, direct states to report information on activities taken by each school in corrective action or restructuring, and take additional steps to ascertain whether states are ensuring that districts provided the required assistance to schools.	The Department concurred with the recommendations. The Department will explore options for sharing guidance on when schools may continue a corrective action. The Department will consider options for gathering additional evidence on how states ensure that districts are complying with corrective action and restructuring requirements and will consider ways for revising its monitoring procedures to obtain more information on how states determine whether districts are providing appropriate technical assistance.

Goal	Report Name Organization	Issue	Department's Response
2	Teacher Quality: Approaches, Implementation, and Evaluation of Key Federal Efforts, GAO-07-861T, May 17, 2007	The Department could improve its assistance to states on their teacher quality efforts under both NCLB and HEA.	The Department is working to provide better assistance and improve its evaluation and oversight efforts by disseminating more information on teacher quality requirements and improving how it measures the results of teacher quality programs by establishing performance targets.
2	No Child Left Behind Act: Education Actions May Help Improve Implementation and Evaluation of Supplemental Educational Services, GAO-07-738T, April 18, 2007	The Department should clarify guidance and provide information on promising practices, consider expanding flexibility and clarify state authority, provide evaluation assistance, and collect information on district SES expenditures.	The Department is working to improve federal and state monitoring of SES by requiring that all states submit information on the amount of funds spent by districts to provide SES. The Department is also taking action to provide states with technical assistance and guidance on how to evaluate the effect of SES on student academic achievement.
2	No Child Left Behind Act: Education Assistance Could Help States Better Measure Progress of Students with Limited English Proficiency, GAO-07-646T, March 23, 2007	The Department has provided a variety of technical assistance to states to assess students with limited English proficiency, but has issued little written guidance on developing English language proficiency tests and should expand flexibility to ensure that program measures track the academic progress of LEP students.	The Department is developing a framework on English language proficiency standards and assessments, the development of guides for native language and simplified assessments and the development of a handbook on appropriate accommodations for students with limited English proficiency. Regarding flexibility, the Department issued a blueprint for strengthening NCLB that calls for greater use of growth models.

Goal	Report Name Organization	Issue	Department's Response
2	Reading First: States Report Improvements in Reading Instruction, but Additional Procedures Would Clarify Education's Role in Ensuring Proper Implementation by States, GAO-07-161, February 28, 2007	The Department should establish control procedures to guide Department staff and contractors in their interactions with states, districts, and schools to ensure compliance with statutory provisions and should disseminate clear procedures governing its monitoring process.	The Department provided written guidance to all Department staff on the importance of impartiality in carrying out their duties and in not misconstruing program statutes to mandate or control curriculum and instruction. Additionally, guidelines to states are being developed outlining the goals and purposes of its monitoring protocols as well as timelines and responsibilities for states to address monitoring findings.
2	No Child Left Behind Act: Education's Data Improvement Efforts Could Strengthen the Basis for Distributing Title III Funds, GAO-07-140, December 7, 2006	The Department should provide clear instructions to states on how and when to provide data required by NCLB on the number of students with limited English proficiency, develop a methodology for determining which is the more accurate of the two allowable sources of data, and seek authority to use statistical methodologies to ensure data veracity.	The Department agreed with the recommendations and is revising the Consolidated State Performance Report (CSPR) data collection form for the 2005-06 school year and proposing changes to the 2007 CSPR form and will develop a methodology to compare the accuracy of the two data sources when the quality of state data improves.
5	Capital Financing: Department Management Improvements Could Enhance Education's Loan Program for Historically Black Colleges and Universities, GAO-07-64, October 18, 2006	The Department has not established effective management controls to ensure that it is communicating with Historically Black Colleges and Universities (HBCUs) in a useful and timely manner; complying with statutory requirements to meet biannually with an advisory board; and monitoring the performance of the program's contractors.	The Department held two meetings with the HBCU Capital Financing Program's Advisory Board during FY 2007 to discuss a wide variety of topics. Additionally, the Department developed a tip sheet for prospective borrowers and customer satisfaction surveys that are sent to new borrowers. The Department communicates with institutions using a variety of methods such as telephone calls, e-mails, and letters. An independent audit of the program's Designated Bonding Authority (DBA) has been completed.

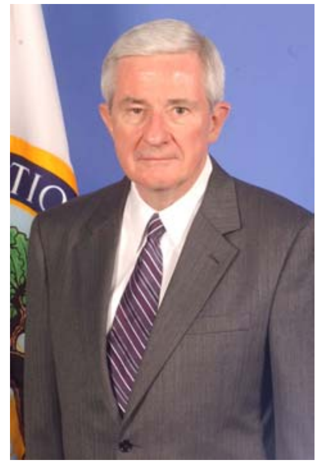
Summary of Major Evaluations of Department of Education Programs Undertaken by the Program Policy and Studies Staff and the Institute for Education Sciences for FY 2007

Goal	Report Name	Issue	Outcomes/Actions
1	Evaluation of Flexibility Under No Child Left Behind, Volumes 1-4 (July 2007)	This four volume set examines three of the flexibility options allowed under the *No Child Left Behind Act*—transferability, Rural Education Achievement Program (REAP-Flex), and the Local Flexibility Demonstration Program (Local-Flex).	Districts that chose to participate in the flexibility programs did so in order to focus funds on achieving their goals of making adequate yearly progress by targeting particular areas of need. While REAP-Flex is widely used by eligible rural districts, they were less likely to participate in transferability and Local-Flex.
1/2	State and Local Implementation of the *No Child Left Behind Act*, Volume I – Title I, School Choice, Supplemental Educational Services, and Student Achievement (July 2007);Volume II – Teacher Quality Under NCLB: Interim Report (August 2007)	*The No Child Left Behind Act* provides parents with options for transferring their children to another school in the district from Title I schools that are identified for improvement, corrective action, or restructuring and have not made adequate yearly progress (AYP) toward meeting state academic standards for two or more years. Volume II presents findings from two national studies that describe the progress that states, districts, and schools have made implementing the teacher and paraprofessional qualification provisions of the *No Child Left Behind Act* through 2004-05.	Students who participated in supplemental educational services scored higher in both reading and math in the first year and even better in the second and subsequent years. Supplemental educational services produced positive and statistically significant average effects in both reading and math, and students participating for multiple years experienced gains twice as large as for those participating for one year. The percentage of teachers who are not highly qualified under NCLB is higher for special education teachers, teachers of LEP students, middle school teachers and teachers in high poverty and high minority schools.

Goal	Report Name	Issue	Outcomes/Actions
2	Private School Participants in Programs under the *No Child Left Behind Act* and the *Individuals with Disabilities Education Act:* Private School and Public School District Perspectives (August 2007)	This report describes participation of private school students in federal education programs, the consultation process between private schools and public school districts, and public school district allocation of federal funds for services for private school participants under the rules of the *Elementary and Secondary Education Act* (ESEA) as reauthorized by the *No Child Left Behind Act* (NCLB) and the *Individuals with Disabilities Education Act* (IDEA).	Key findings from the report include: 44 percent of private schools had at least one participant under ESEA. 40 percent of private schools with no ESEA participants reported not participating in ESEA programs because they had no knowledge of these programs. IDEA had the highest percentage of private schools with participants. For ESEA, the most common services were professional development, while for IDEA, the most common services were speech and language therapy.
2	National Evaluation of Early Reading First: Final Report to Congress (May 2007)	This final report of the national evaluation as mandated by the *No Child Left Behind Act* presents the impacts of the Early Reading First program on the language and literacy skills of children and on the instructional content and practices in preschool classrooms.	The findings of the evaluation indicate that the program had positive, statistically significant impacts on several classroom and teacher outcomes and on one of four child outcomes measured. The program showed improved outcomes on print and letter knowledge but not on phonological awareness or oral language.
2	Transition to Teaching Program Evaluation: An Interim Report on the FY 2002 Grantees (May 2007)	This report presents the findings of the Transition to Teaching (TTT) Program's interim evaluation at the three-year interim point of five-year grants awarded in FY 2002.	The Transition to Teaching Program has increased the pool of highly qualified teachers by recruiting nontraditional candidates into teaching. The program improves the retention rate of new teachers through mentoring programs and includes a three-year teaching requirement for high-need schools in high-need districts.

Goal	Report Name	Issue	Outcomes/Actions
2	State Strategies and Practices for Educational Technology - Volume 1: Examining the Enhancing Education Through Technology Program (February 2007); Volume 2: Supporting Mathematics Instruction with Educational Technology (February 2007)	This report is part of a multiyear evaluation of the National Educational Technology Trends Study (NETTS). The Enhancing Education Through Technology Program is dedicated to the integration of educational technology in high-poverty elementary and secondary schools. Volume 1 analyzes state educational technology policies and related programs, including the Enhancing Education Through Technology Program in state efforts. Volume 2 examines the degree to which technology is used for mathematics instruction in fourth-and eighth-grade classes and compares differences across states.	Forty-two states reported having technology standards for students in place by fall of 2004. Many states have put in place minimum standards for teachers' use of technology. In volume 2, relatively few students were found to have teachers who integrated technology into mathematics instruction at least once a week. Few teachers used technology for student assessment in mathematics.
2	Migrant Education Program Annual Report: Eligibility, Participation, Services (2001-02) and Achievement (2002-03) (December 2006)	This report provides information about migrant children and youths who were eligible and who participated in Migrant Education Program-funded services during 2001-02. It provides comparison data from 1998-99 through 2000-01 and academic achievement data for migrant students in 2002-03.	The population of eligible migrant children and youths aged 3-21 grew by 11 percent between 1998-99 and 2001-02. Migrant students lagged behind other students in third-grade and tenth-grade reading and mathematics achievement on state assessments in 2002-03.
2	Evaluation of the DC Opportunity Scholarship Program: Impacts After One Year (June 2007)	This report describes the first-year impacts of the D.C. Opportunity Scholarship Program (OSP). This evaluation was mandated by the District of Columbia School Choice Incentive Act of 2003 to assess the impact of private school choice for low-income students in the District of Columbia.	The collection of evaluation data demonstrating evidence of achievement between students who were offered an OSP scholarship and students who were not is currently ongoing. There has been an increased demand for scholarships in each year of the program. Scholarship demand rose by 5.5 percent for the 2007-2008 school year over the previous year. Four hundred families currently are on a waiting list for a scholarship. Parents report a high level of satisfaction with their children's schools of choice, citing positive changes in their children's attitudes about learning.

Financial Details



The Department of Education continued its high standard of financial management and reporting during fiscal year (FY) 2007. In this part of the *Performance and Accountability Report*, I have the pleasure of presenting to the President and the American people the financial details on the Department's stewardship and management of the public funds to which we have been entrusted.

The Department's impressive record of excellence in financial management has been a joint effort of its managers, employees, and business partners who make it a priority to ensure that the Department reports contains the highest quality financial data. Highlights of these successful efforts over the last year are as follows:

- Completed the implementation of an upgraded financial management system, in the first quarter of FY 2007;
- Received an unqualified opinion on the principal financial statements for the sixth consecutive year, demonstrating a clear pattern of financial accountability;
- Continued to have no material weaknesses identified as part of the Department's "Report on Internal Control" for the fifth consecutive year;
- Received a "green" status in Financial Management on the *President's Management Scorecard* for the fourth consecutive year;
- Continued to provide reasonable assurance of its internal controls over financial reporting.

In FY 2007, the Department furthered its efforts to correct the two reportable conditions identified by the auditors in the FY 2006 "Report on Internal Control." To address the reportable condition regarding the credit reform estimation the Credit Steering committee has worked diligently to continue to improve the process. In the first quarter of FY 2007, the Department instituted monthly meetings including personnel from the Office of the Chief Financial Officer, Budget Service, Federal Student Aid and Office of Management and Budget. Throughout the fiscal year the committee has addressed policy, cost and management issues that impact the loan programs. The Department also continued to address the other reportable condition regarding controls surrounding information systems.

During FY 2007, the Department conducted an assessment of the effectiveness of its internal control over financial reporting. This review was based upon the requirements of OMB Circular A-123 (Appendix A), *Management's Responsibility for Internal Control*. The Department is pleased to report that it can give an unqualified statement of assurance on its internal control over financial reporting. This examination has presented us the opportunity to further review and improve upon our internal controls and thereby continue to ensure the greatest integrity in our financial management and reporting.

Lawrence Warder
Chief Financial Officer
November 15, 2007

LA Warder

Financial Summary

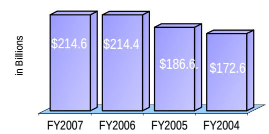
(Dollars in Millions)

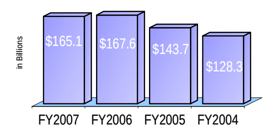
At End of Year	% Change 2007 / 2006	FY2007	FY2006	FY2005	FY2004
Condensed Balance Sheet Data					
Fund Balance with Treasury	- 9%	$ 97,532	$ 107,053	$ 77,569	$ 66,371
Credit Program Receivables	+ 9%	115,904	106,728	107,937	104,966
Accounts Receivable	+ 20%	53	44	141	155
Other	+ 93%	1,149	596	920	1,117
***Total Assets*	-	$ 214,638	$ 214,421	$ 186,567	$ 172,609
Debt	- 1%	$ 104,287	$ 105,677	$ 104,597	$ 96,649
Other Intragovernmental Liabilities	+ 9%	6,746	6,182	6,146	6,051
Liabilities for Loan Guarantees	- 3%	50,874	52,453	30,611	23,329
Other Liabilities	- 5%	3,150	3,299	2,371	2,246
Total Liabilities	- 2%	165,057	167,611	143,725	128,275
*Unexpended Appropriations	-	52,047	51,812	47,288	47,285
Cumulative Results of Operations	- 51%	(2,466)	(5,002)	(4,446)	(2,951)
Total Net Position	+ 6%	49,581	46,810	42,842	44,334
**Total Liabilities and Net Position*	-	$ 214,638	$ 214,421	$ 186,567	$ 172,609

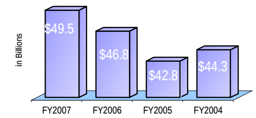
For the Year	% Change 2007 / 2006	FY2007	FY2006	FY2005	FY2004
Statement of Net Cost					
Total Cost	- 31%	$ 72,316	$ 104,699	$ 82,204	$ 70,187
Earned Revenue	+ 2%	(8,032)	(7,870)	(6,965)	(6,564)
Total Net Cost of Operations	- 34%	$ 64,284	$ 96,829	$ 75,239	$ 63,623
Net Cost by Strategic Goal					
Goal 2 Improve Student Achievement	- 2%	$ 36,838	$ 37,700	$ 36,415	$ 32,687
Goal 3 Develop Safe and Drug-Free Schools	- 13%	740	849	877	756
Goal 4 Transform Education into Evidence Based Field	- 13%	367	422	442	467
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	- 55%	25,799	57,303	36,940	29,713
Goal 6 Management Excellence[1]	- 3%	540	555	565	-
	- 34%	$ 64,284	$ 96,829	$ 75,239	$ 63,623
Net Cost Percentages by Strategic Goal					
Goal 2 Improve Student Achievement	+ 47%	57.31%	38.90%	48.40%	51.38%
Goal 3 Develop Safe and Drug-Free Schools	+ 31%	1.15%	0.88%	1.17%	1.19%
Goal 4 Transform Education into Evidence Based Field	+ 30%	0.57%	0.44%	0.59%	0.73%
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	- 32%	40.13%	59.18%	49.09%	46.70%
Goal 6 Management Excellence[1]	+ 40%	0.84%	0.60%	0.75%	N/A

* *Percentage changes less than 1% are not presented in this summary.*

[1] *In FY04 Goal 6 was not included in this summary.*

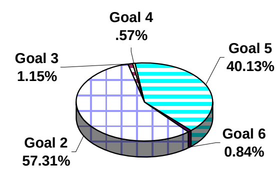




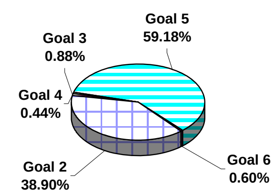


Net Cost by Strategic Goal

FY 2007



FY 2006



Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for fiscal years 2007 and 2006 pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2007 and 2006

(Dollars in Millions)

	Fiscal Year 2007	Fiscal Year 2006
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 97,532	$ 107,053
Accounts Receivable (Note 4)	4	1
Total Intragovernmental	97,536	107,054
Cash and Other Monetary Assets (Note 5)	1,103	566
Accounts Receivable, Net (Note 4)	49	43
Credit Program Receivables, Net (Note 6)	115,904	106,728
General Property, Plant and Equipment, Net (Note 7)	46	29
Other Assets		1
Total Assets (Note 2)	**$ 214,638**	**$ 214,421**
Liabilities:		
Intragovernmental:		
Debt (Note 8)	$ 104,287	$ 105,677
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 5)	1,103	566
Payable to Treasury (Note 6)	5,351	5,519
Other Intragovernmental Liabilities (Note 9)	292	97
Total Intragovernmental	111,033	111,859
Accounts Payable	913	859
Accrued Grant Liability (Note 10)	2,094	2,059
Liabilities for Loan Guarantees (Note 6)	50,874	52,453
Other Liabilities (Note 9)	143	381
Total Liabilities	**$ 165,057**	**$ 167,611**
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Earmarked Funds (Note 16)		
Unexpended Appropriations - Other Funds	$ 52,047	$ 51,812
Cumulative Results of Operations - Earmarked Funds (Note 16)	39	61
Cumulative Results of Operations - Other Funds	(2,505)	(5,063)
Total Net Position (Note 11)	**$ 49,581**	**$ 46,810**
Total Liabilities and Net Position	**$ 214,638**	**$ 214,421**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2007 and 2006

(Dollars in Millions)

	Fiscal Year 2007	Fiscal Year 2006
Program Costs		
Enhancement of Postsecondary and Adult Education		
Gross Costs	$ 31,924	$ 63,356
Less: Earned Revenue	7,933	7,790
Net Program Costs	23,991	55,566
Total Program Costs	**$ 23,991**	**$ 55,566**
Creation of Student Achievement, Culture of Achievement and Safe Schools		
Gross Costs	$ 23,368	$ 24,605
Less: Earned Revenue	78	60
Net Program Costs	23,290	24,545
Total Program Costs	**$ 23,290**	**$ 24,545**
Transformation of Education		
Gross Costs	$ 1,468	$ 1,363
Less: Earned Revenue	18	18
Net Program Costs	1,450	1,345
Total Program Costs	**$ 1,450**	**$ 1,345**
Special Education and Program Execution		
Gross Costs	$ 15,556	$ 15,375
Less: Earned Revenue	3	2
Net Program Costs	15,553	15,373
Total Program Costs	**$ 15,553**	**$ 15,373**
Grand Total Program Costs	**$ 64,284**	**$ 96,829**
Net Cost of Operations (Notes 12 and 15)	**$ 64,284**	**$ 96,829**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2007 and 2006

(Dollars in Millions)

	Fiscal Year 2007 Cumulative Results of Operations	Fiscal Year 2007 Unexpended Appropriations	Fiscal Year 2006 Cumulative Results of Operations	Fiscal Year 2006 Unexpended Appropriations
Beginning Balances				
Beginning Balances - Earmarked Funds	$ 61			
Beginning Balances - All Other Funds	$ (5,063)	$ 51,812	$ (4,446)	$ 47,288
Budgetary Financing Sources:				
Appropriations Received				
Appropriations Received - Earmarked Funds				
Appropriations Received - All Other Funds		$ 73,921		$ 102,139
Other Adjustments (rescissions, etc)				
Other Adjustments (rescissions, etc) - Earmarked Funds				
Other Adjustments (rescissions, etc) - All Other Funds		(1,090)		(1,509)
Appropriations Used				
Appropriations Used - Earmarked Funds				
Appropriations Used - All Other Funds	$ 72,596	(72,596)	$ 96,106	(96,106)
Donations and Forfeitures of Cash and Cash Equivalents				
Donations and Forfeitures of Cash and Cash Equivalents - Earmarked Funds			61	
Donations and Forfeitures of Cash and Cash Equivalents - All Other Funds				
Nonexpenditure Financing Sources - Transfers-Out				
Nonexpenditure Financing Sources - Transfers-Out - Earmarked Funds				
Nonexpenditure Financing Sources - Transfers-Out - All Other Funds	(27)		(36)	
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others - Earmarked Funds				
Imputed Financing from Costs Absorbed by Others - All Other Funds	$ 32		$ 31	
Others				
Others - Earmarked Funds				
Others - All Other Funds	(5,781)		111	
Total Financing Sources				
Total Financing Sources - Earmarked Funds			**$ 61**	
Total Financing Sources - All Other Funds	**$ 66,820**	**$ 235**	**$ 96,212**	**$ 4,524**
Net Cost of Operations				
Net Cost of Operations - Earmarked Funds	**$ (22)**			
Net Cost of Operations - All Other Funds	**$ (64,262)**		**$ (96,829)**	
Net Change				
Net Change - Earmarked Funds	**$ (22)**		**$ 61**	
Net Change - All Other Funds	**$ 2,558**	**$ 235**	**$ (617)**	**$ 4,524**
Ending Balances - Earmarked Funds (Note 11)	**$ 39**		**$ 61**	
Ending Balances - All Other Funds (Note 11)	**$ (2,505)**	**$ 52,047**	**$ (5,063)**	**$ 51,812**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2007 and 2006

(Dollars in Millions)

	Fiscal Year 2007 Budgetary	Fiscal Year 2007 Non-Budgetary Credit Reform Financing Accounts	Fiscal Year 2006 Budgetary	Fiscal Year 2006 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 5,221	$ 46,490	$ 2,137	$ 22,817
Recoveries of prior year Unpaid Obligations	1,968	3,043	1,434	3,450
Budgetary Authority:				
Appropriations	73,919	2	102,197	108
Borrowing Authority (Note 14)		20,037		35,089
Spending authority from offsetting collections (gross):				
Earned				
Collected	1,816	37,373	2,074	77,399
Change in Receivables from Federal Sources	3		1	
Change in unfilled customer orders				
Advance Received	(5)		9	
Without advance from Federal Sources	(3)	(30)	(1)	(4)
Subtotal	$ 75,730	$ 57,382	$ 104,280	$ 112,592
Permanently not available	(2,119)	(19,451)	(3,537)	(32,252)
Total Budgetary Resources (Note 14)	**$ 80,800**	**$ 87,464**	**$ 104,314**	**$ 106,607**
Status of Budgetary Resources:				
Obligations incurred: (Note 14)				
Direct	$ 75,435	$ 50,353	$ 99,001	$ 60,117
Reimbursable	93		92	
Subtotal	$ 75,528	$ 50,353	$ 99,093	$ 60,117
Unobligated Balances:				
Apportioned	3,093	321	4,081	
Subtotal	$ 3,093	$ 321	$ 4,081	
Unobligated Balance not available	2,179	36,790	1,140	46,490
Total Status of Budgetary Resources	**$ 80,800**	**$ 87,464**	**$ 104,314**	**$ 106,607**
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 50,210	$ 12,953	$ 48,213	$ 10,802
Uncollected customer payments from Federal Sources, brought forward, October 1	(3)	(30)	(3)	(34)
Total, unpaid obligated balance, brought forward, net	$ 50,207	$ 12,923	$ 48,210	$ 10,768
Obligation Incurred net (+/-)	75,528	50,353	99,093	60,117
Gross Outlays	(73,058)	(45,529)	(95,662)	(54,516)
Recoveries of prior year unpaid obligations, actual	(1,968)	(3,043)	(1,434)	(3,450)
Change in uncollected customer payments from Federal Sources (+/-)		30		4
Obligated Balance, net, end of period				
Unpaid Obligations	$ 50,712	$ 14,734	$ 50,210	$ 12,953
Uncollected customer payments from Federal Sources	(3)		(3)	(30)
Total, unpaid obligated balance, net, end of period	**$ $50,709**	**$ $14,734**	**$ $50,207**	**$ $12,923**
Net Outlays				
Net Outlays:				
Gross Outlays	$ 73,058	$ 45,529	$ 95,662	$ 54,516
Offsetting collections	(1,811)	(37,373)	(2,083)	(77,399)
Distributed Offsetting receipts	(173)	(4,700)	(51)	
Net Outlays (Note 14)	**$ 71,074**	**$ 3,456**	**$ 93,528**	**$ (22,883)**

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The U.S. Department of Education (the Department), a Cabinet-level agency of the Executive Branch of the U.S. Government, was established by the Congress on May 4, 1980, under the *Department of Education Organization Act of 1979* (Public Law 96-88). It is responsible, through the execution of its congressionally approved budget, for administering direct loans, guaranteed loans, and grant programs.

The Department administers the William D. Ford Federal Direct Student Loan (Direct Loan) Program, the Federal Family Education Loan (FFEL) Program, the Federal Pell Grant (Pell Grant) Program, and the campus-based student aid programs to help students finance the costs of higher education. The Direct Loan Program, authorized by the *Student Loan Reform Act of 1993*, enables the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. The FFEL Program, initially authorized by the *Higher Education Act of 1965 (HEA)*, as amended, cooperates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. Under these programs, the loans are made to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education—public or private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents, based on eligibility criteria, receive loans regardless of income or credit rating. Student borrowers who demonstrate financial need also receive federal interest subsidies.

Additionally, the Department administers numerous grant programs and facilities loan programs. Grant programs include grants to state and local entities for elementary and secondary education; special education and rehabilitative services; educational research and improvement; and grants for needs of the disadvantaged. Through the facilities loan programs, the Department administers low-interest loans to institutions of higher learning for the construction and renovation of facilities.

The Department is organized into 10 reporting organizations that administer the loan and grant programs. The financial reporting structure of the Department presents operations based on four major reporting groups. The reporting organizations and the major reporting groups are shown below.

Reporting Organizations

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- Office of Special Education and Rehabilitative Services (OSERS)
- Office of Vocational and Adult Education (OVAE)
- Office of Postsecondary Education (OPE)
- Institute of Education Sciences (IES)
- Office of English Language Acquisition (OELA)
- Office of Safe and Drug-Free Schools (OSDFS)
- Office of Innovation and Improvement (OII)
- Office of Management (OM)

Major Reporting Groups

- Federal Student Aid
- Office of Elementary and Secondary Education
- Office of Special Education and Rehabilitative Services
- Other

The Other major reporting group includes the OVAE, OPE, IES, OELA, OSDFS, OII and OM reporting organizations and Hurricane Education Recovery activities. (See Notes 10, 12 and 16)

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the U.S. Department of Education, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted in the United States of America for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, revised as of June 29, 2007. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the Department's use of budgetary resources.

The Department's financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

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

Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheet.

In previous years, a reconciliation of Net Cost of Operations to Budget was accomplished by presenting the Statement of Financing, a basic financial statement. Effective for fiscal year 2007, OMB and the Chief Financial Officers' Council decided this reconciliation would be better placed and understood as a footnote rather than as a basic financial statement. (See Note 15)

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements. Actual results may differ from those estimates.

The *Federal Credit Reform Act of 1990* (Credit Reform Act) underlies the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees, other than for general administration of the programs, is referred to as "subsidy cost." Under the Credit Reform Act, subsidy costs for loans obligated beginning in fiscal year 1992 are estimated at the net present value of projected lifetime costs in the year the loan is obligated. Subsidy costs are then revalued annually through the re-estimate process.

Estimates for credit program receivables and liabilities contain assumptions that have a significant impact on the financial statements. The primary components of this assumption set include, but are not limited to, collections (including loan consolidations), repayments, default rates, prevailing interest rates and loan volume. Actual loan volume, interest rates, cash flows and other critical components used in the estimation process may differ significantly from the assumptions made at the time the financial statements are prepared. Minor adjustments to any of these components may create significant changes to the estimate.

The Department estimates all future cash flows associated with the Direct Loan and FFEL programs. Projected cash flows are used to develop subsidy estimates. Subsidy cost can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy cost is recorded as the initial amount of the loan guarantee liability when guarantees are made (the loan liability) or as a valuation allowance to government-owned loans and interest receivable (i.e., direct and defaulted guaranteed loans).

The Department uses a computerized cash flow projection Student Loan Model to calculate subsidy estimates for the Direct Loan and FFEL programs. Each year, the Department re-evaluates the estimation methods related to changing conditions. The Department uses a probabilistic technique to forecast interest rates based on different methods to establish the relationship between an event's occurrence and the magnitude of its probability. The Department's approach estimates interest rates under numerous scenarios and then bases interest rates on the average interest rates weighted by the assumed probability of each scenario occurring. Probabilistic methodology facilitates the modeling of the Department's unique loan programs.

For each program, cash flows are projected over the life of the loans, aggregated by loan type, cohort year, and risk category. The loan's cohort year represents the year a direct loan was obligated or a loan was guaranteed, regardless of the timing of disbursements. Risk categories include two-year colleges, freshmen and sophomores at four-year colleges, juniors and seniors at four-year colleges, graduate schools, and proprietary (for profit) schools.

Estimates reflected in these statements were prepared using assumptions developed for the fiscal year 2008 Mid-Session Review, a government-wide exercise required annually by OMB. Assumptions and their impact are updated after the Mid-Session Review to account for significant subsequent changes in activity. These estimates are based on the most current information available to the Department at the time the financial statements were prepared. Department management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of these changes as appropriate.

The Department recognizes that the cash flow projections and the sensitivity of the changes in assumptions can have a significant impact on the estimates. Management has attempted to mitigate fluctuations in the estimate by using trend analysis to project future cash flows. Changes in assumptions could significantly affect the amounts reflected in these statements. For example, a minimal change in the projected long-term interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount. (See Note 6)

Budget Authority

Budget authority is the authorization provided by law for the Department to incur financial obligations that will result in outlays. The Department's budgetary resources include (1) unobligated balances of resources from prior years, (2) recoveries of prior-year obligations, and (3) new resources—appropriations, authority to borrow from the U.S. Department of the Treasury (Treasury), and spending authority from collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end may have new obligations placed against them, as well as net upward adjustments of prior year obligations.

Authority to borrow from Treasury provides most of the funding for the loan principal disbursements made under the Direct Loan Program. Subsidy and administrative costs of the program are funded by appropriations. Budgetary resources from collections are used primarily to repay the Department's debt to Treasury. Major sources of collections include (1) principal and interest collections from borrowers or through the consolidation of loans to borrowers, (2) related fees, and (3) interest from Treasury on balances in certain credit program accounts that make and administer loans and guarantees.

Borrowing authority is an indefinite budgetary resource authorized under the Credit Reform Act, as amended. This resource, when realized, finances the unsubsidized portion of the Direct Loan portfolio. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy. Treasury prescribes the terms and conditions of borrowing authority and lends to the Direct Loan Financing Account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. The Department combines its entity and non-entity assets on the face of the balance sheet and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

The Fund Balance with Treasury includes general, revolving, trust, and other funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes the cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of Treasury.

A portion of the general funds is funded in advance by multi-year appropriations for expenditures anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require annual appropriations. Their fund balance is derived from borrowings, and collections from the public and other federal agencies. Trust funds generally consist of donations for the hurricane relief activities. Other funds, which are non-budgetary, primarily consist of deposit funds, and suspense and clearing accounts.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority. (See Note 3)

Accounts Receivable

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

Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of Guaranty Agency reserves that represent the federal government's interest in the net assets of state and nonprofit FFEL Program Guaranty Agencies. Guaranty Agency reserves are classified as non-entity assets with the public (See Notes 2 and 5) and are offset by a corresponding liability due to Treasury. Guaranty Agency reserves include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, Guaranty Agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

Section 422A of the HEA required FFEL Guaranty Agencies to establish a Federal Student Loan Reserve Fund (Federal Fund) and an Operating Fund by December 6, 1998. The Federal Fund and the non-liquid assets developed or purchased by a Guaranty Agency, in whole or in part with federal funds, are the property of the United States and reflected in the *Budget of the United States Government*. However, such ownership by the federal government is independent of the actual control of the assets. The net value of the Federal Fund will change from year to year. Recalls are payments to the Department from Guaranty Agency Federal Funds, which increase Fund Balance with Treasury; recalls were remitted to Treasury at fiscal year-end.

The Department disburses funds to a Guaranty Agency through its Federal Fund to pay lender claims and default aversion fees of a Guaranty Agency. The Operating Fund is the property of the Guaranty Agency except for amounts an agency borrows from the Federal Fund (as authorized under Section 422A of the HEA). The Operating Fund is used by the Guaranty Agency to fulfill responsibilities that include repaying money borrowed from the Federal Fund, and performing default aversion and collection activities.

Credit Program Receivables and Liabilities for Loan Guarantees

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

Components of subsidy costs for loans and guarantees include defaults (net of recoveries), contractual payments to third-party private loan collectors who receive a set percentage of amounts collected, and, as an offset, application and other fees to be collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to target groups is also subsidized (or may provide an offset to subsidy if the Department's rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to buy down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and are re-estimated each year. (See Note 6)

General Property, Plant and Equipment

The Department capitalizes single items of property and equipment with a cost of $50,000 or more that have an estimated useful life greater than two years. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of $500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project or the purchase of like items occurring within the same fiscal year that have an estimated useful life greater than two years. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation.

Internal Use Software meeting the above cost and useful life criteria is also capitalized. Internal Use Software is either purchased off the shelf, internally developed, or contractor developed solely to meet the agency's internal needs. (See Note 7)

The Department adopted the following useful lives for its major classes of depreciable property and equipment:

Major Classes of Depreciable Property and Equipment	Years
Information Technology, Internal Use Software and Telecommunications Equipment	3
Furniture and Fixtures	5

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty the appropriation will be enacted. The government acting in its sovereign capacity can abrogate liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority enacted as of year-end.

Debt

The Department borrows to provide funding for direct loans to students, and for facilities loans. The liability to Treasury from borrowings represents unpaid principal on the loans at year-end. The Department repays the loan principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury, with such rates generally fixed based on the rate for 10-year securities. In addition, the Federal Financing Bank (FFB) holds bonds issued by the Department on behalf of the Historically Black Colleges and Universities Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest as a payable to the FFB. (See Note 8)

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. A liability is accrued by the Department for expenditures incurred by grantees prior to their receiving grant funds to cover the expenditures. The amount is estimated using statistical sampling techniques. (See Note 10)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances of appropriations, except for federal credit financing and liquidating funds, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 11)

Earmarked Funds

Earmarked funds are recorded as specially identified revenues, often supplemented by other financing sources, which remain available over time. These funds are required by statute to be used for designated activities, benefits or purposes. The Department's earmarked funds are primarily related to the 2005 Hurricane Relief efforts. (See Note 16)

Personnel Compensation and Other Employee Benefits

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

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

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

Contributions for CSRS, FERS and other retirement benefits are insufficient to fully fund the programs, which are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors OPM provides, and reports the full cost of the programs related to its employees.

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

The FECA liability consists of two components. The first component is based on actual claims paid by Labor but not yet reimbursed by the Department. The Department reimburses Labor for the amount of actual claims as funds are appropriated for this purpose. There is generally a two- to three-year time period between payment by Labor and reimbursement by the Department. As a result, a liability is recognized for the actual claims paid by Labor and to be reimbursed by the Department.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs. Labor determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using OMB economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost-of-living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments and to adjust future benefit payments to current year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

The estimated projections are evaluated by Labor to ensure that the resulting projections are reliable. The analysis is based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in charge-back year 2007 to the average pattern observed during the most current three charge-back years, and (4) a comparison of the estimated liability per case in the 2007 projection to the average pattern for the projections of the most recent three years.

Intragovernmental Transactions

The Department's financial activities interact with and are dependent upon the financial activity of the centralized management functions of the federal government. Due to financial regulation and management control by OMB and Treasury, operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity.

Allocation Transfers

The Department is a party to allocation transfers with the Appalachian Regional Commission as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Treasury provides a separate fund account as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child are charged to this allocation account as the child executes the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers is reported in the financial statements of the Appalachian Regional Commission, from which the underlying legislative authority, appropriations, and budget apportionments are derived.

Note 2. Non-Entity Assets

(Dollars in Millions)	2007	2006
Non-Entity Assets		
Intragovernmental		
Fund Balance with Treasury	$ 33	$ 39
Total Intragovernmental	**33**	**39**
With the Public		
Cash and Other Monetary Assets	1,103	566
Accounts Receivable, Net	12	12
Credit Program Receivables, Net	188	192
Total With the Public	**1,303**	**770**
Total Non-Entity Assets	**1,336**	**809**
Entity Assets	213,302	213,612
Total Assets	$ 214,638	$ 214,421

Non-entity intragovernmental assets primarily consist of deposit fund balances. Non-entity assets with the public primarily consist of Guaranty Agency reserves and Perkins Program Loan Receivables. (See Notes 5 and 6)

Note 3. Fund Balance with Treasury

Fund Balances

(Dollars in Millions)	2007	2006
General Funds	$ 54,836	$ 54,790
Revolving Funds	42,625	52,176
Trust Funds	40	61
Other Funds	31	26
Fund Balance with Treasury	**$ 97,532**	**$ 107,053**

Status of Fund Balance with Treasury

(Dollars in Millions)	2007	2006
Unobligated Balance		
Available	$ 3,414	$ 4,081
Unavailable	37,866	47,063
Obligated Balance, Not Yet Disbursed	56,221	55,883
Non-Budgetary FBWT	31	26
Fund Balance with Treasury	**$ 97,532**	**$ 107,053**

Note 4. Accounts Receivable

	2007		
(Dollars in Millions)	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 4	$ -	$ 4
With the Public	215	(166)	49
Accounts Receivable	**$ 219**	**$ (166)**	**$ 53**

	2006		
(Dollars in Millions)	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 1	$ -	$ 1
With the Public	232	(189)	43
Accounts Receivable	**$ 233**	**$ (189)**	**$ 44**

Note 5. Cash and Other Monetary Assets

(Dollars in Millions)	2007	2006
Beginning Balance, Cash and Other Monetary Assets	**$ 566**	**$ 888**
Valuation Increase (Decrease) in Guaranty Agency Federal Funds	793	(29)
Less: Collections from Guaranty Agency Federal Funds		
Statutory Recall Amounts Collected from GAs	82	82
Excess Collections Remitted by GAs	174	211
Net Collections	256	293
Ending Balance, Cash and Other Monetary Assets	**$ 1,103**	**$ 566**

Cash and Other Monetary Assets consist of Guaranty Agency reserves and represent non-entity assets. The $537 million net increase in the Federal Fund from fiscal year 2006 to fiscal year 2007 reflects the impact of Guaranty Agencies' ongoing federal operations. Of this increase, $185 million represents the first full-year collection of the statutory 1 percent loan insurance premium by Guaranty Agencies. An additional $489 million reflects the clarification and refinement of the calculation of the allowance for loss on the Federal Fund. These increases are partially offset by amounts remitted to the Department by the Guaranty Agencies, which consist of statutory recall amounts and excess collections.

Changes in the valuation of the Federal Fund increase or decrease the Department's Cash and Other Monetary Assets with a corresponding change in the Payable to Treasury.

Note 6. Credit Programs for Higher Education

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

Private lender loans to students and parents are insured by the federal government under the FFEL Program. FFEL loans are guaranteed by the federal government against default with state or private nonprofit Guaranty Agencies acting as intermediaries in administering the guarantees.

Beginning with FFEL loans first disbursed on or after October 1, 1993, financial institutions became responsible for 2 percent of the cost of each default. Guaranty Agencies also began paying a portion of the cost (in most cases, 5 percent) of each defaulted loan from federal reserves they hold in trust. (See Note 5) FFEL lender participants receive statutorily set federal interest and special allowance subsidies. Guaranty Agencies receive fee payments as set by statute. In most cases, loan terms and conditions under the two programs are identical.

The FFEL estimated liability for loan guarantees is reported as the present value of estimated net cash outflows. Defaulted FFEL loans are reported net of an allowance for subsidy computed using net present value methodology, including defaults, collections, and loan cancellations. The same methodology is used to estimate the allowance on Direct Loan receivables.

The Department disbursed approximately $15.7 billion in direct loans to eligible borrowers in fiscal year 2007 and approximately $32.3 billion in fiscal year 2006. Loans typically are disbursed in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Half of all loan volume is obligated in the fourth quarter of a fiscal year. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

As of September 30, 2007 and 2006, total principal balances outstanding of guaranteed loans held by lenders were approximately $363 billion and $325 billion, respectively. As of September 30, 2007 and 2006, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $359 billion and $321 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the Guaranty Agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the Guaranty Agencies from their Federal Fund. Payments by Guaranty Agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies but owned by the federal government.

The Department accrues interest receivable and records interest revenue on its performing direct loans. Given the Department's substantial collection rates, interest receivable is also accrued and interest revenue recognized on defaulted direct loans. Guaranteed loans that default are initially turned over to Guaranty Agencies for collection, and interest receivable is accrued and recorded on the loans as the collection rate is substantial. After approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection. Accrued interest on the subrogated loan is calculated but only realized upon collection.

Approximately 7 percent of loan commitments made in an individual fiscal year are never disbursed due to the nature of the loan commitment process (for that portion of a loan cohort that does disburse, approximately 93 percent, will do so over two years). Schools establish a loan commitment upon receipt of an aid application. The loan commitment may occur before a student has been accepted by the school or begins classes. For direct loans committed in the 2007 cohort, an estimated $1.6 billion will never be disbursed; for guaranteed loans committed in the 2007 cohort, an estimated $10.4 billion will never be disbursed. Direct loan schools may originate loans through a cash advance from the Department, or by advancing their own funds in anticipation of reimbursement from the Department.

Loan Consolidations

The Department permits borrowers to prepay and close out existing loans without penalty from capital raised through the disbursement of a new consolidation loan. Under the Credit Reform Act and requirements provided by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the retirement of loans being consolidated is considered a receipt of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. The underlying direct or guaranteed loans, whether performing or nonperforming, in any given cohort are paid off in their original cohort, and new loans are opened in the cohort in which consolidation activity occurs. This consolidation activity is taken into consideration in establishing the subsidy rate for defaults. The effect of new consolidations is reflected in subsidy expense for the current year cohort, while the effect on prior cohorts is reflected in the re-estimate. The loan liability and net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect costs associated with anticipated future consolidation loans.

On July 1, 2007, variable student loan interest rates increased by 0.08 percentage points to 7.22 percent from 7.14 percent. This change in variable interest rate is applicable to loans first disbursed on or after July 1, 2007, and is insignificant compared to the prior year change of nearly 2 percentage points. As a result, the number of student loan consolidations decreased. Direct loan consolidation disbursements for fiscal year 2007 were $3.6 billion and for fiscal year 2006 were $19.9 billion.

Based on current estimates, the prepayment of the underlying FFEL loans produces significant savings through the elimination of future special allowance payments. New consolidations are reflected in the 2007 cohort resulting in increased prepayments of underlying loans from prior cohorts.

Credit Program Receivables, Net

(Dollars in Millions)	2007	2006
Direct Loan Program Loan Receivables, Net	$ 99,002	$ 92,603
FFEL Program Loan Receivables, Net	16,562	13,588
Perkins Program Loan Receivables, Net	188	192
Facilities and Other Loan Receivables, Net	152	345
Credit Program Receivables, Net	**$ 115,904**	**$ 106,728**

The following schedules summarize the Direct Loan and defaulted FFEL principal and related interest receivable, net or inclusive of the allowance for subsidy.

Direct Loan Program Receivables

(Dollars in Millions)	2007	2006
Principal Receivable	$ 102,440	$ 97,306
Interest Receivable	4,807	3,702
Receivables	**107,247**	**101,008**
Less: Allowance for Subsidy	8,245	8,405
Credit Program Receivables, Net	**$ 99,002**	**$ 92,603**

Of the $107.2 billion in Direct Loan receivables as of September 30, 2007, $9.3 billion in loan principal was in default and held at the Department's Borrowers Services Collections Group. As of September 30, 2006, $8.1 billion in loan principal was in default and held at the Department's Borrowers Services Collections Group out of the $101.0 billion total receivable.

FFEL Program Receivables

	2007			2006		
(Dollars in Millions)	Pre-1992	Post-1991	Total	Pre-1992	Post-1991	Total
Principal Receivable	$ 8,208	$ 13,324	$ 21,532	$ 8,730	$ 10,263	$ 18,993
Interest Receivable	224	1,957	2,181	336	1,823	2,159
Receivables	**8,432**	**15,281**	**23,713**	**9,066**	**12,086**	**21,152**
Less: Allowance for Subsidy	4,396	2,755	7,151	4,717	2,847	7,564
Credit Program Receivables, Net	**$ 4,036**	**$ 12,526**	**$ 16,562**	**$ 4,349**	**$ 9,239**	**$ 13,588**

Loan Modifications

According to OMB Circular No. A-11, any government action that differs from actions assumed in the baseline estimate of cash flows and changes the estimated cost of an outstanding direct loan or loan guarantee is defined as a modification. Loan modifications are recognized under the same accounting principle for upward or downward adjustments to subsidy cost and for the recordation of modification adjustment transfer gains or losses. Separate amounts are calculated for modification costs and modification adjustment transfers. Modification adjustment transfers are required to adjust for the difference between current discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue.

2006 Modification

The *Deficit Reduction Act of 2005* (P.L. 109-171) (Deficit Reduction Act) included provisions revising the payment of account maintenance fees, Guaranty Agency retention on default collections, and an expansion of deferment eligibility for military borrowers performing eligible service. The Deficit Reduction Act shifts the payment of account maintenance fees, authorized under Section 458 of the HEA, to subsidy cost from administration funds or from the Federal Fund.

Beginning October 1, 2006, the Deficit Reduction Act requires Guaranty Agencies to return to the Department a portion of collection charges on defaulted loans paid off through consolidation equal to 8.5 percent of the outstanding principal and interest. Beginning October 1, 2009, Guaranty Agencies will be required to return the entire 18.5 percent on collections through consolidation that exceed 45 percent of their overall collections. In addition, the new military deferment provisions provide a maximum three-year deferment for soldiers serving in a war zone who have outstanding loans originated after July 1, 2001.

The FFEL Program recognized $1.7 billion and the Direct Loan Program recognized $7 million in modification costs in fiscal year 2006. The FFEL Program also recognized a net modification adjustment transfer gain of $94 million, while the Direct Loan Program recognized a net gain of $134 thousand.

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)	2007	2006
Beginning Balance, Allowance for Subsidy	**$ 8,405**	**$ 2,132**
Components of Subsidy Transfers		
Interest Rate Differential	(846)	(601)
Defaults, Net of Recoveries	422	1,226
Fees	(398)	(403)
Other	1,117	1,566
Current Year Subsidy Transfers	**295**	**1,788**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	(311)	(339)
Technical and Default Re-estimates	(483)	5,199
Subsidy Re-estimates	**(794)**	**4,860**
Components of Loan Modifications		
Loan Modification Costs	-	7
Modification Adjustment Transfers	-	-
Loan Modifications	-	**7**
Activity		
Fee Collections	448	473
Loan Cancellations[2]	(154)	(100)
Subsidy Allowance Amortization	435	(406)
Other	(390)	(349)
Total Activity	**339**	**(382)**
Ending Balance, Allowance for Subsidy	**$ 8,245**	**$ 8,405**

[1] The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

[2] Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.

Direct Loan Financing Account Interest Expense and Interest Revenue

(Dollars in Millions)	2007	2006
Interest Expense on Treasury Borrowing	$ 5,675	$ 6,505
Interest Expense	**$ 5,675**	**$ 6,505**
Interest Revenue from the Public	$ 4,859	$ 4,173
Amortization of Subsidy	(435)	406
Interest Revenue on Uninvested Funds	1,251	1,926
Interest Revenue	**$ 5,675**	**$ 6,505**

The Direct Loan financing account borrows from Treasury to fund the unsubsidized portion of its lending activities. As required, the Department calculates and pays Treasury interest at the end of each year. Interest is earned on the outstanding Direct Loan portfolio during the year and on its weighted average Fund Balance with Treasury at year-end.

Subsidy amortization is calculated, as required in Statement of Federal Financial Accounting Standards No. 2, *Accounting for Direct Loans and Loan Guarantees*, as the difference between interest revenue and interest expense. The allowance for subsidy is adjusted with the offset to interest revenue.

Payable to Treasury

(Dollars in Millions)	2007	2006
Future Liquidating Account Collections, Beginning Balance	$ 4,555	$ 3,411
Valuation of Pre-1992 Loan Liability and Allowance	288	2,036
Capital Transfers to Treasury	(735)	(892)
Future Liquidating Account Collections, Ending Balance	**4,108**	**4,555**
Collections on Guaranty Agency Federal Funds	2	13
Direct Loan Downward Subsidy Re-estimate	498	-
FFEL Downward Subsidy Re-estimate	743	951
Payable to Treasury	**$ 5,351**	**$ 5,519**

The liquidating account, based on available fund balance each year, liquidates the Fund Balance with Treasury. The FFEL and Direct Loan financing accounts pay the liability related to downward subsidy re-estimates upon budget execution.

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)	2007	2006
Beginning Balance, Liability for Loan Guarantees	**$ 52,350**	**$ 30,500**
Components of Subsidy Transfers		
Interest Supplement Costs	7,580	18,268
Defaults, Net of Recoveries	885	1,665
Fees	(5,052)	(7,859)
Other[1]	2,967	4,264
Current Year Subsidy Transfers	**6,380**	**16,338**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	1,286	90
Technical and Default Re-estimates	(2,782)	9,924
Subsidy Re-estimates	**(1,496)**	**10,014**
Components of Loan Modifications		
Loan Modification Costs	-	1,710
Modification Adjustment Transfers	-	94
Loan Modifications	**-**	**1,804**
Activity		
Interest Supplement Payments	(10,991)	(8,925)
Claim Payments	(5,924)	(4,345)
Fee Collections	4,036	3,799
Interest on Liability Balance	1,616	1,110
Other[2]	4,760	2,055
Total Activity	**(6,503)**	**(6,306)**
Ending Balance, Liability for Loan Guarantees	**50,731**	**52,350**
FFEL Liquidating Account Liability for Loan Guarantees	143	103
Liabilities for Loan Guarantees	**$ 50,874**	**$ 52,453**

[1] Subsidy primarily associated with debt collections and loan cancellations due to death, disability, and bankruptcy.

[2] Activity primarily associated with the transfer of subsidy for defaults; loan consolidation activity; and loan cancellations due to death, disability, and bankruptcy.

The FFEL liquidating account liability for loan guarantees is included in the total Liabilities for Loan Guarantees as shown in the FFEL Program Reconciliation of Liabilities.

Subsidy Expense

Direct Loan Program Subsidy Expense

(Dollars in Millions)	2007	2006
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ (846)	$ (601)
Defaults, Net of Recoveries	422	1,226
Fees	(398)	(403)
Other	1,117	1,566
Current Year Subsidy Transfers	**295**	**1,788**
Subsidy Re-estimates	(794)	4,860
Loan Modification Costs	-	7
Direct Loan Subsidy Expense	**$ (499)**	**$ 6,655**

In the 2007 re-estimates, Direct Loan subsidy expense was decreased by $794 million. Changes in the income-contingent repayment assumption increased subsidy expense by $1 billion. This increase was more than offset by decreases in subsidy cost related to loan volume of $(924) million, statutory loan discharges of $(544) million, interest rates of $(348) million and other factors. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan costs by $955 million.

In the 2006 re-estimates, Direct Loan subsidy expense was increased by $4.9 billion. Several factors accounted for this increase. Changes in the assumptions for the collections of defaulted loans contributed approximately $3.3 billion to the increase in subsidy expense. Other changes in assumptions for variables (such as assumed term and maturity, loan volume, and prepayment rates) increased subsidy expense by $1.4 billion. A refinement of the Department's forecast using interest rate scenarios provided by OMB in a probabilistic approach accounted for an increase of $230 million.

FFEL Program Loan Guarantee Subsidy Expense

(Dollars in Millions)	2007	2006
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ 7,580	$ 18,268
Defaults, Net of Recoveries	885	1,665
Fees	(5,052)	(7,859)
Other	2,967	4,264
Current Year Subsidy Transfers	**6,380**	**16,338**
Subsidy Re-estimates	(1,496)	10,014
Loan Modification Costs	-	1,710
FFEL Loan Guarantee Subsidy Expense	**$ 4,884**	**$ 28,062**

In the 2007 re-estimates, FFEL subsidy expense was decreased by $1.5 billion. Changes in the federal cost of loan deferments and forbearance increased subsidy expense by $2.3 billion. This increase was more than offset by changes in subsidy cost related to statutory loan discharges of $(1.4) billion, loan maturity and repayment rates of $(1.5) billion, loan volume of $(890) million and other factors. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $11.1 billion.

In fiscal year 2007 the Department restated the eligibility requirements specified by the HEA for lenders to receive special allowance payments at the 9.5 percent minimum return rate on loans made or purchased with funds derived from tax exempt obligations issued before October 1993, and implemented certain processes to validate eligibility. Pending obtaining definitive information regarding which loans will continue to qualify to receive such special allowances, it is not possible at this time to determine the potential reduction, if any, in the Department's subsidy estimates.

In the 2006 re-estimates, FFEL subsidy expense was increased by $10.0 billion. Changes in interest rates account for an $8.9 billion increase in subsidy expense. Of this $8.9 billion increase, $6.2 billion is attributed to the change in interest supplement costs associated with higher than originally forecasted loan consolidations which occurred in late fiscal year 2006. In addition, the refinement of the Department's forecasting methodology, as noted above, accounted for an additional $1.8 billion to the increase in subsidy expense. Other changes in assumptions for variables (such as assumed term and maturity, loan volume, and prepayment rates) decreased subsidy expense by $700 million on a net basis.

Subsidy Rates

The subsidy rates applicable to the 2007 loan cohort year were as follows:

Subsidy Rates—Cohort 2007

	Interest Differential	Defaults	Fees	Other	Total
Direct Loan Program	(5.41%)	2.41%	(2.30%)	6.78%	1.48%
	Interest Supplements	**Defaults**	**Fees**	**Other**	**Total**
FFEL Program	7.45%	0.85%	(5.02%)	3.00%	6.28%

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year. The subsidy expense for new direct or guaranteed loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when direct loans are disbursed by the Department or third-party lenders disburse guaranteed loans. These subsidy rates cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

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

Administrative Expenses

	2007		2006	
(Dollars in Millions)	**Direct Loan**	**FFEL**	**Direct Loan**	**FFEL**
Operating Expense	$ 397	$ 232	$ 342	$ 224
Other Expense	16	9	15	8
Administrative Expenses	**$ 413**	**$ 241**	**$ 357**	**$ 232**

Perkins Loan Program

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In some statutorily defined cases, funds are provided to schools so that student loans may be cancelled. For certain defaulted loans, the Department reimburses the originating school and collects from the borrowers. These collections are transferred to Treasury. At September 30, 2007 and 2006, loans receivable, net of an allowance for loss, were $188 million and $192 million, respectively. These loans are valued at historical cost.

Facilities Loan Programs

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

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

Facilities Loan Program Receivables

(Dollars in Millions)	2007	2006
Principal Receivable	$ 553	$ 428
Interest Receivable	6	6
Receivables	**559**	**434**
Less: Allowance for Subsidy	407	89
Credit Program Receivables, Net	**$ 152**	**$ 345**

Hurricane Relief Loans

In fiscal year 2006, Congress passed the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery* (P.L. 109-234). Section 2601 of this act created a new sub-program within the HBCU Capital Financing Program that would provide loans on advantageous terms to HBCUs affected by Hurricanes Rita and Katrina. Under this sub-program, the interest rate charged on loans is capped at 1 percent, fees associated with the program are less than those associated with the rest of the program, and institutions are not required to participate in the program's pooled escrow account. In addition, principal and interest payments on loans already made to affected HBCUs can be deferred for up to 3 years, with the Department making any payments that come due during this period. The statute gives the Department authority to make loans under the new sub-program in excess of the overall program loan caps. The Department has made four loans under the new sub-program and has assumed one default and no recoveries in making initial subsidy estimates. In light of these forecast assumptions and the expected cashflows for the new sub-program, OMB's Credit Subsidy Calculator estimates the subsidy rate for the program to be 76.21 percent. The current subsidy estimate for the sub-program is $304 million on a loan volume of $400 million.

Note 7. General Property, Plant and Equipment

(Dollars in Millions)	2007 Asset Cost	2007 Accumulated Depreciation	2007 Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 129	$ (84)	$ 45
Furniture and Fixtures	3	(2)	1
General Property, Plant and Equipment	**$ 132**	**$ (86)**	**$ 46**

(Dollars in Millions)	2006 Asset Cost	2006 Accumulated Depreciation	2006 Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 102	$ (74)	$ 28
Furniture and Fixtures	3	(2)	1
General Property, Plant and Equipment	**$ 105**	**$ (76)**	**$ 29**

The majority of the asset costs relate to financial management systems and other information technology and communications improvements.

Leases

The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, but expensed as incurred. Estimated future minimum lease payments for the privately owned buildings are presented below.

2007
(Dollars in Millions)

Fiscal Year	Lease Payment
2008	$ 47
2009	48
2010	52
2011	56
2012	63
After 2012	65
Total	**$ 331**

2006
(Dollars in Millions)

Fiscal Year	Lease Payment
2007	$ 46
2008	47
2009	49
2010	53
2011	56
After 2011	58
Total	**$ 309**

Note 8. Debt

	2007				
	Treasury				
(Dollars in Millions)	**Direct Loans**	**Facilities Loans**	**Total**	**FFB**	**Total**
Beginning Balance	**$ 105,430**	**$ 93**	**$ 105,523**	**$ 154**	**$ 105,677**
New Borrowing	17,892	-	17,892	170	18,062
Repayments	(19,429)	(12)	(19,441)	(11)	(19,452)
Ending Balance	**$ 103,893**	**$ 81**	**$ 103,974**	**$ 313**	**$ 104,287**

	2006				
	Treasury				
(Dollars in Millions)	**Direct Loans**	**Facilities Loans**	**Total**	**FFB**	**Total**
Beginning Balance	**$ 104,372**	**$ 100**	**$ 104,472**	**$ 125**	**$ 104,597**
New Borrowing	33,278	-	33,278	44	33,322
Repayments	(32,220)	(7)	(32,227)	(15)	(32,242)
Ending Balance	**$ 105,430**	**$ 93**	**$ 105,523**	**$ 154**	**$ 105,677**

The level of repayments on borrowings to Treasury is derived from many factors. For instance, beginning of the year cash balance, collections, and new borrowings have an impact on the available cash to repay Treasury. Also, cash is held to cover future liabilities, such as contract collection costs and disbursements in transit.

Note 9. Other Liabilities

(Dollars in Millions)	2007		2006	
Other Liabilities	**Intragovern-mental**	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 87	$ -	$ 95	$ -
Employer Contributions and Payroll Taxes	3	-	3	-
Liability for Deposit Funds	(1)	35	(4)	30
Accrued Payroll and Benefits	-	15	-	15
Deferred Credits	-	-	-	1
Contractual Services	-	46	-	83
Total Other Liabilities Covered by Budgetary Resources	**89**	**96**	**94**	**129**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	31	-	31
Non-current				
Accrued Unfunded FECA Liability	3	-	3	-
Liabilities in Miscellaneous Receipt Accounts	200	-	-	204
Accrued FECA Actuarial Liability	-	16	-	17
Total Other Liabilities Not Covered by Budgetary Resources	**203**	**47**	**3**	**252**
Other Liabilities	**$ 292**	**$ 143**	**$ 97**	**$ 381**

Other liabilities include current and non-current liabilities. The non-current liability primarily relates to the student loan receivables of the Perkins Loan Program, which once collected, will be returned to the General Fund of Treasury.

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled $250 million and $255 million as of September 30, 2007 and 2006, respectively.

Liabilities covered by budgetary resources as of September 30, 2007 and 2006, totaled $164.8 billion and $167.3 billion, respectively.

Note 10. Accrued Grant Liability

The accrued grant liability by major reporting groups is shown in the table below.

(Dollars in Millions)	2007	2006
FSA	$ 1,030	$ 1,250
OESE	348	258
OSERS	478	171
Other	238	380
Accrued Grant Liability	**$ 2,094**	**$ 2,059**

Note 11. Net Position

Unexpended Appropriations **(Dollars in Millions)**	**2007**	**2006**
Unobligated Balances		
Available	$ 3,084	$ 4,056
Not Available	892	316
Undelivered Orders, end of period	48,071	47,440
Unexpended Appropriations	**$ 52,047**	**$ 51,812**

The Cumulative Results of Operations - Earmarked Funds of $39 million as of September 30, 2007, and $61 million as of September 30, 2006, represent donations from foreign governments, international entities and individuals to support Hurricane Katrina relief and recovery efforts that have not yet been used. (See Note 16)

The Cumulative Results of Operations - Other Funds of $(2,505) million as of September 30, 2007, and $(5,063) million as of September 30, 2006, consist mostly of net investments of capitalized assets and unfunded expenses, including upward subsidy re-estimates for loan programs.

Note 12. Intragovernmental Cost and Exchange Revenue by Program

As required by the *Government Performance and Results Act of 1993*, each of the Department's Reporting Organizations has been aligned with the major goals presented in the Department's *Strategic Plan 2002-2007*.

Net Cost Program	Reporting Organizations	Strategic Goal
Enhancement of Postsecondary and Adult Education	FSA OPE OVAE	5. Enhance the Quality of and Access to Postsecondary and Adult Education
Creation of Student Achievement, Culture of Achievement and Safe Schools	OESE OELA OSDFS	2. Improve Student Achievement 3. Develop Safe and Drug-Free Schools
Transformation of Education	IES OII	4. Transform Education into an Evidence-Based Field
Special Education and Program Execution	OSERS	Cuts across Strategic Goals 2, 3, 4, and 5

The Department considers Strategic Goal 1, Create a Culture of Achievement, a synopsis of the four pillars on which educational excellence is established, and Strategic Goal 6, Establish Management Excellence, which emphasizes administrative and oversight responsibilities, to be high-level premises on which the Department bases its foundation for each of the other four strategic goals. These two strategic goals support our programmatic mission, and, as a result, we do not assign specific programs to either of these strategic goals for presentation in the Statement of Net Cost. Goals 2 through 5 are sharply defined directives that guide divisions of the Department to carry out the vision and programmatic mission, and the Net Cost programs can be specifically associated with these four strategic goals.

The following table presents the gross cost and exchange revenue by program for the Department for fiscal years 2007 and 2006. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between the Department and another entity within the federal government) or with the public (exchange transactions between the Department and a non-federal entity). The Department reclassified fiscal year 2006 FFEL interest expense to conform to the fiscal year 2007 presentation.

Gross Cost and Exchange Revenue by Program

2007

(Dollars in Millions)	FSA	OESE	OSERS	Other	Total
Enhancement of Postsecondary and Adult Education					
Intragovernmental Gross Cost	$ 5,561	$ -	$ -	$ 82	$ 5,643
Gross Costs with the Public	21,858	-	-	4,423	26,281
Total Program Costs	27,419	-	-	4,505	31,924
Less: Intragovernmental Earned Revenue	3,452	-	-	-	3,452
Earned Revenue from the Public	4,459	-	-	22	4,481
Total Program Revenue	7,911	-	-	22	7,933
Creation of Student Achievement, Culture of Achievement and Safe Schools					
Intragovernmental Gross Cost	-	142	-	17	159
Gross Costs with the Public	-	21,279	-	1,930	23,209
Total Program Costs	-	21,421	-	1,947	23,368
Less: Intragovernmental Earned Revenue	-	-	-	78	78
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	-	78	78
Transformation of Education					
Intragovernmental Gross Cost	-	-	-	76	76
Gross Costs with the Public	-	-	-	1,392	1,392
Total Program Costs	-	-	-	1,468	1,468
Less: Intragovernmental Earned Revenue	-	-	-	4	4
Earned Revenue from the Public	-	-	-	14	14
Total Program Revenue	-	-	-	18	18
Special Education and Program Execution					
Intragovernmental Gross Cost	-	-	82	-	82
Gross Costs with the Public	-	-	15,474	-	15,474
Total Program Costs	-	-	15,556	-	15,556
Less: Intragovernmental Earned Revenue	-	-	3	-	3
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	3	-	3
Net Cost of Operations	**$19,508**	**$21,421**	**$15,553**	**$7,802**	**$64,284**

2006					
(Dollars in Millions)	FSA	OESE	OSERS	Other	Total
Enhancement of Postsecondary and Adult Education					
Intragovernmental Gross Cost	$ 6,747	$ -	$ -	$ 81	$ 6,828
Gross Costs with the Public	52,056	-	-	4,472	56,528
Total Program Costs	58,803	-	-	4,553	63,356
Less: Intragovernmental Earned Revenue	3,131	-	-	1	3,132
Earned Revenue from the Public	4,641	-	-	17	4,658
Total Program Revenue	7,772	-	-	18	7,790
Creation of Student Achievement, Culture of Achievement and Safe Schools					
Intragovernmental Gross Cost	-	172	-	20	192
Gross Costs with the Public	-	21,754	-	2,659	24,413
Total Program Costs	-	21,926	-	2,679	24,605
Less: Intragovernmental Earned Revenue	-	-	-	60	60
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	-	60	60
Transformation of Education					
Intragovernmental Gross Cost	-	-	-	81	81
Gross Costs with the Public	-	-	-	1,282	1,282
Total Program Costs	-	-	-	1,363	1,363
Less: Intragovernmental Earned Revenue	-	-	-	4	4
Earned Revenue from the Public	-	-	-	14	14
Total Program Revenue	-	-	-	18	18
Special Education and Program Execution					
Intragovernmental Gross Cost	-	-	151	-	151
Gross Costs with the Public	-	-	15,224	-	15,224
Total Program Costs	-	-	15,375	-	15,375
Less: Intragovernmental Earned Revenue	-	-	2	-	2
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	2	-	2
Net Cost of Operations	**$51,031**	**$21,926**	**$15,373**	**$8,499**	**$96,829**

Note 13. Interest Expense and Interest Revenue

	Direct Loan Program		FFEL Program		Other Programs		Total	
(Dollars in Millions)	2007	2006	2007	2006	2007	2006	2007	2006
Federal	$ 5,675	$ 6,505	$ -	$ -	$ 15	$ 15	$ 5,690	$ 6,520
Non-federal	-	-	1,616	1,110	-	-	1,616	1,110
Interest Expense	**$ 5,675**	**$ 6,505**	**$ 1,616**	**$ 1,110**	**$ 15**	**$ 15**	**$ 7,306**	**$ 7,630**
Federal	$ 1,251	$ 1,926	$ 1,616	$ 1,110	$ -	$ -	$ 2,867	$ 3,036
Non-federal	4,424	4,579	-	-	24	19	4,448	4,598
Interest Revenue	**$ 5,675**	**$ 6,505**	**$ 1,616**	**$ 1,110**	**$ 24**	**$ 19**	**$ 7,315**	**$ 7,634**

For the Direct Loan Program, federal interest expense is recognized on the Department's outstanding debt. Non-federal interest revenue is earned on the individual loans in the loan portfolio, while federal interest is earned on the uninvested fund balance with Treasury. For the FFEL Program, federal interest revenue is earned on the uninvested fund balance with Treasury in the financing account. The Department reclassified fiscal year 2006 FFEL program interest expense to conform to the fiscal year 2007 presentation.

Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2007, budgetary resources were $168,264 million and net outlays were $74,530 million. As of September 30, 2006, budgetary resources were $210,921 million and net outlays were $70,645 million.

Permanent Indefinite Budget Authority

The Direct Loan Program and the FFEL Program have permanent indefinite budget authority through legislation. Part D of the William D. Ford Federal Direct Loan Program and Part B of the Federal Family Education Loan Program, pursuant to the HEA, pertain to the existence, purpose, and availability of this permanent indefinite budget authority.

Reauthorization of Legislation

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

Apportionment Categories of Obligations Incurred

(Dollars in Millions)	2007	2006
Direct:		
Category A	$ 1,303	$ 1,298
Category B	124,472	157,644
Exempt from Apportionment	13	176
	125,788	159,118
Reimbursable:		
Category A	-	-
Category B	-	-
Exempt from Apportionment	93	92
	93	92
Apportionment Categories of Obligations Incurred	**$ 125,881**	**$ 159,210**

Category A apportionments are those resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

Unused Borrowing Authority

(Dollars in Millions)	2007	2006
Beginning Balance, Unused Borrowing Authority	$ 7,248	$ 5,481
Current Year Borrowing Authority	20,037	35,089
Funds Drawn From Treasury	(18,062)	(33,322)
Ending Balance, Unused Borrowing Authority	**$ 9,223**	**$ 7,248**

The Department is given authority to draw funds from Treasury to finance its direct lending activity. Unused Borrowing Authority is a budgetary resource and is available to support obligations. The

Department periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

Undelivered Orders at the End of the Period

	2007		2006	
(Dollars in Millions)	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Undelivered Orders	**$ 48,235**	**$ 14,217**	**$ 47,630**	**$ 12,472**

Undelivered orders at the end of the year, as presented above, will differ from the undelivered orders included in the Net Position, Unexpended Appropriations. Undelivered orders for trust funds, reimbursable agreements, and federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 11)

Explanation of Differences Between the Statement of Budgetary Resources and the *Budget of the United States Government*

The *Fiscal Year 2009 Budget of the United States Government* (President's Budget) presenting the actual amounts for the year ended September 30, 2007, has not been published as of the issue date of these financial statements. The fiscal year 2009 President's Budget is scheduled for release in February 2008. A reconciliation of the fiscal year 2006 SBR to fiscal year 2008 President's Budget (fiscal year 2006 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays is presented below.

(Dollars in Millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 210,921	$ 159,210	$ 51	$ 70,645
Expired Funds	(713)	(424)	-	-
Amounts included in the President's Budget	5,210	5,209	-	-
Funds excluded from President's Budget and Rounding	5	1	-	(1)
Distributed Offsetting Receipts	-	-	93	51
Budget of the United States Government	**$ 215,423**	**$ 163,996**	**$ 144**	**$ 70,695**

The President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Funds of the Guaranty Agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the fiscal year 2006 Statement of Budgetary Resources for the Federal Fund are compiled through combining all Guaranty Agencies' Annual Reports to determine a net valuation amount for the Federal Fund.

Note 15. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations (proprietary) to Budget provides information on the total resources used, both those received through budgetary resources and those received through other means during the reporting period. The schedule presented in this footnote reconciles these resources with the net cost of operations by (1) removing resources that do not fund net cost of operations and (2) including components of net cost of operations that did not generate or use resources during the year.

Offsetting Receipts, a component of Resources Used to Finance Activities, include downward re-estimates for the Direct Loan and FFEL Programs. OMB Circular No. A-11, revised as of November 2006, requires that downward subsidy re-estimates in guaranteed and direct loan programs be paid from the financing accounts to general fund receipt accounts beginning in fiscal year 2007. In fiscal year 2006 and prior years, the downward subsidy re-estimates were paid to the related program accounts.

Components Requiring or Generating Resources in Future Periods primarily result from subsidy expense recognized for financial statement re-estimate purposes as required by the Statement of Federal Financial Accounting Standards No. 2. Re-estimates published in the President's Budget, when executed, generate or require resources.

Reconciliation of Net Cost of Operations to Budget

	2007	2006
Resources Used to Finance Activities		
Obligations Incurred	$ (125,881)	$ (159,210)
Spending Authority from Offsetting Collections and Recoveries	44,165	84,362
Offsetting Receipts	4,873	(51)
Imputed Financing from Costs Absorbed by Others	(32)	(31)
Total Resources Used to Finance Activities	**(76,875)**	**(74,930)**
Resources Used to Finance Items Not Part of Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided (+/-)	(2,343)	(2,946)
Resources that Fund Expenses Recognized in Prior Period	(3,345)	(2,840)
Credit Program Collections which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	34,261	73,723
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in the Current or Prior Period	(39,979)	(48,328)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(11,406)**	**19,609**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	(445)	400
Other (+/-)	907	(94)
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	**462**	**306**
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	(31)	(31)
Upward/Downward Re-estimates of Credit Subsidy Expense	(1,354)	(4,200)
Increase in Exchange Revenue Receivable from the Public	2,302	1,603
Other (+/-)	(194)	32
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	**723**	**(2,596)**
Net Cost of Operations	**$ (64,284)**	**$ (96,829)**

Note 16. 2005 Hurricane Relief

On August 29, 2005, Hurricane Katrina struck the Gulf Coast, resulting in widespread catastrophic damage to the coastal regions of Louisiana, Mississippi and Alabama. Immediately following Katrina, Hurricane Rita struck the same region, adding Texas to the states already catastrophically damaged and hindering the recovery efforts. The death toll, property damage, dislocation of families, and destruction of the infrastructure of the communities and economies of the Gulf Coast represent a humanitarian crisis that will affect these areas for many years to come.

The Department quickly responded by accelerating the application process for the region's loan applicants, students, borrowers, Guaranty Agencies, educational institutions and other program participants to expedite education-related relief. In addition, the Secretary was authorized to waive or modify statutory or regulatory provisions as applicable for student financial assistance programs. While this provided some relief for the coastal regions, it was apparent that the damage to the affected communities required significant financial support to rebuild the educational systems and return students and teachers to their classrooms.

Funds Appropriated for Hurricane Relief

The *Hurricane Education Recovery Act* (P.L. 109-148, Division B, Title IV) was enacted on December 30, 2005. The act appropriated $1.6 billion to the Department. This funding provides needed assistance to reopen schools and help educate the 370,000 students affected by Hurricanes Katrina and Rita. In June 2006, an additional $285 million was appropriated to the Department to assist with the relief efforts. In June 2007, the *U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007*, authorized an additional $60 million appropriation for continued relief efforts. As of September 30, 2007, $1.9 billion in aid has been obligated to assist local educational agencies and non-public schools, and approximately $1.6 billion has been expended.

(Dollars in Millions)	Appropriated	Obligated	Expended
Emergency Impact Aid for Displaced Students (Impact Aid) Program	$ 880	$ 878	$ 842
Immediate Aid to Restart School Operations (Restart Aid) Program	750	750	492
Higher Education Relief	280	280	220
Special Compensation for Education Personnel	30	30	-
Assistance for Homeless Youth (Homeless Aid) Program	5	5	3
2005 Hurricane Disaster Relief	**$ 1,945**	**$ 1,943**	**$ 1,557**

Earmarked Funds Donated for Hurricane Relief

In the aftermath of Hurricane Katrina, a number of foreign governments, international entities and individuals made donations of financial assistance to the U.S. Government to support Katrina relief and recovery efforts. These donations were received by the U.S. Department of State as an intermediary. Subsequently, $61 million was transferred to the Department to finance educational initiatives in Louisiana and Mississippi under a Memorandum of Understanding issued in March 2006. As of September 30, 2007, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts and $22 million has been expended.

Note 17. Contingencies

Guaranty Agencies

The Department can assist Guaranty Agencies experiencing financial difficulties by advancing funds or by other means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of Guaranty Agencies because the likelihood of such occurrences is uncertain and cannot be estimated with sufficient reliability.

Perkins Loan Reserve Funds

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In fiscal year 2007, the Department provided funding of 84.3 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 15.7 percent of program funding. For the latest academic year ended June 30, 2007, approximately 722,003 loans were made, totaling approximately $1.6 billion at 1,636 institutions, averaging $2,230 per loan. The Department's share of the Perkins Loan Program was approximately $6.5 billion as of June 30, 2007.

In fiscal year 2006, the Department provided funding of 84.6 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 15.4 percent of program funding. For the academic year ended June 30, 2006, approximately 727,546 loans were made, totaling $1.6 billion at 1,666 institutions, averaging $2,178 per loan. The Department's share of the Perkins Loan Program was approximately $6.5 billion as of June 30, 2006.

Perkins Loan borrowers who meet statutory eligibility requirements—such as service as a teacher in low-income areas, as a Peace Corps or VISTA volunteer, in the military or in law enforcement, in nursing, or in family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances, a contingency is deemed to exist. The Department may be required to compensate Perkins Loan institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Other Matters

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

Note 18. Subsequent Events

The College Cost Reduction and Access Act of 2007 (CCRAA), P.L. 110-84, was passed by Congress, signed by the President, and became effective October 1, 2007. No part of this act was effective during fiscal year 2007, nor were any budgetary resources provided by Treasury or apportioned by OMB. Consistent with instructions received from OMB regarding the application of OMB Circular No. A-11 and Statement of Federal Financial Accounting Standard No. 2, cost adjustments to the outstanding student loan portfolio incurred as a result of the CCRAA will be apportioned, executed, and recognized in fiscal year 2008.

The CCRAA contains a number of provisions that will affect the cost of outstanding loans and loan guarantees. The modification costs resulting from the Act is estimated to require approximately $1.5 billion in budget authority based on 2008 President's Budget assumptions. The modification will be recalculated and executed based on updated 2009 budget assumptions in February 2008.

Required Supplementary Information

United States Department of Education
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2007
(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services		OTHER	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:										
Unobligated balance, brought forward, October 1:	$ 5,221	$ 46,490	$ 4,387	$ 46,490	$ 283		$ 183		$ 368	
Recoveries of prior year Unpaid Obligations	1,968	3,043	1,356	3,043	470		47		95	
Budgetary Authority:										
Appropriations	73,919	2	29,484		21,328		15,226		7,881	$ 2
Borrowing Authority		20,037		19,570						467
Spending authority from offsetting collections (gross):										
Earned										
Collected	1,816	37,373	1,691	37,019					125	354
Change in Receivables from Federal Sources	3						3			
Change in unfilled customer orders										
Advance Received	(5)				(1)		2		(6)	
Without advance from Federal Sources	(3)	(30)		(30)			(3)			
Subtotal	$ 75,730	$ 57,382	$ 31,175	$ 56,559	$ 21,327	$ 0	$ 15,228	$ 0	$ 8,000	$ 823
Nonexpenditure transfers, net, anticipated and actual			(1)						1	
Permanently not available	(2,119)	(19,451)	(1,845)	(19,429)	(145)		(27)		(102)	(22)
Total Budgetary Resources	**$ 80,800**	**$ 87,464**	**$ 35,072**	**$ 86,663**	**$ 21,935**	**$ 0**	**$ 15,431**	**$ 0**	**$ 8,362**	**$ 801**
Status of Budgetary Resources:										
Obligations incurred:										
Direct	$ 75,435	$ 50,353	$ 30,623	$ 49,871	$ 21,491		$ 15,320		$ 8,001	$ 482
Reimbursable	93				(1)		2		92	
Subtotal	$ 75,528	$ 50,353	$ $30,623	$ $49,871	$ $21,490	$ $0	$ $15,322	$ $0	$ $8,093	$ $482
Unobligated Balances:										
Apportioned	3,093	321	2,504	321	332		79		178	
Exempt from apportionment										
Subtotal	$ 3,093	$ 321	$ 2,504	$ 321	$ 332		$ 79		$ 178	
Unobligated Balance not available	2,179	36,790	1,945	36,471	113		30		91	$ 319
Total Status of Budgetary Resources	**$ 80,800**	**$ 87,464**	**$ 35,072**	**$ 86,663**	**$ 21,935**	**$ 0**	**$ 15,431**	**$ 0**	**$ 8,362**	**$ 801**
Change in Obligated Balance:										
Obligated balance, net										
Unpaid obligations, brought forward, October 1	$ 50,210	$ 12,953	$ 11,584	$ 12,941	$ 18,044		$ 10,617		$ 9,965	$ 12
Uncollected customer payments from Federal Sources, brought forward, October 1	(3)	(30)		(30)			(3)			
Total, unpaid obligated balance, brought forward, net	$ 50,207	$ 12,923	$ $11,584	$ $12,911	$ $18,044	$ $0	$ $10,614	$ $0	$ $9,965	$ $12
Obligation Incurred net (+/-)	75,528	50,353	30,623	49,871	21,490		15,322		8,093	482
Gross Outlays	(73,058)	(45,529)	(28,366)	(45,344)	(21,251)		(15,139)		(8,302)	(185)
Recoveries of prior year unpaid obligations, actual	(1,968)	(3,043)	(1,356)	(3,043)	(470)		(47)		(95)	
Change in uncollected customer payments from Federal Sources (+/-)		30		30						
Obligated Balance, net, end of period										
Unpaid Obligations	$ 50,712	$ 14,734	$ 12,485	$ 14,425	$ 17,813		$ 10,753		$ 9,661	$ 309
Uncollected customer payments from Federal Sources	(3)						(3)			
Total, unpaid obligated balance, net, end of period	**$ 50,709**	**$ 14,734**	**$ 12,485**	**$ 14,425**	**$ 17,813**	**$ 0**	**$ 10,750**	**$ 0**	**$ 9,661**	**$ 309**
Net Outlays										
Net Outlays:										
Gross Outlays	$ 73,058	$ 45,529	$ 28,366	$ 45,344	$ 21,251		$ 15,139		$ 8,302	$ 185
Offsetting collections	(1,811)	(37,373)	(1,691)	(37,019)	1		(2)		(119)	(354)
Distributed Offsetting receipts	(173)	(4,700)	(35)	(4,700)					(138)	
Net Outlays	**$ $71,074**	**$ $3,456**	**$ $26,640**	**$ $3,625**	**$ $21,252**	**$ $0**	**$ $15,137**	**$ $0**	**$ $8,045**	**$ ($169)**

Required Supplementary Stewardship Information

Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 85 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitative services. Although spending for entitlement programs is usually a function of the authorizing statutes creating the programs and is not generally affected by appropriations laws, spending for discretionary programs is decided in the annual appropriations process. Most Department programs are discretionary.

Education in the United States is primarily a state and local responsibility. States, communities, and public and private organizations establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominantly state and local role. It is estimated that roughly $1 trillion will be spent nationwide on education at all levels for the school year 2007–2008, with Department of Education expenditures, as well as loans and other aid made available as a result of the Department's student financial aid programs. The Department's FY 2007 appropriations of more than $67 billion represents about 2.4 percent of the federal government's $2.8 trillion FY 2007 budget. The federal contribution includes education expenditures not only from the Department of Education, but also from other federal agencies such as the Department of Health and Human Services' Head Start Program and the Department of Agriculture's School Lunch Program.

Investment in Human Capital

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

Office of Elementary and Secondary Education. The Office of Elementary and Secondary Education provides leadership, technical assistance, and financial support to state and local educational agencies for the maintenance and improvement of preschool, elementary, and secondary education. Financial assistance programs support services for children in high-poverty schools, institutions for neglected and delinquent children, homeless children, certain Native American children, children of migrant families, and children who live on or whose parents work on federal property. Funding is also provided to increase the academic achievement of students by ensuring that all teachers are highly qualified to teach.

Office of Special Education and Rehabilitative Services. The Office of Special Education and Rehabilitative Services supports state and local programs that assist in educating children, youth, and adults with special needs to increase their level of employment, productivity, independence, and integration into the community. Funding is also provided for research to improve the quality of their lives.

Office of Safe and Drug-Free Schools. The Office of Safe and Drug-Free Schools supports efforts to create safe and violence-free schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well-being of students, and teach students good citizenship and character. Special character and civic education initiatives are funded to reach those in state and local correctional institutions. Grants emphasize coordinated, collaborative responses to develop and maintain safe, disciplined, and drug-free learning environments.

Office of Innovation and Improvement. The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools, and community and nonprofit organizations. The office leads the movement for greater parental options such as charter schools. The office also supports special grants designed to raise student achievement by improving teachers' knowledge and understanding of and appreciation for traditional U.S. history.

Institute of Education Sciences. The Institute of Education Sciences compiles statistics; funds research, evaluations, and information dissemination; and provides research-based guidance to further evidence-based policy and practice focused on significant education problems. Research programs examine empirically the full range of issues facing children and individuals with disabilities, parents of children with disabilities, school personnel, and others. The National Library of Education is the largest federally funded library devoted entirely to education and provides reference and information services, collection and technical services, and resource sharing and cooperation.

Office of English Language Acquisition. The Office of English Language Acquisition directs programs designed to enable students with limited English proficiency to become proficient in English and meet state academic content and student achievement standards. Enhanced instructional opportunities are provided to children and youths of Native American, Alaska Native, Native Hawaiian, Pacific Islander, and immigrant backgrounds. Grants pay the federal share of the cost of model programs for the establishment, improvement, or expansion of foreign language study in elementary and secondary schools.

Office of Vocational and Adult Education. The Office of Vocational and Adult Education provides leadership, technical assistance, and funding for adult education and career and technical education to state and local agencies to help students improve their literacy skills and prepare them for postsecondary education and careers through strong high school programs and career and technical education. The office ensures the equal access of minorities, women, individuals with disabilities, and disadvantaged persons to career and technical education and adult education and ensures that career and technical education students are held to the same challenging academic content and academic achievement standards established by the state under the *No Child Left Behind Act of 2001*. Funding is also provided to promote identification and dissemination of effective practice in raising student achievement in high schools, community colleges and adult education programs, and lead targeted research investments.

Office of Postsecondary Education. The Office of Postsecondary Education provides grants to colleges and universities to: promote reform, innovation, and improvement in postsecondary education; increase access to and completion of postsecondary education by disadvantaged students; strengthen the capacity of colleges and universities that serve a high percentage of minority and disadvantaged students; and improve teacher and student development resources. The international programs promote international education and foreign language studies and research. The office administers the accrediting agency recognition process and coordinates activities with states that affect institutional participation in federal financial assistance programs.

Program Inputs

The Department currently administers programs affecting every area and level of education. In SY 2006–07 the Department's elementary and secondary programs served an estimated 49.6 million public school students and 6.1 million private school students. Department programs also provide grant, loan, and work-study assistance to an estimated 18 million postsecondary students.

While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. Since the *No Child Left Behind Act* was enacted in 2001, the Department's current staff of approximately 4,073 has decreased 11 percent below the 4,566 employees who administered federal education programs in 2001. At the same time, the Department manages 40 percent more in funds in 2007 than it did in 2001 when its human capital investment was only $38.7 billion. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to less than 2 percent of the Department's budget, ensuring that the Department delivers about 98 cents on the dollar in education assistance to states, school districts, postsecondary institutions, and students.

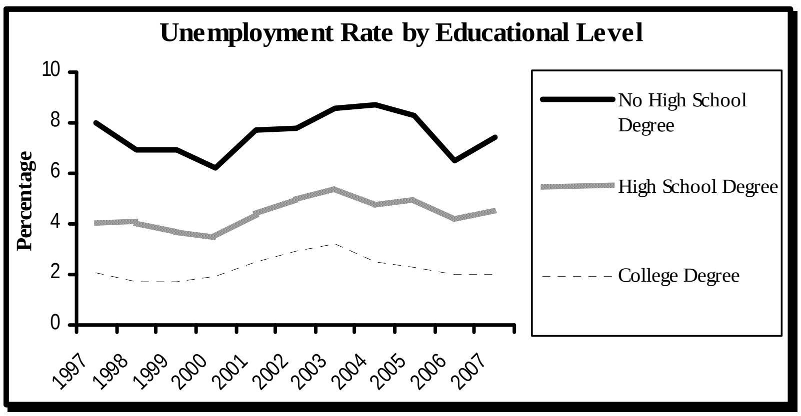
Summary of Human Capital Expenses

(Dollars in Millions)	2007	2006	2005	2004	2003
Federal Student Aid Expense					
Direct Loan Subsidy	$ (499)	$ 6,655	$ 5,211	$ (543)	$ 4,716
Guaranteed Loan Subsidy	4,884	28,062	9,863	8,516	2,509
Grant Programs	15,092	15,447	15,070	14,943	13,836
Salaries and Administrative	173	172	164	186	179
Subtotal	**19,650**	**50,336**	**30,308**	**23,102**	**21,240**
Other Departmental					
Elementary and Secondary Education	21,199	21,710	22,940	21,188	19,493
Special Education and Rehabilitative Services	15,402	15,215	13,995	12,687	11,529
Other Departmental Programs	5,109	5,353	6,067	5,160	4,828
Salaries and Administrative	467	467	486	448	395
Subtotal	**42,177**	**42,745**	**43,488**	**39,483**	**36,245**
Grand Total	**$ 61,827**	**$ 93,081**	**$ 73,796**	**$ 62,585**	**$ 57,485**

Program Outcomes

Education is the stepping stone to higher living standards for American citizens, and it is vital to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

Economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Both individuals and society as a whole have placed increased emphasis on educational attainment as the workplace has become increasingly technological, and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.



Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of completing high school and investing in postsecondary education.

Unemployment Rate. Individuals with lower levels of educational attainment are more likely to be unemployed than those who had higher levels of educational attainment. The September 2007 unemployment rate for adults (25 years old and over) who had not completed high school was 7.4 percent, compared with 4.6 percent for those with four years of high school and 2.0 percent for those with a bachelor's degree or higher. Younger people with only high school diplomas tended to have higher unemployment rates than adults 25 and over with similar levels of education.

Annual Income. As of September 2007, the annualized median income for adults (25 years and over) varied considerably by education level. Men with a high school diploma earned $36,244, compared with $65,000 for men with a college degree. Women with a high school diploma earned $26,624, compared with $48,776 for women with a college degree. Men and women with college degrees earned 78 percent more than men and women with high school diplomas. Earnings for workers with college degrees have increased in the past year by 12.45 percent for women and 9.87 percent for men. These returns of investing in education directly translate into the advancement of the American economy as a whole.

Report of the Independent Auditors

NOV 1 5 2007

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

Honorable Margaret Spellings
Secretary of Education
Washington, D.C. 20202

Dear Madam Secretary:

The enclosed reports present the results of the annual audits of the U.S. Department of Education's financial statements for fiscal years 2007 and 2006, to comply with the Government Management Reform Act of 1994 (GMRA). The reports should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of Ernst & Young, LLP (Ernst & Young) to audit the financial statements of the Department as of September 30, 2007 and 2006, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or on compliance with laws and regulations.

Ernst & Young is responsible for the attached auditor's report and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,

John P. Higgins, Jr.

Enclosures

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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Report of Independent Auditors

To the Inspector General
U.S. Department of Education

We have audited the accompanying consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Department's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As further discussed in Note 1 to the financial statements, pursuant to guidance issued by the OMB, certain information reconciling the net cost of operations to budgetary obligations which was previously reported in a consolidated statement of financing for the fiscal year ended September 30, 2006, has been presented in the notes to the financial statements along with the corresponding amounts for the fiscal year ended September 30, 2007.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States.

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Ernst & Young LLP

Report of Independent Auditors
Page 2

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in the Management's Discussion and Analysis, required supplementary stewardship information, required supplementary information, and other accompanying information is not a required part of the basic financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. The other accompanying information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it. For the remaining information, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 13, 2007, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Ernst + Young LLP

November 13, 2007

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Report on Internal Control

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheet of the U.S. Department of Education (the Department) as of September 30, 2007, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

In addition, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal control, determined whether internal control had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 07-04 and not to provide assurance on internal control. Accordingly, we do not provide an opinion on such controls.

With respect to internal control related to performance measures reported in the Management's Discussion and Analysis of the Department's consolidated and combined financial statements, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described below is a material weakness.

SIGNIFICANT DEFICIENCIES

1. Continued Focus on Credit Reform Estimation and Financial Reporting Processes is Warranted (Modified Repeat Condition)

The Federal Credit Reform Act of 1990, as amended, was enacted to require agencies to more accurately measure and budget for the cost of federal loan programs. In implementing the requirements of the Credit Reform Act, and in complying with Federal accounting standards, agencies are required to estimate the net cost of extending credit over the life of a direct loan or guaranteed loan based on the present value of estimated net cash flows, excluding certain administrative costs. Such costs are also re-estimated on a periodic basis. While improvements have been made over the last several years, we noted that internal controls and processes surrounding the calculation and reporting of the loan liability activity and subsidy estimates should be further refined to ensure that appropriate estimates are prepared.

During FY 2007, we noted that the Department made significant progress on certain aspects of this significant deficiency, including further documentation of the inputs to the Department's computer based cash flow projection model, and further refinement of the process used to analyze the products of the newly instituted cohort level analytic tools and comparison of general ledger activity to model cash flows. These are significant steps in enhancing the Department's knowledge.

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The Credit Reform Workgroup (CRW) was created in FY 2004 to improve the credit reform estimation process. During FY 2007, senior management of the CRW continued to meet regularly to discuss the direction of credit reform efforts. Concurrently, the Department streamlined the three sub-groups of the CRW into monthly integrated loans program meetings. Managers from the Office of the Chief Financial Officer (OCFO), Federal Student Aid (FSA), Budget Service, Office of Postsecondary Education (OPE), and OMB established a series of monthly meetings to review reports developed to enhance credit reform discussions and to discuss key internal issues and trends related to the portfolios. Information and analyses were reviewed as inputs into the assumptions to the credit reform models. The group recommended development of improved processes, procedures, and sources of information to enhance the credit reform estimation process.

However, after identifying the key improvements made or currently being made by the Department during our testing of loan guarantees, allowance for subsidy, and subsidy cost estimates, we noted the following items that indicate management controls and analysis can be strengthened:

- The long-term cost for the credit programs is reflected in the financial statements through periodic charges for subsidy costs, adjustments or re-estimates to those subsidy costs, and loan activity, which is all recognized in the allowance for the direct loan (DL) receivable and liability for the guaranteed loan (FFEL) program. The Department uses a computer-based cash flow projection model (i.e., Student Loan Model, or SLM) and OMB calculator to calculate subsidy estimates related to the loan programs that are then recorded in the allowance for subsidy or liability account. The model uses multiple sources of loan data and hundreds of assumptions. In order to perform a check of estimates resulting from the SLM and OMB calculator, the Department prepares a backcast, which compares the model's estimates to actual activity for the current and prior fiscal years. The SLM also produces a forecast of the expected cash flows in the current year for the outstanding loans which, when discounted, can be used to compare to the recorded activity in the general ledger. The new data analysis tools prepared by the Department support more disaggregated reviews of data by cohort. The Department's financial systems are not configured to account for cash flows on a rigorous cohort level. Accurate cohort-level data is increasingly important to ensure that estimates in the subsidy models are appropriately adjusted as cohorts from the early 1990s wind down, and cash flows from default activities create temporary demands for cash that are currently funded on an aggregate basis across cohorts. The Department's efforts in this regard are evolving, particularly in capturing the value of the new data analysis tool. These efforts have highlighted differences between recorded activity by cohort in the Department's records as compared to expected cash flows or cash flows derived from credit systems which merit further investigation.

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- The Department continues to be challenged in estimating lender and borrower behavior, and relies significantly on prior patterns to estimate future activity. There may be situations, however, in which a refinement of such estimates should be made if circumstances suggest that the pattern may not repeat. To the extent that lender or borrower behavior appears likely to have changed, or be changing, deviations from the use of historical data, or introduction of additional assumptions to capture the impact of such changes may be warranted in developing credit reform estimates. For example, pending obtaining definitive participant information regarding which program participants will continue to bill for special allowances related to loans funded by tax-exempt obligations issued before October 1, 1993, the Department, while adjusting assumptions to reflect the Department's settlement activity, has largely continued to project such cash flows as occurring based on historical experience in developing its estimates for the FFEL program. There are indications that not all such lenders will continue to pursue such payments.

  Similarly, the last few months have seen a considerable change in the housing and mortgage lending markets. Increasing delinquencies and stagnating home prices have led to concerns about not just the state of these markets, but also concerns about effects on the broader economy. These events may have an impact on student loan borrowers and consequently on the Department's credit reform results.

  Since the Department's approach to estimating deferment, forbearance, and default rates includes unemployment and inflation rates for selected loan products, and since forecasts of these external factors are used in arriving at the projected deferment, forbearance, and default amounts, the Department's estimates would be expected to capture some of the indirect impact of the credit and housing market deterioration. However, since the models are estimated using data that largely do not reflect recessionary conditions, and since the external factors are not included in all models, the Department could gain additional insights by performing stress-testing around its estimates. This could be achieved by, for example:

  - *Cohort Analysis.* Since differences may exist in how the events in the housing market and broader economy impact borrowers at various points in their career, examining deferment, forbearance, and default rates by cohort may be beneficial. This could be achieved by comparing the rates at the same point in repayment for newer loans to those of older loans. This exercise would provide information regarding the extent to which there may be differences in performance across cohorts. Obtaining credit rating data for a subset of borrowers may also be useful in furthering analysis and tracking borrowers' ability to pay over time.

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- *Examining Behavior During Previous Periods of Economic Stress.* Though the data used in the Department's estimation generally reflects good economic conditions, they also cover at least two periods of economic changes from which information may be gathered to assess the potential impact of the current situation. The housing market downturn in the late 1980s and early 1990s may provide insights into the effect, if any, that housing market conditions may have on the deferment, forbearance, and default rates of student loans. Similarly, the economic effects of the bursting of the dot com bubble in the early 2000s may be illustrative of the impact of a potential economic slowdown. Although neither one of these events is a perfect analog to the current situation, they may provide useful information for stress-testing the Department's deferment, forbearance, and default estimates.

Recommendations:

We recommend that the Department of Education perform the following:

1. Continue to improve the analytical tools used for the loan estimation process and in periodic meetings of the Credit Reform Workgroup. Ensure that all analytical tools reconcile with one another to allow for their use as detect controls for loan program cost estimates.
2. Continue efforts to more fully implement cohort reporting with specific research on whether balances in the Department's financial records are supported by estimates, by cohort, from the SLM and the newly developed cohort analysis tool and that remaining credit reform estimates for each cohort are appropriate in relation to the remaining outstanding loans for such cohorts.
3. Document the consideration and ultimate resolution, in detail, of scenarios under which deviation from patterns of prior cash flows may be appropriate in developing credit reform estimates.

2. Additional Focus on Program Monitoring Activities is Needed

Renewed focus is warranted regarding monitoring activities for various Departmental loan and grant programs. Several audits and inspections were conducted by the Department's Office of Inspector General (OIG) in FY 2006 and 2007 of participants in the Department's programs and oversight and monitoring performed by the Department for such programs. These audits and inspections identified issues regarding potential noncompliance with program requirements and deficiencies in program oversight processes. In some cases the focus on such programs has led to changes in how programs are administered; and settlements have occurred with program participants including, in 2007, activity related to the Department's refinement of the eligibility requirements specified by the Higher Education Act of 1965, as amended, for receiving tax-exempt special allowance payments.

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The OIG reports include suggestions for improvements in areas such as policy development and dissemination, program monitoring and oversight of guaranty agencies, lenders and servicers that participate in the Federal Family Education Loan (FFEL) program, and also noted matters for improvement in program monitoring for grant programs. Certain potential non-compliance issues in the OIG reports are currently under consideration by Department management. In some instances, management informed us that corrective actions had been implemented or were in the process of being implemented to address some of the issues raised by the OIG.

The overarching theme in these reports suggests that the Department and FSA should revisit and reinvigorate as appropriate the processes they use to monitor their programs. Funding, disbursements, and loan portfolio balances for certain grant and loan programs have all increased over the past several years, which also suggests a need for additional monitoring and revisiting periodic risk assessments for each unique program.

Recommendations:

We recommend that the Department of Education perform the following:

1. The Department and FSA should continue to re-assess oversight and monitoring practices to include a specific focus on the risks of each program in connection with its evaluation and assessment of internal control. This process should also address risks identified in other assessment, audit and inspection activities. The identified risks and the controls identified to mitigate such risks, both of which should be thoroughly documented, serve as a starting point for identifying appropriate improvement initiatives. The Department and FSA should continue and refine efforts we were informed are underway to identify and implement, as appropriate, additional changes needed in the approach to program management, including procedures for performing program and monitoring reviews, and reviews of payments to FFEL lenders and guaranty agencies prior to disbursement as appropriate.

3. Controls Surrounding Information Systems Need Enhancement (Modified Repeat Condition)

In connection with the annual audit of the Department's FY 2007 financial statements, we conducted a controls review of the information technology processes related to the significant accounting and financial reporting systems. OMB Circular A-130, *Management of Federal Information Resources*, requires: (1) standard documentation and procedures for certification and accreditation of systems; (2) records management programs that provide adequate and proper documentation of agency activities; (3) agencies to develop internal information policies and procedures and oversee, evaluate, and otherwise periodically review agency information resource management activities; and (4) agency plans to assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system.

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The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* identifies five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring. With respect to the Control Environment and Monitoring components, the GAO publication states that:

- "management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management," and
- "internal control monitoring should assess the quality of performance over time and ensure that the findings of audit and other reviews are promptly resolved."

While the Department has worked towards strengthening and improving controls over information technology processes during FY 2007, our audit work and audit reports prepared by the Office of Inspector General (OIG) continue to identify certain control weaknesses, including repeat conditions, within information technology security and systems that need to be addressed. The OIG has identified deficiencies for the Department in its 2007 Federal Information Security Management Act (FISMA) report in the areas of (1) FSA's management control structure in incident handling and intrusion detection systems which restrict its ability to reasonably identify and report suspicious activity; (2) FSA's configuration management program that restricts its ability to reasonably maintain security over its systems in a consistent manner; (3) FSA's oversight of contractors supporting select systems; and (4) the Department's safeguarding of personally identifiable information. Comments were also noted regarding the Certification and Accreditation process, risk assessments and security status of interconnected systems, and an assessment that in some instances the Department had not conducted oversight commensurate with the potential risks to the Department.

More specifically, based on our work and the findings of the OIG, the Department should: (1) strengthen access controls to protect mission critical systems (e.g. user provisioning process, periodic access revalidation, timely removal of user access, physical data center access controls); (2) improve the configuration management process to ensure consistent security configuration of servers and mainframe security packages across the organization and improve configuration settings to comply with best practices; (3) enforce the use of complex passwords in all systems across the organization and two factor authentication as appropriate; (4) comprehensively review technical security weaknesses identified in prior audits in order to determine whether security controls have been fully implemented or adequately address the security weaknesses across the organization; (5) strengthen security incident handling procedures and intrusion detection systems; (6) consistently perform risk assessments and Certification and Accreditation on its new systems and new environments, especially after migrating to a new location, upgrading to a new system, or every three years as required by National Institute of Standards and Technology (NIST) guidance; (7) improve controls over the protection of personally identifiable information (PII) (e.g. encryption of backup data and monitoring of contractors who may have access to PII);

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(8) enhance monitoring of its security training and awareness program, specifically around completion of such training by all employees and contractors; (9) ensure that all personnel, employees and contractors, undergo appropriate background investigation checks and formally acknowledge the Department's rules of behavior prior to gaining access to any Department system or facility; (10) implement standards around the logging of privileged user access and activities and establish controls over the monitoring of that access, and (11) update its contingency planning and disaster recovery planning documentation.

The number of repeat conditions noted in our work and in the OIG's audit reports is an indication that the control environment and monitoring components of internal controls at the Department require additional focus.

Recommendation:

1. Applications and related infrastructure are supported by a number of separate groups within the Department and FSA. While these groups have attempted to implement controls promulgated by Department, FSA, OMB, and NIST guidelines, control processes and practices have been implemented in a disparate manner across these groups. In addition, audit resolution activities have traditionally been performed by each separate group and have largely focused around addressing the immediate security and control weaknesses identified by audit reports rather than a detailed evaluation of the root cause for the identified weaknesses. We recommend that the Department continue its efforts to address security and control weaknesses disclosed in audit reports or identified in internal self-assessments with an emphasis on addressing the root cause of the security or control weakness uniformly across the organization, which should decrease the likelihood of a similar weaknesses being identified in future audit assessments and internal self-assessments. Examples of addressing root causes may include, but are not limited to, additional training for the information technology professionals within the organization, updates to procedures to ensure proper configuration of servers against documented hardening standards at the time of deployment, and auditing performance-based contracts of vendors providing system support services to the Department.

STATUS OF PRIOR YEAR FINDINGS

In the reports on the results of the FY 2006 audit of the Department of Education's financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:

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Summary of FY 2006 Reportable Conditions

Issue Area	Summary Control Issue	FY 2007 Status
Continued Focus on Credit Reform Estimation and Financial Reporting Processes is Warranted (Reportable Condition)	Management controls and analysis need to be strengthened over credit reform estimation and financial reporting processes.	Improvements noted – Modified Repeat Condition classified as a Significant Deficiency
Controls Surrounding Information Systems Need Enhancement (Reportable Condition)	Improvements are needed in overall information technology security management.	Improvements noted – Modified Repeat Condition classified as a Significant Deficiency

We have reviewed our findings and recommendations with Department management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to the OIG in accordance with applicable Department directives.

In addition to the significant deficiencies described above, we noted certain other matters involving internal control and its operations that were reported to management in a separate letter dated November 13, 2007.

This report is intended solely for the information and use of the management of the Department, OMB, Congress, and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 13, 2007

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Report on Compliance with Laws and Regulations

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheet of the U.S. Department of Education (the Department) as of September 30, 2007, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of the Department is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Department.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with certain requirements discussed in the preceding paragraph. We have identified the following instance of noncompliance:

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While the Department has worked towards strengthening and improving controls over information technology processes during FY 2007, our audit work and audit reports prepared by the Office of Inspector General (OIG) continue to identify certain control weaknesses, including repeat conditions, within information technology security and systems that need to be addressed. More specifically the Department should: (1) strengthen access controls to protect mission critical systems (e.g. user provisioning process, periodic access revalidation, timely removal of user access, physical data center access controls); (2) improve the configuration management process to ensure consistent security configuration of servers and mainframe security packages across the organization and improve configuration settings to comply with best practices; (3) enforce the use of complex passwords in all systems across the organization and two factor authentication as appropriate; (4) comprehensively review technical security weaknesses identified in prior audits in order to determine whether security controls have been fully implemented or adequately address the security weaknesses across the organization; (5) strengthen security incident handling procedures and intrusion detection systems; (6) consistently perform risk assessments and Certification and Accreditation on its new systems and new environments, especially after migrating to a new location, upgrading to a new system, or every three years as required by National Institute of Standards and Technology (NIST) guidance; (7) improve controls over the protection of personally identifiable information (PII) (e.g. encryption of backup data and monitoring of contractors who may have access to PII); (8) enhance monitoring of its security training and awareness program, specifically around completion of such training by all employees and contractors; (9) ensure that all personnel, employees and contractors, undergo appropriate background investigation checks and formally acknowledge the Department's rules of behavior prior to gaining access to any Department system or facility; (10) implement standards around the logging of privileged user access and activities and establish controls over the monitoring of that access, and (11) update its contingency planning and disaster recovery planning documentation.

The Report on Internal Control includes additional information related to the financial management systems that were found not to comply with the requirements of FFMIA relating to information technology security and controls. It also provides information on the responsible parties, relevant facts pertaining to the noncompliance with FFMIA, and our recommendations related to the specific issues. We have reviewed our findings and recommendations with management of the Department. Management concurs with our recommendations and, to the extent findings and recommendations were noted in prior years, has provided a proposed action plan to the OIG in accordance with applicable Department directives. We did not audit management's proposed action plan and accordingly, we express no opinion on it.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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This report is intended solely for the information and use of the management of the Department, OMB, Congress, and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 13, 2007

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-________

NOV 9 2007

MEMORANDUM

TO: John P. Higgins, Jr.
Inspector General

FROM: Lawrence A. Warder
Chief Financial Officer

Bill Vajda
Chief Information Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2007 and 2006 Financial Statement Audit
U.S. Department of Education
ED-OIG/A17H0003

Please convey our sincere thanks and appreciation to everyone on your staff who worked diligently on this financial statement audit. The Department has reviewed the draft Fiscal Years 2007 and 2006 Financial Statement Audit Reports. Without exception, we concur and agree with the Report of Independent Auditors and the Report on Internal Control. We also concur and agree with the Report on Compliance with Laws and Regulations.

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

Again, please convey my appreciation to everyone on your staff whose efforts permitted the Department to complete the audit within the accelerated timeframe. Please contact Gary Wood at (202) 401-0862 with questions or comments.

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Other Accompanying Information

Improper Payments Information Act Reporting Details

The Improper Payments Information Act of 2002 (IPIA) and the Office of Management and Budget's (OMB) Circular No. A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, require agencies to annually review and assess all programs and activities to identify those susceptible to significant improper payments. The guidance in OMB Circular No. A-123, Appendix C, defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually. For each program identified as susceptible, agencies are required to report to the President and the Congress the annual amount of estimated improper payments, along with steps taken and actions planned to reduce them.

To facilitate agency efforts to meet the reporting requirements of the IPIA, the OMB announced a new *President's Management Agenda* program initiative beginning in the first quarter of FY 2005 entitled Eliminating Improper Payments. Previously, the OMB tracked the Department's IPIA activities with other financial management activities through the Improving Financial Performance initiative. The establishment of a dedicated President's Management Agenda initiative focused the Department's improper payments elimination efforts. Under the new initiative, the Department's status and progress are tracked and reported to the OMB in quarterly scorecards.

The Department has divided its improper payment activities into the following segments: Student Financial Assistance Programs, Title I Program, Other Grant Programs, and Recovery Auditing.

Student Financial Assistance Programs

Risk Assessment

As required by the IPIA, Federal Student Aid inventoried its programs during FY 2007 and reviewed program payments made during FY 2006 (the most recent complete fiscal year available) to assess the risk that a significant amount of improper payments were made. The review identified and then focused on five key programs (Federal Family Education Loan Program, Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant and Federal Work-Study Programs, and Direct Loan Program) representing $48.5 billion (or 99.6 percent) of Federal Student Aid's FY 2006 outlays of $48.7 billion.

The criteria for determining susceptible risk within the programs were defined as follows:

- For those programs with annual outlays that did not exceed the OMB susceptibility threshold of $10 million, a comprehensive program risk assessment was not prepared, and the programs were determined to be unsusceptible to the risk of significant improper payments.
- For programs with outlays greater than $10 million but less than $200 million, estimates of improper payments were prepared using the susceptible threshold error rate of 2.5 percent. Programs with improper payment estimates of less than $5 million were deemed unlikely to be susceptible to the risk of significant improper payments.
- Programs were selected for further determination of susceptibility to significant improper payments if annual outlays exceeded $200 million.
- Finally, programs were automatically deemed susceptible if they were previously required to report improper payment

information under OMB Circular A-11, *Budget Submission*, former Section 57.[1]

Risk-Susceptible Programs

The following five Title IV programs were deemed to be potentially susceptible to the risk of significant improper payments based on the OMB threshold described above

Federal Family Education Loan Program. The Federal Family Education Loan (FFEL) Program is a guaranteed loan program established by the Higher Education Act of 1965, as amended (HEA). Under the FFEL Program, eligible students apply to lenders such as banks, credit unions, and savings and loan associations for loans to help pay for educational expenses for vocational, undergraduate, and graduate schools. If the lender agrees to make the loan, a state or private nonprofit Guaranty Agency insures the loan against default. The federal government subsequently reinsures this loan. FFEL Programs offer various repayment options and provide four types of loans to qualified applicants:

- Subsidized Stafford Loans—Need-based loans in which the government pays interest when the student is in school and during qualified periods of grace and deferment.
- Unsubsidized Stafford Loans—Loans on which the government does not pay interest.
- PLUS Loans—Loans to parents of dependent undergraduate students on which the government does not pay interest. As a result of the Higher Education Reconciliation Act of 2005, graduate or professional students are now eligible to borrow under this loan program, subject to eligibility.
- Consolidated Loans—Loans that allow borrowers to combine multiple outstanding federal student assistance loans.

The interest payments and special allowance subsidies paid to lenders, combined with the default, loan processing, issuance, and account maintenance fees paid to Guaranty Agencies, comprise the program outlays at risk.

Federal Pell Grant Program. The Federal Pell Grant (Pell Grant) Program provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. Students may use their grants at any eligible postsecondary institution. Grant amounts are dependent on a student's Expected Family Contribution (EFC), the cost of attending the institution, whether the student attends full time or part time, and whether the student attends the institution throughout the entire academic year.

Under the terms of the HEA, eligibility for Pell Grant awards is determined through applicant self-reported income, family size, number of dependents in college, and assets. These data are key drivers in the determination of program eligibility and eligible amounts. However, historical analysis indicates that self-reported data is prone to error and that these errors subsequently increase the risk of improper payments within the Pell Grant Program.

While limited matching of some self-reported income is currently conducted with data from the Department of the Treasury's Internal Revenue Service (IRS) annual income tax filings, Federal Student Aid is pursuing additional authority to allow greater access to IRS data. Specifically, Federal Student Aid has requested authorization to verify 100 percent of the annual student financial aid applications with the financial data reported to the IRS in annual income tax returns. The ability to verify self-reported financial data could result in a significant reduction of the risk of improper payments in the Pell Grant Program. Legislation to amend the Internal Revenue Code to permit a 100-percent data match has not yet been enacted and at this time appears unlikely to be enacted. In the interim, Federal Student Aid is working with the OMB to develop alternative methods for investigating these data.

[1] The four original programs identified in OMB Circular A–11, Section 57, were Student Financial Assistance (now Federal Student Aid), Title I, Special Education Grants to States, and Vocational Rehabilitation Grants to States. Subsequently, after further review of the program risk, the OMB removed Special Education Grants to States and Vocational Rehabilitation Grants to States from the list. The OMB considers Section 57 programs susceptible to significant improper payments regardless of the established thresholds. OMB Circular A-136 also applies.

Federal Supplemental Educational Opportunity Grant and Federal Work-Study Programs. The Federal Supplemental Educational Opportunity Grant program is one of three campus-based[2] formula grant programs allocated to eligible institutions for the purpose of providing grants to needy undergraduate students.

The Federal Work-Study program is another of the three campus-based formula grant programs and provides part-time employment to needy undergraduate and graduate students.

The Federal Supplemental Educational Opportunity Grant and Federal Work-Study programs were surveyed and determined not to be at significant risk of improper payments. Combined, the two programs constituted $1.7 billion or just 3.6 percent of the Federal Student Aid's total payments in FY 2006. Annually, participating institutions complete the Fiscal Operations Report and Application to Participate, which serves as a mechanism to report prior-year funds usage and current-year need. Each year, the aggregated amount of need for all participating institutions far exceeds the appropriated amounts for both Federal Supplemental Educational Opportunity Grant and Federal Work-Study programs. Therefore, by design, the risk of over-awarding funds is inherently minimized, because award distribution is prioritized by order of need, and not all students with demonstrated need actually receive awards. Moreover, continuing oversight activities, including audits and program reviews, have not revealed significant risk in either of these programs.

William D. Ford Federal Direct Loan Program. Similar to the FFEL Program, the William D. Ford Federal Direct Loan (Direct Loan) Program provides the following four types of loans to qualified individuals to assist with the cost of postsecondary education: (1) Stafford Subsidized, (2) Stafford Unsubsidized, (3) PLUS, and (4) Consolidation.

Under the Direct Loan Program, the Department uses Department of the Treasury funds to provide loan capital directly to schools, which then disburse loan funds to students.

The Department works with multiple educational and financial institutions to originate, disburse, service, and collect Direct Loans, and the HEA and subsequent reauthorization actions determine the allowable interest rates and fees. Eligibility requirements are determined through the analysis of factors such as income and assets, and the schools make the final award decisions. As a result of this multifaceted structure that encompasses multiple entity involvement and variable annual eligibility requirements, a full and rigorous assessment of the rate of improper payments in the Direct Loan Program is extremely complex.

All Direct Loan schools are required to have an independent compliance and financial statement audit each year. The primary assessment of risk in the Direct Loan program is determined by computing the percentage of audit findings to total Direct Loan disbursements. The error rate for FY 2007 was 0.0015 percent. Potential overpayments on refunds to borrowers and lenders were also assessed. For all of these payments, the error rate was under the IPIA thresholds.

Academic Competitiveness Grant (ACG) and the National Science and Mathematics to Retain Talent (SMART) Grant Programs. In addition to the five preceding programs, in FY 2007, Federal Student Aid program managers discussed the potential risks and controls for avoiding improper payments in the recently authorized ACG and SMART Grant programs. Payment processes and risk categories have been identified, and a risk control matrix has been developed for these new programs. The first risk assessments for the ACG and SMART Grant Programs will take place after the initial audit cycle is complete.

Statistical Sampling

The size and complexity of the student aid programs make it difficult to consistently define "improper" payments. The legislation and the OMB guidance use the broad definition: "Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other

[2] Campus-based financial aid programs are administered to students by participating postsecondary institutions and not by the Department of Education.

legally applicable requirement." Federal Student Aid has a wide array of programs, each with unique objectives, eligibility requirements, and payment methods. Consequently, each program has its own universe (or multiple universes) of payments that must be identified, assessed for risk, and, if appropriate, statistically sampled to determine the extent of improper payments.

Federal Family Education Loan Program. The Department has been working with OMB on implementing the *President's Management Agenda* program initiative entitled Eliminating Improper Payments. This initiative involves a range of quarterly activities designed to ensure that the Department is prepared to meet the annual reporting requirements of the IPIA. Through meetings and discussions with OMB and other Department offices, Federal Student Aid finalized its sampling methodology for estimating improper FFEL program payments in compliance with the requirements of the IPIA.

In FY 2007, Federal Student Aid program review staff from its Program Compliance business unit reviewed 84 invoices selected statistically from payments made during FY 2005. The selected invoices for guarantors and lenders totaled $283,175,828. The payment error rate, based on completed reviews of the selected invoices, is 0.032 percent. That compares favorably to the error rate of 2.2 percent calculated for the FY 2006 PAR, which was based on payment errors identified in program reviews, single audit reports for Guaranty Agencies and lenders, and Office of Inspector General audits of those entities.

Federal Pell Grant Program. Section 484(q) of the HEA authorizes the Department to confirm directly with the IRS the Adjusted Gross Income (AGI), taxes paid, filing status, and number of exemptions reported by students and parents on the Free Application for Federal Student Aid (FAFSA). Under the Internal Revenue Code, Federal Student Aid is not authorized to view the complete data, but the IRS does provide summary data.

The Department began conducting studies with the IRS using FAFSA data for the 2000–01 award year. Data provided by the IRS study were used to estimate improper payments for the Pell Grant Program for the 2005–06 award year. Federal Student Aid is working with the IRS to match FAFSA data collected for the 2006–07 award year with IRS data for the 2005 income tax year.

In the most recent completed study, which compared 2005–06 FAFSA data with 2004 IRS data, a sample file of 184,168 FAFSA applicant records was provided to the IRS along with a sampling program designed to allow the IRS to select the desired analysis sample from the larger file. This was done to preserve IRS confidentiality requirements. The final sample, generated by the IRS, contained 48,152 independent undergraduates and 51,478 dependent undergraduates (for whom parental data were matched). The table titled Pell Grant Improper Payment Estimates in this section presents a historical analysis of the results of the IRS statistical study of Pell Grants.

The IRS matched the final sample to its main database, and when a match occurred, it extracted the fields for AGI, taxes paid, type of return filed, and earned income tax credit information for the tax filer and compared this information with similar information reported to the Department on the FAFSA. Using a computer program supplied by Federal Student Aid, the IRS calculated revised EFC and Pell Grant awards for matching records by substituting the IRS income information for the FAFSA income information. The IRS provided aggregated statistical tables to the Department that presented the results of these comparisons. The results allowed the Department to estimate the following Pell Grant improper payment information:

- Improper payment rate and amount—The average amount of over- and underreporting of FAFSA income data compared with the IRS income data and potential dollar amount of improper Pell Grant awards.
- Assessment of measurement accuracy—The volume of applicants for whom a mismatch between FAFSA and IRS data may be legitimate.
- Identification of further potential risks—Types of applicants who are more likely to misreport income on the FAFSA.

- Analysis of existing edits—Validity of the current verification selection edits and information to further refine them.

William D. Ford Federal Direct Loan Program. The analysis and corrective actions developed for the Pell Grant Program, relative to application accuracy, will also improve the accuracy of Direct Loan Program applications, because (1) the same application is used for both programs and (2) eligibility for subsidized direct loans are founded on the same need-based analysis formula and institutional cost of attendance.

Corrective Actions

Federal Family Education Loan Program. Federal Student Aid is working closely with the OMB and other Department offices in the development of an action plan designed to (1) improve the accuracy of the FFEL improper payment estimate and (2) reduce the level of risk and amount of known improper payments in the FFEL Program. In the first quarter of FY 2008, discussions will be held with Oak Ridge National Laboratory regarding the possibility of developing a revised methodology for identifying improper payments in the FFEL program. Understanding and developing systems of internal controls over program payments is crucial to meeting these goals.

Federal Student Aid has a number of existing internal controls integrated into its systems and activities. Program reviews and independent audits and Inspector General audits of Guaranty Agencies, lenders, and servicers are some of its key management oversight controls. Other control mechanisms include the following:

- System Edits—The systems used by the Guaranty Agencies, lenders, and servicers to submit fee bills for payment include "hard" and "soft" edits to prevent erroneous information from being entered into the system and translated into erroneous payments. The hard edits prevent fee bills with certain errors from being approved; these errors must be corrected before proceeding with payment processing. The soft edits alert the user and Federal Student Aid to potential errors. Federal Student Aid reviews these warnings prior to approval of payment.
- Reasonability Analysis—Data stored in the National Student Loan Data System are used as a tool to assess the reasonability of fee billing and determine payment amounts for account maintenance and loan issuance processing fees paid to Guaranty Agencies. Federal Student Aid also performs trend analysis of previous payments to Guaranty Agencies, lenders, and servicers as a means of evaluating reasonableness of changes in payment activity and payment levels.
- Focused Monitoring and Analysis—Federal Student Aid targets specific areas of FFEL payment processing that are at an increased risk for improper payments as areas of focus for increased monitoring and oversight.

These existing controls are re-evaluated on a regular basis to determine their effectiveness and allow Federal Student Aid to make necessary corrections. Federal Student Aid's action plan also incorporates the development of additional internal controls designed to improve the accuracy of future FFEL payments to Guaranty Agencies, lenders, and servicers. These internal controls include the following:

- Special Allowance Payments—Increased focus and review of payments of fees to lenders and servicers associated with loans eligible for tax-exempt special allowance payments.
- Guaranty Agencies—Enhanced review of the Guaranty Agency Financial Report (Form 2000) to report collection activities, claims reimbursement, and loan portfolio status; and under- and over-billings for account maintenance, loan issuance, and processing fees associated with incorrect National Student Loan Data System reporting.

Additional controls are being considered for both cost efficiency and effectiveness in reducing FFEL payment errors. Updates to the corrective action plan will be reported to the OMB in the quarterly scorecard for Eliminating Improper Payments.

Federal Pell Grant Program. Federal Student Aid has several initiatives under way designed to improve its ability to detect and reduce improper payments made through the Pell Grant Program, including the statistical study described above. Working with the OMB on quarterly action plan objectives designed to facilitate full implementation of the IPIA, it has identified additional methods to determine the error rate and estimate the annual amount of improper payments.

Preliminary Analysis. Eligibility for Title IV student aid is determined through applicant self-reported income, family size, number of dependents in college, and assets. These data are reported through the FAFSA, which applicants typically complete prior to the April 15 IRS tax filing deadline. The FAFSA data are key drivers in the determination of student aid program eligibility and eligible amounts. Federal Student Aid performs routine analyses of the accuracy of income and other financial data submitted via the FAFSA. These analyses include a variety of methods and techniques designed to ensure payment accuracy, including the following:

- Annual Analysis of System Data—Analysis of central processing system data for anomalies.
- Focus Groups—Meetings with educational institutions to discuss improving the integrity of Federal Student Aid programs.
- Quality Assurance—Enhanced program integrity processes.
- Verification—A process by which institutions compare applicant data with IRS data for the same period.

Federal Student Aid is also using the IRS statistical study in which financial data from a random sample of FAFSA submissions are compared with financial data reported to the IRS in annual income tax filings to identify new solutions for preventing improper payments.

The analysis of the IRS statistical study indicates that failure to accurately report income, family size, number of dependents in college, and assets may be the primary cause of improper payments within the Pell Grant Program. It is expected that a decrease in financial reporting errors would have the greatest impact on the reduction of estimated improper payments. In an effort to achieve this reduction, Federal Student Aid has requested authorization to perform a 100-percent match of the financial data reported on the FAFSA with the financial data reported to the IRS on applicant income tax returns. However, current law does not permit Federal Student Aid to verify income data with the IRS. Although Federal Student Aid plans to pursue this option, it must continue to meet the reporting requirements of the IPIA. Federal Student Aid is pursuing alternative approaches that will accomplish the same result: reduced improper payments in the Pell Grant Program.

Alternatives to Verifying Self-Reported AGI. Working with officials from the OMB and the Department, Federal Student Aid has been exploring alternatives to the 100-percent IRS match for verifying self-reported financial information reported on the FAFSA and assessing the strengths and weaknesses of those alternatives. Listed below are some of the alternative approaches that are being considered:

- Require actual tax returns prior to disbursement.
- Require update to income data at tax filing deadline.
- Expand verification beyond 30 percent.
- A pilot program for matching FAFSA data with IRS data based on consent.

The ongoing action plan details the steps necessary to (1) perform statistical analysis, (2) complete the review of the alternative approaches, (3) incorporate current IRS statistical analysis, and (4) submit the recommended alternative approach or combination of alternative approaches. Progress in completing actions will continue to be reported to the OMB in the quarterly scorecard for Eliminating Improper Payments.

Federal Student Aid's ability to project improper payment reductions is dependent upon the completion of the corrective action plan and selection of an alternative approach to a 100-percent IRS income match for every application. This will not be a quick or easy process. The system development life cycle for the pertinent Federal Student Aid systems requires significant lead time for requirements development, testing, coding, and implementation to deploy the changes necessary to reduce improper payments.

Federal Student Aid Summary

The following table presents the improper payments outlook for the primary Federal Student Aid Programs.

Federal Student Aid Improper Payment Reduction Outlook Fiscal Years 2006–10
($ in millions)

	Actual			Estimated											
	2006			2007			2008			2009			2010		
Program	Outlays	IP %	IP $	Outlays	IP %	IP $	Outlays	CY IP %	IP $	Outlays	CY IP %	IP $	Outlays	CY IP %	IP $
FFEL Program[1]	$11,718	2.2%	$258	$5861	0.032%	$2	$4,307	0.032%	$1	$4,307	0.032%	$1	$4,307	0.032%	$1
Pell Grant Program[2]	$12,725	3.54%	$446	$12,240	3.54%	$433	$12,543	3.50%	$439	$12,543	3.50%	$439	$12,543	3.50%	$439

[Note] Direct Loan payments are not included in the chart this year because they are not considered risk susceptible since the risk assessment identified these payments to be below the OMB threshold criteria.

[1] Source of FFEL outlays for FY 2006 is FY 2006 Total FFEL Payments. Source of FFEL outlays FY 2007–08 is the FY 2008 Budget Appendix, page 341, line 90.00. Outlays were assumed to remain at the FY 2008 estimate for FY 2009 and FY 2010.

[2] Source of Pell outlays for FY 2006 is COD Project Briefing dated July 31, 2007. Source of Pell outlays for FY 2007–08 is the FY 2008 Budget Appendix, page 330, line 90.00, with detail support from Budget Service in file "Breakout of Student Financial Assistance Outlays by Program." Outlays were assumed to remain at the FY 2008 estimate for FY 2009–10. The FY 2007 chart above uses the actual IP% for FY 2006 for both FY 2006 and FY 2007. This is a change from the prior year's chart which reflected the estimated error rate of 3.48 percent. The estimated error rate used for FY 2008–10 is 3.5 percent.

Manager Accountability

Federal Student Aid program managers are responsible for making recommended improvements and achieving quantifiable savings. The Federal Student Aid Executive Leadership Team monitors these efforts. The Executive Leadership Team is composed of key managers and is the executive decision-making body within Federal Student Aid. The Office of Inspector General conducts periodic audits of student aid programs and makes appropriate recommendations to management and the Congress.

Reducing improper payments in the Pell Grant Program has been a performance measure in the Department's Strategic Plan since 2002. The IRS statistical study has also been included in Federal Student Aid's Annual Plans. In addition, projects have been included in the Federal Student Aid Annual Plan to improve the verification process results.

Beginning in 2005, a control group of FAFSA applicants who had estimated their 2004 income when completing the application were advised after April 15 to revise the application with the correct and known information filed on their 2004 income tax return.

Statutory or Regulatory Barriers

Consistent with the administrative proposal present in the 2008 President's Budget, Education and Treasury are continuing to work toward a consent-based approach to perform data matching between Federal Student Aid applications and tax return data, to confirm income and household information. This data matching would virtually substantially reduce improper payments in the Pell Grant program, as the large majority of errors are the result of misreporting of income and related data fields. However, legislation to amend the Internal Revenue Code to permit the database match has not yet been enacted and at this time appears unlikely to be enacted.

Title I Program

The Department performed a risk assessment of the *Elementary and Secondary Education Act of 1965* Title I Program, parts A, B, and D, during FY 2006. The Erroneous Payments Risk Assessment Project Report documented that the risk of improper payments under current statutory requirements is very low. To validate the assessment data, the Department conducted an on-site monitoring review in FY 2006 that encompassed all states and territories receiving Title I funds with a three-year review cycle. The Office of the Chief Financial Officer participated with the Office of Elementary and Secondary Education in the monitoring process, beginning in March 2005, to provide technical support regarding fiduciary compliance. There were no findings in the monitoring reviews with questioned costs that contradicted the data in the risk assessment.

The Department is continuing to review and monitor for data quality. A key element of the monitoring process involves the wide use of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation by local educational agencies. The Title I statute authorizes local educational agencies to use these data, provided under the U.S. Department of Agriculture's national School Lunch Program, for this purpose. In many districts these data are the only indicator of poverty available at the individual school level.

The U.S. Department of Agriculture is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. The U.S. Department of Agriculture is also working with the Department and other federal agencies that have programs that make use of these data to explore long-term policy options.

Other Grant Programs

During FY 2007, the Department continued to work with the Department of Energy's Oak Ridge National Laboratory to perform data mining on information available in the Federal Audit Clearinghouse's Single Audit Database, the Department's Grant Administration and Payment System, and the Department's Audit Accountability and Resolution Tracking System to assess the risk of improper payments in its remaining grant programs.

The Department's approach to the risk assessment process for non-Federal Student Aid grant programs was to develop a methodology to produce statistically valid measures that could be applied uniformly across the Department's programs. The intent was to use the same methodology across all non-Federal Student Aid grant programs to establish a level of quality control for all programs and, at the same time, produce a cost-effective measure. The Department deemed it cost effective to utilize the results of the thousands of single audits already being conducted by independent auditors on grant recipients.

Risk Assessment

One of the concerns that resulted from the FY 2005 Oak Ridge National Laboratory study was the definition of what constitutes a "program." The Department's original approach was to address programs at a high level to effectively match anticipated outlays as defined in our budget submissions and consequently grouped many Catalogue of Federal Domestic Assistance (CFDA) numbers into a single "functional program." The concern with this definition was that calculating estimated improper error rates at such a high level can effectively mask the potentially higher rates that might exist if "program" is defined at the CFDA level. To further refine the Department's methodology, beginning with the FY 2006 risk assessment, Oak Ridge National Laboratory was tasked with performing the assessment at the CFDA level in addition to the functional program level. To conduct the risk assessment screening, Oak Ridge National Laboratory augmented the Audit Accountability and Resolution Tracking System database with imputed values for the likely questioned costs for grants that were not audited. The imputed and real questioned costs could then be tabulated to provide a reasonable upper-bound estimate of the rate of erroneous payments for each of the functional programs of interest.

If the computed upper-bound percentage was below 2.5 percent, then the actual value would be lower than 2.5 percent. If the computed upper-bound percentage was greater than 2.5 percent, then the actual value may be greater or less than 2.5 percent, but the Department would need additional information to determine the appropriate estimate.

The key results of the analysis are presented in the following table, which contains the estimates of the average functional program rates of questioned costs for recent years. The most striking result was the generally low rate of questioned costs. The key finding of this analysis was that for the most recent year for which data are available (FY 2005), none of the functional programs exceed the threshold value

Non-FSA Grant Programs

Improper Payment Risk Assessment

Functional Program	2002 (%)	2003 (%)	2004 (%)	2005 (%)
Education Research, Statistics, and Assessment	0.02	0.36	0.0	0.1
Elementary and Secondary Education	0.12	0.13	0.6	0.7
English Language Acquisition	0.02	0.10	0.1	0.6
Higher Education	0.29	0.21	0.4	0.5
Impact Aid	0.55	0.04	0.4	0.0
Innovation and Improvement	0.21	0.23	0.1	0.2
Rehabilitation Services and Disability Research	0.12	0.32	2.1	0.3
Safe and Drug-Free Schools	0.33	0.13	1.2	2.0
Special Education	0.06	0.83	0.1	0.1
Title I	0.16	1.19	0.2	0.7
Career, Technology and Adult Education	0.25	0.12	0.2	0.9
Overall Risk	**0.04**	**0.16**	**0.4**	**0.5**

of 2.5 percent. Consequently, none of the programs would be labeled as susceptible to significant erroneous payments. The assessment at the CFDA level revealed similar results, with the exception of two CFDAs (Even Start and Safe and Drug-Free Schools) that were slightly above the upper bound. The Department continues to seek methods to enhance the risk assessment for potential improper payments in grant programs and is taking the following actions to further improve its monitoring efforts.

Risk Management Service. The Department has established a new organization, the Risk Management Service, in the Office of the Secretary. The mission of this office is to identify and take effective action to manage and mitigate risks in the area of grants management that may adversely affect the advancement of the Department's mission. To achieve this objective, the Risk Management Service will develop and coordinate a Department-wide risk management strategy and coordinate and support consistent, high-quality management of formula and discretionary grants Department-wide.

The office will focus on identifying potential high-risk grantees before problems begin to occur and providing assistance to those grantees regarding their financial management practices through the program offices and Risk Management Service staff members. In the case of grantees identified as high risk, resources will be directed toward solving and managing issues of misuse, abuse, or waste of federal funds. The office will also provide customer service in the form of training and responses to inquiries on policy interpretations to grantees, grant applicants, and program offices awarding and monitoring grants.

Managing Risk in Discretionary Grants. In FY 2007, the Department managed more than 10,000 discretionary grant awards. Due to the vast legislative differentiation and the complexity of the Department's grant award programs, ensuring that our program staff are fully aware of potentially detrimental issues relating to individual grantees is a significant challenge. Program offices designate specific grants as high risk in accordance with Departmental regulations.

In an effort to reduce risk and promote efficiency, the Department has established the Grants High-Risk Module. This module is housed within the Department's Grant Administration and Payment System, and program office staff are required to review and certify their awareness of the high-risk status of applicable grantees before making awards.

Policies and procedures were developed to support the implementation of the module. System input to the module's database is limited to specific grants policy staff who are fully trained in policy and system use. In addition to the module's certification requirement, various reports are provided so that continual monitoring of grantee risk is made available to Department program administrators.

Implementation of the module provides greater accountability and significantly reduces risk within the Department's grant award process by ensuring program office awareness of potentially detrimental grantee issues prior to award determination. We anticipate that increased accessibility and communication across our program offices will promote further monitoring of high-risk grantees, resulting in a reduction of the number of grantees so designated.

Manager Accountability. The Department categorized OMB Circular A-133 single audit findings to provide feedback to program managers regarding the frequency and type of findings within their programs. This assists managers in tailoring their program monitoring efforts to the type of findings that most frequently occur. Additionally, post-audit follow-up courses have been developed to associate audit corrective actions with monitoring to minimize future risk and audit findings. In FY 2007, the Department developed internal control training for managers that addressed controls to eliminate improper payments. The mandatory one-day seminar for all Department managers was completed in September 2007 and provided a framework for addressing the requirements of the Improper Payments Information Act utilizing applicable regulations, guidelines, and best practices. Part of the training presentation focused on management responsibility to utilize risk assessment criteria to properly assess the risk of improper payments in the Department's programs**.**

Planned Corrective Actions. In addition to the actions previously outlined under the Student Financial Assistance Programs and Title I Program sections, the Department will configure any corrective action plans based on the results of the initiatives outlined above. The Department will record and maintain corrective action plans as required, which will include due dates, process owners, and task completion dates.

Information Systems and Infrastructure. The Department has submitted budget requests of $450,000 for FY 2008 and FY 2009 for information system infrastructure improvements. A portion of the funds will be used to continue the refinement of the Oak Ridge National Laboratory data mining effort. It is also anticipated that the Department will incur costs related to mitigation activities.

Recovery Auditing Progress

To effectively address the risk of improper administrative payments, the Department continued a recovery auditing initiative to review contract payments. The Department utilized a contractor who performed a rigorous statistical analysis of FY 2006 payment transactions based on nineteen criteria for identifying duplicate payments. The contractor also sampled Department contracts and purchase orders from FY 2003 through FY 2006 to ensure agreement between contract amounts and invoiced amounts. No improper payments were indicated in either review. Additionally, the contractor's review of all FY 2006 contract invoices with potential interest overcharges exceeding $50 found no more than $1,500 in potential recoveries. The Department's purchase and travel card programs remain subject to monthly reviews and reconciliations to identify potential misuse or abuse.

Summary

The Department is continuing its efforts to comply with the IPIA. Although there are still challenges to overcome, the Department is committed to ensuring the integrity of its programs. The Department continues to be scored by OMB as "green" on the implementation progress scorecard for the President's Management Agenda initiative on Eliminating Improper Payments.

The Department is focused on identifying and managing the risk of improper payments and mitigating the risk with adequate control activities. In FY 2008, we will continue to work with OMB and the Inspector General to explore additional opportunities for identifying and reducing potential improper payments and to ensure compliance with the IPIA.

Report to Congress on Audit Follow-up

The *Inspector General Act of 1978*, as amended, requires that the Secretary report to the Congress on the final action taken for the Inspector General audits. With this *Performance and Accountability Report*, the Department of Education is reporting on audit follow-up activities for the period October 1, 2006, through September 30, 2007.

The Audit Accountability and Resolution Tracking System is the Department's single database system used for tracking, monitoring, and reporting on the audit follow-up status of the Government Accountability Office (GAO) audits; the Office of Inspector General-issued internal audits, external audits, and alternative products; and single audits of funds held by non-federal entities. The Department's audit follow-up system functionalities allow the following:

- Tracking of internal, external, GAO, sensitive, and alternative product types from inception to final disposition.
- Evaluation and escalation points for audit reports and recommendations at appropriate levels in the user hierarchy.
- Notifying users of audit decisions and approaching or expiring events and transactions.
- Downloading report and query results into electronic file formats.
- Attaching files to the audit record.
- Providing a personal portal (Digital Dashboard) for user-assigned transactions.
- Providing a search function to query application (Audit Report) data.
- Providing for both a defined and an ad hoc report generation environment.

Number of Audit Reports and Dollar Value of Disallowed Costs

At the start of this reporting period, the balance for audit reports with disallowed costs totaled 72, representing $42.9 million. At the end of the reporting period, the outstanding balance was 66 audits, representing $53.6 million. The information in the table below represents audit reports for which receivables were established.

Final Actions on Audits with Disallowed Costs
Fiscal Year Ended September 30, 2007

	Number of Reports	Disallowed Costs
Beginning Balance as of 10/1/2006	72	$ 42,876,962
+ Management Decision	201	39,202,383
Pending Final Action	273	$ 82,079,345
- Final Action	207	28,495,066
Ending Balance as of 9/30/2007	66	$ 53,584,279

Number of Audit Reports and Dollar Value of Recommendations That Funds Be Put to Better Use

The Department has a total of five audit reports, totaling $899.6 million, with recommendations that funds be put to better use. Two of these, totaling $7.2 million, have been resolved. Resolution occurs when there is agreement between the program office and the Department's Office of Inspector General on the corrective actions required to address the findings and recommendations in an audit report.

Reports Pending Final Action One Year or More After Issuance of a Management Decision

As of September 30, 2007, the Department has a total of nine Office of Inspector General internal and nationwide audit reports on which final action was not taken within a year after the issuance of a management decision; 33 percent were over two years old. Many corrective actions are dependent upon major system changes that are currently being implemented. For detailed information on these audits, refer to the Department's *Semiannual Report to Congress on Audit Follow-up Number 37*.

Credit Management and Debt Collection Improvement Act

The Department of Education has designed and implemented a comprehensive credit management and debt collection program that enables us to effectively administer our multi-billion-dollar student loan and other programs. The credit management and debt collection program covers each phase of the credit cycle—including prescreening of loan applicants, account servicing, collection, and close-out—and it conforms to the government-wide policies in the Federal Claims Collection Standards, OMB Circular A–129, and the *Debt Collection Improvement Act of 1996 (DCIA).* As a result, the Department has made significant strides in student loan default management and prevention.

The Department has been working diligently with schools and partners in the student loan industry to reduce the cohort default rate. The FY 2005 cohort default rate is 4.6 percent. This low default rate is a function of the Department's improved borrower counseling and the steps we have taken in gatekeeping to remove schools with high default rates from participating in federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid, and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

The Department also continues to conduct computer matches with other federal agencies as part of our effort to strengthen the management and oversight of student financial assistance programs. The computer matches are designed to ensure that students meet various eligibility criteria and increase the collections from students who have defaulted on their loans.

The Department categorizes its debt into two basic categories: student loan debt, which accounts for approximately 99 percent of all of the Department's outstanding debts, and institutional and other administrative debt. The Department of the Treasury granted the Department a permanent exemption from the cross-servicing requirements of the DCIA for defaulted student loans and approval to continue to service our own internal student loan debts because of our successful track record. However, we have been referring eligible student loan debts—those we previously tried to collect using all other available tools—to the Department of the Treasury for tax refund offset since 1986.

The Department handles its institutional and administrative debts outside of the systems established for student loans. The Department was one of the first to participate in the Treasury Cross Servicing Program and has been referring delinquent debts since October 1996. As of September 30, 2007, we have forwarded approximately 96 percent of all institutional and administrative debts eligible for cross servicing to the Department of the Treasury.

Management Challenges for Fiscal Year 2008

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses.

The Reports Consolidation Act of 2000 requires OIG annually to identify and summarize the top management and performance challenges facing the Department, as well as to provide information on the Department's progress in addressing those challenges. Based on our recent work and knowledge of the Department's programs and operations, we have identified six specific challenge areas for the Department for fiscal year (FY) 2008: (1) student financial assistance programs and operations; (2) information security and management; (3) new programs and programs nearing reauthorization; (4) grant and contract awards, performance, and monitoring; (5) data integrity; and (6) human resources.

The predominant challenge facing the Department within each of these areas is implementation and coordination of effective internal controls. "Internal controls" are the plans, methods, and procedures aimed at providing reasonable assurance that an agency meets its goals and achieves its objectives, while minimizing operational problems. While the Department is working to make progress in these areas, it is evident that additional focus, attention, and emphasis are needed. Only by significantly improving its internal controls and demanding accountability by its managers, staff, program participants, and contractors will the Department be an effective steward of the billions of taxpayer dollars supporting its programs and operations.

Challenge: Student Financial Assistance Programs and Operations

The federal student financial aid programs involve over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, and many third party servicers. During FY 2007, Federal Student Aid (FSA), the Department office with responsibility for these programs, provided $82 billion in awards and oversaw an outstanding loan portfolio of over $400 billion. FSA must conduct effective monitoring and oversight and demand accountability from its staff, program participants, and contractors to help protect higher education dollars from waste, fraud, and abuse. OIG work has shown that this is a significant challenge for FSA, as it does not have the capacity and resources necessary to identify and implement effective oversight and monitoring of its program participants.

The Department's Progress: FSA has agreed to improve its management of its programs and to develop and implement consistent oversight procedures. FSA made changes to the organizational structure of one of its internal offices, Financial Partners, and transferred the regional offices out of Financial Partners to a new Program Compliance organization in 2006. In addition, the Department has taken steps in response to our audit work on 9.5 percent special allowance payments (SAP). The Department now requires all lenders billing at the 9.5 percent SAP rate to be paid at the regular rate until the Department receives the results of audits to determine the eligibility of loans for payments at the 9.5 percent rate. The Department, with advice from OIG, established a methodology to determine the eligibility of loans to be billed at the 9.5 percent SAP rate, and has hired a contract auditor, or requires the lender to hire its own auditor, to conduct a 9.5 percent SAP audit in accordance with an Audit Guide issued by the OIG. Also, in response to an OIG recommendation, the Department agreed to add the issue of lender inducements to negotiated rulemaking sessions held this year. When the negotiators could not reach an agreement, the Department formed a lender task force to advise the Secretary on needed regulations. Rules addressing inducements and preferred lender lists were issued on November 1, 2007. Last year, the Department also established a separate inducement task force to compile and assess all allegations of improper inducements and design corrective actions as needed.

Challenge: Information Security and Management

The *Federal Information Security Management Act* (FISMA) requires each federal agency to develop, document, and implement an agency-wide program to provide information security and develop a comprehensive framework to protect the government's information, operations, and assets. To ensure the adequacy and effectiveness of information security controls, Inspectors General conduct annual independent evaluations of the agencies' information security programs and report the results to the Office of Management and Budget (OMB).

In our information security audits to support our FISMA requirements, we have identified security weaknesses that the Department must address to protect its systems and to maintain their security certification and accreditation. These weaknesses include certain management, operational, and technical security controls; the incident handling process and procedures; intrusion detection system deployments; and enterprise-wide technical configuration standards for all systems.

With regard to information management, the Department's anticipated information technology (IT) capital investment portfolio for FY 2008 is over $540 million, with many resource-intensive projects pending. It is critical that the Department have a sound IT investment management control process that can ensure that technology investments are appropriately evaluated, selected, justified, and supported. This oversight and monitoring process must address IT investments as an agency-wide portfolio. It must also ensure that individual projects are appropriately managed so they meet their technical and functional goals on time and on budget. This is an area that continues to challenge the Department.

The Department's Progress: The Department continues its efforts to establish a mature computer security program as it relates to technical configuration standards for all of its systems, managing its outsourced contractors who operate its critical information systems, and ensuring the proper identification and response to its incident handling program and intrusion detection systems. In addition, the Department recently established plans to improve its controls relating to the protection of personally identifiable information in order to meet the standards and good practice requirements established by OMB. However, management, budget, and contracting constraints have hampered the Department in moving forward with improving these controls.

With regard to IT management, while the critical issue of independent assessment remains unaddressed, the Department has recently strengthened the IT capital investment program by expanding membership on two of its review groups, the Investment Review Board and the Planning and Investment Review Working Group. The Department continues its efforts to strengthen individual business cases and to map proposed investments to an agency-wide enterprise architecture strategy.

Challenge: New Programs and Programs Nearing Reauthorization

In any given year, Congress creates new federal education programs, such as the American Competitiveness Grant program and the National Science and Mathematics Access to Retain Talent Grant program, both established by the *Higher Education Reconciliation Act of 2005*. In any year, Congress also may be scheduled to reauthorize a specific education law, as it is presently with the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by the *No Child Left Behind Act of 2001*, and the *Higher Education Act of 1965* (HEA), as amended. As states, schools, students and their families, and others rely on the numerous programs and funding allotted through federal education programs, it is critical that the Department ensures they are operating effectively and efficiently. The Department should establish appropriate internal controls as it implements new programs and identify ways to improve accountability in programs that are about to be reauthorized.

The Department's Progress: In an effort to improve accountability and the operation of its programs, the Secretary mandated internal controls training for all Department managers. The Department is also making suggestions to Congress to strengthen provisions of the ESEA and the HEA during these reauthorization processes. In addition, the Department has taken action in response to our work to address weaknesses in two of its ESEA-related programs, Reading First and Migrant Education programs. With Reading First work, the Secretary put new leaders in place to coordinate the program, and worked with the states to identify possible issues or concerns the states may have had with the implementation of the program. In response to our work in the Migrant Education Program, the Department proposed a series of action steps, including short-term steps to immediately prevent and detect over-counting of ineligible children, and long-term steps, including options for Congress to consider during reauthorization of the ESEA to help ensure that only eligible migrant children are served by the program and that migrant children are accurately counted for funding purposes.

Challenge: Grant and Contract Awards, Performance, and Monitoring

The success of an organization's mission and the achievement of its goals depend on how well it manages its programs, and it cannot effectively manage its programs without establishing and maintaining appropriate internal accountability. Our recent audits, inspections, and investigations continue to uncover problems in the area of grant and contractor activities, including: inadequate oversight and monitoring of grantee performance; failure to identify and take corrective action to detect and prevent fraudulent activities by grantees; potential conflicts of interest and other improprieties in the evaluation of certain grant applications; not ensuring that the procurement and contract management processes provide assurance that the Department receives quality goods and services for its money; and inadequate attention to improper payments.

The Department's Progress: The Department has initiated steps to improve its performance in this area. The Secretary recently established a new Risk Management Services office and a Grants Policy Team, which are considering all policies, including requirements for monitoring, with the objective of developing standards that would apply across all formula programs. The Grants Policy Team also is completing the process of revising the Education Department General Administrative Regulations to incorporate performance management requirements for funded applicants.

In addition, the Office of Elementary and Secondary Education (OESE) has enhanced its monitoring system and will conduct Title I program reviews of all states at least once during a three-year monitoring cycle (2006–07 through 2008–09). OESE and the Office of Special Education and Rehabilitative Services have changed their monitoring protocols for the Title I and IDEA programs to ensure that states and districts are providing a proportionate share of these programs' funds to new or expanding charter schools in a timely manner.

The Department is also implementing an Enterprise Risk Management program throughout the Department. As a part of the program, the Department has contracted with the Oak Ridge National Laboratory to assist in developing a systemic, risk-based approach to monitoring grant compliance and performance. This system will incorporate a conceptually valid methodology that uses data collected from a variety of sources to assess grantees relative to established risk factors.

With regard to contracts, in FY 2005 and FY 2006, the Office of the Chief Financial Officer developed and sponsored an agency-wide training program that reinforced the Department's contracting processes, laws, and regulations. It also developed procedures for writing contract monitoring plans, and updated and distributed other pertinent contract procedural documents to improve controls and efficiencies. The Department is currently exploring available tools to facilitate electronic documentation and tracking of contract receipts and deliverables.

Challenge: Data Integrity

Data integrity is both a compliance issue and a performance issue. For example, programs within the ESEA that tie funding directly to student achievement and accountability require states to report on performance in many categories. Programs within IDEA have similar requirements. The utility of this reporting, and ultimately funding decisions, depend on the collection of valid and reliable data. Without valid and reliable data, the Department cannot make effective decisions on its programs or know if the funds it disburses are indeed reaching the intended recipients.

The Department's Progress: The Department recognized the need to improve its data quality and data reliability, and, in 2004, launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network (EDEN) provides state educational agencies and the federal government the capacity to transfer and analyze information about education programs. Through EDEN, the Department instituted data validation and verification steps and required states to address their data issues before the Department will officially accept their data.

In addition, the Department has advised us that it is working in coordination with the Data Quality Campaign and the National Forum on Education Statistics to help state educational agencies implement, by 2009, high-quality, longitudinal data systems that include a state data audit system assessing data quality, validity, and reliability. The Department has also advised us that it worked with a task force of state, local, and federal experts (organized through the National Center for Education Statistics) to develop a resource document for local educational agencies to use with their staff to ensure and improve data quality.

Challenge: Human Resources

Like most federal agencies, the Department will see a significant percentage of its workforce eligible for retirement in 2008. The Department is also continuing to experience a significant change in critical skill requirements for many of its staff. Identification and prompt implementation of needed action steps to adequately address these succession planning and workforce issues, including recruitment, hiring and retention, is critically important. In recent years, the Department has committed a significant amount of time to human resource initiatives at considerable expense, with no measurable results.

The Department's Progress: The Department stated that it is committed to improving the strategic management of human capital. In response to its 2006 Federal Human Capital Survey results, the Department took a three-pronged approach to address the performance culture concerns identified by the survey: (1) senior leadership involvement; (2) principal office action plans; and (3) the Department-wide Action Planning Team (APT). The APT comprised 13 members from different Department offices who were tasked with studying and making recommendations to address performance culture. The Team produced 50 long-term and short-term recommendations that were presented to Department senior leaders in August. In September, senior officials announced to the APT that they had accepted 49 of the recommendations and would begin implementation immediately. In addition, the Department recently completed its Annual Employee Survey, and has stated that the Human Capital Officer will hold workshops with Department managers to discuss and take action on the 2007 survey results.

Summary of Financial Statement Audit and Management Assurance

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details the auditor's report can be found on pages 147–164 and the Department's Management assurances on pages 26-29.

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting - Federal Manager's Financial Integrity Act (FMFIA) 2					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**
The Department had no material weaknesses in the design or operation of the internal control over financial reporting.					

Effectiveness of Internal Control over Operations - FMFIA 2					
Material Weaknesses	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Information Technology Security	√			√	√
Program Management Control	√		√		
Monitoring and Oversight of Guarantee Agencies, Lenders and Servicers		√			√
Total Material Weaknesses	**2**	**1**	**1**	**1**	**2**

Conformance with Financial Management System Requirements - FMFIA 4					
Statement of Assurance	The Department systems conform to financial management system requirements.				
Non-Conformance	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Total Non-conformance	**0**	**0**	**0**	**0**	**0**

Compliance with Federal Financial Management Improvement Act		
	Agency	Auditor
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes	No
2. Federal Accounting Standards	Yes	Yes
3. United States Standard General Ledger at Transaction Level	Yes	Yes

Glossary of Acronyms and Abbreviations

Glossary of Acronyms and Abbreviations

ACG	Academic Competitiveness Grant
ACT	formerly American College Testing, now ACT
ACSI	American Customer Satisfaction Index
AEFLA	*Adult Education and Family Literacy Act*
AGI	Adjusted Gross Income
APEB	*Act to Promote the Education of the Blind*
AP/IB	*Advanced Placement/International Baccalaureate Program*
ATA	*Assistive Technology Act of 2004*
CFAA	*Compact of Free Association Amendments Act of 2003*
CFDA	Catalogue of Federal Domestic Assistance
CRA	*Civil Rights Act of 1964*
CSPR	*Consolidated State Performance Report*
CSRS	Civil Service Retirement System
CTEA	*Carl D. Perkins Career and Technical Education Act of 2006*
EDA	*Education of the Deaf Act of 1986*
EDEN	*Education Data Exchange Network*
EFC	Expected Family Contribution
ESEA	*Elementary and Secondary Education Act of 1965*
ESRA	*Education Sciences Reform Act of 2002*
FAFSA	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FECA	*Federal Employees' Compensation Act*
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FISMA	*Federal Information Security Management Act of 2002*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FSA	Federal Student Aid
FY	Fiscal Year
GEAR UP	Gaining Early Awareness and Readiness for Undergraduate Programs
GPRA	*Government Performance and Results Act of 1993*
GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities
HEA	*Higher Education Act of 1965*

HKNCA	*Helen Keller National Center Act*
HR	Human Resources
IDEA	*Individuals with Disabilities Education Act*
IES	Institute of Education Sciences
IP	Improper Payments
IPIA	*Improper Payments Information Act of 2002*
IRS	Internal Revenue Service
IT	Information Technology
IUS	Internal Use Software
IV&V	Independent Verification and Validation
MD&A	Management's Discussion and Analysis
MECEA	*Mutual Educational and Cultural Exchange Act of 1961*
MVHAA	*McKinney-Vento Homeless Assistance Act*
NAEP	National Assessment of Educational Progress
NCLB	*No Child Left Behind Act of 2001*
NLA	*National Literacy Act of 1991*
OCR	Office for Civil Rights
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OM	Office of Management
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSDFS	Office of Safe and Drug-Free Schools
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PII	Personally Identifiable Information
PMA	*President's Management Agenda*
RA	*Rehabilitation Act of 1973*
RMS	Risk Management Service
SAP	special allowance payments
SOF	Statement of Financing
SY	School Year

TASSIE	Title I Accountability Systems and School Improvement Efforts
TRIO	A group of grant programs under the HEA, originally three programs; not an acronym
USC	United States Code
VPS	Visual Performance Suite
WWC	What Works Clearinghouse
YRBSS	Youth Risk Behavior Surveillance System

Highlights and a CD of the

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The Department's Strategic Plan is available on the Web at:
http://www.ed.gov/about/reports/strat/index.html

Department annual plans and annual reports are available on the Web at:
http://www.ed.gov/about/reports/annual/index.html

The Department welcomes all comments and suggestions on both the content and presentation of this report. Please forward them to:

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