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.

Management's Discussion and Analysis

Continuous National Improvement Through Education
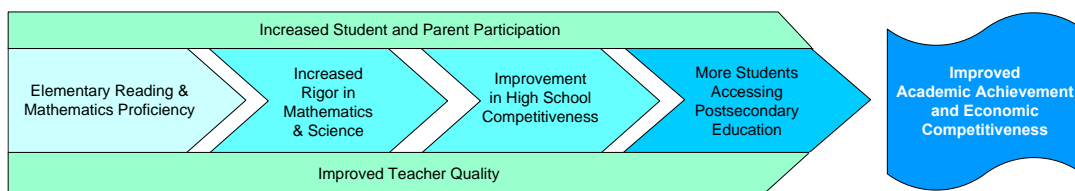
History and Organization

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.
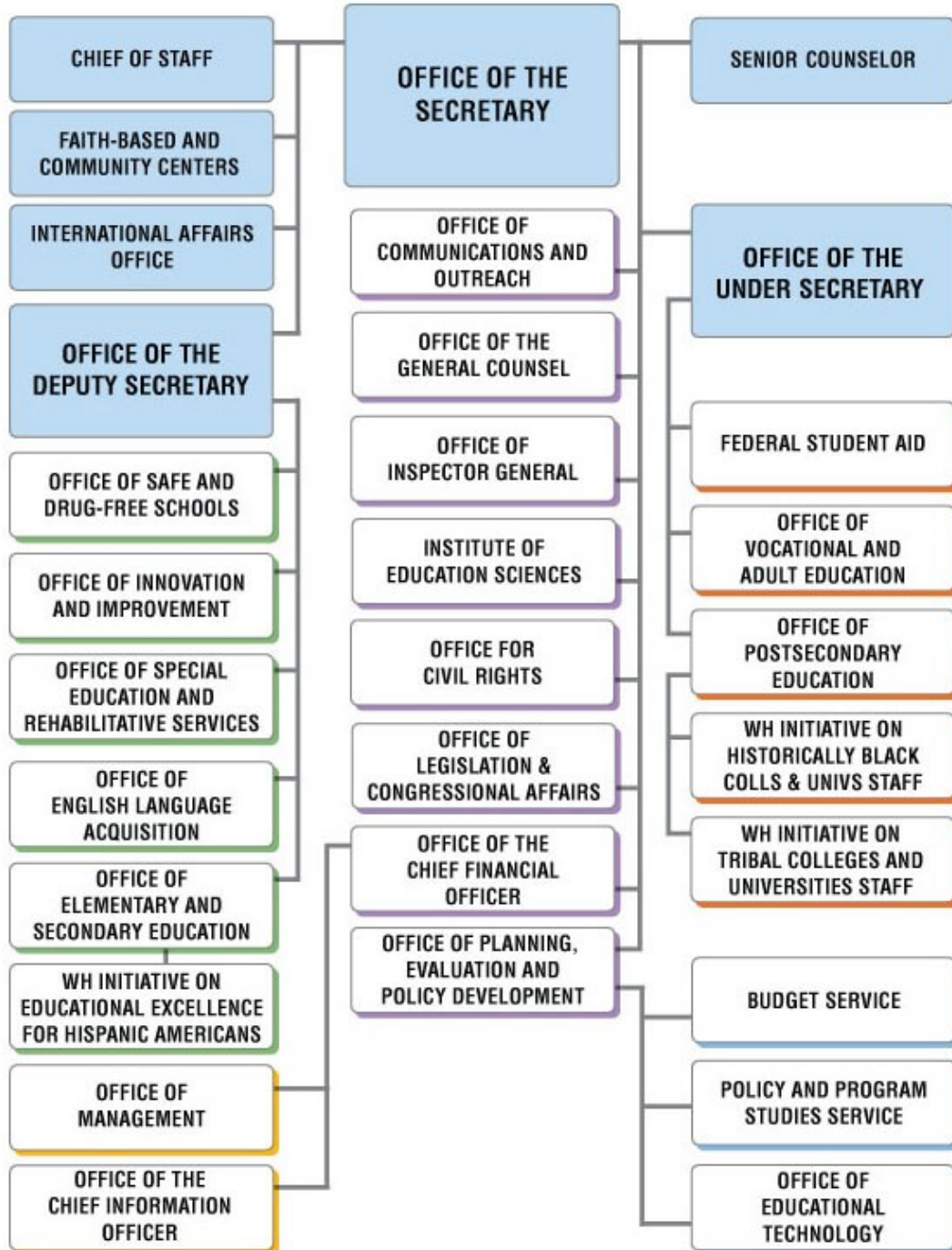
The U.S. Department of Education's Strategic Plan for fiscal years (FY) 2007–12 sets high expectations for America's schools, students and the Department. Although the Strategic Plan was created for fiscal years 2007–12, its goals will not be measured until fiscal year 2008 in accordance with Title 31, 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

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CHIEF OF STAFF

FAITH-BASED AND
COMMUNITY CENTERS

INTERNATIONAL AFFAIRS
OFFICE

OFFICE OF THE
DEPUTY SECRETARY

    OFFICE OF SAFE AND
    DRUG-FREE SCHOOLS

    OFFICE OF INNOVATION
    AND IMPROVEMENT

    OFFICE OF SPECIAL
    EDUCATION AND
    REHABILITATIVE SERVICES

    OFFICE OF
    ENGLISH LANGUAGE
    ACQUISITION

    OFFICE OF
    ELEMENTARY AND
    SECONDARY EDUCATION

    WH INITIATIVE ON
    EDUCATIONAL EXCELLENCE
    FOR HISPANIC AMERICANS

    OFFICE OF
    MANAGEMENT

    OFFICE OF THE
    CHIEF INFORMATION
    OFFICER
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OFFICE OF THE
SECRETARY

    OFFICE OF
    COMMUNICATIONS AND
    OUTREACH

    OFFICE OF THE
    GENERAL COUNSEL

    OFFICE OF
    INSPECTOR GENERAL

    INSTITUTE OF
    EDUCATION SCIENCES

    OFFICE FOR
    CIVIL RIGHTS

    OFFICE OF
    LEGISLATION &
    CONGRESSIONAL AFFAIRS

    OFFICE OF THE
    CHIEF FINANCIAL
    OFFICER

    OFFICE OF PLANNING,
    EVALUATION AND
    POLICY DEVELOPMENT
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SENIOR COUNSELOR

OFFICE OF THE
UNDER SECRETARY

    FEDERAL STUDENT AID

    OFFICE OF
    VOCATIONAL AND
    ADULT EDUCATION

    OFFICE OF
    POSTSECONDARY
    EDUCATION

    WH INITIATIVE ON
    HISTORICALLY BLACK
    COLLS & UNIVS STAFF

    WH INITIATIVE ON
    TRIBAL COLLEGES AND
    UNIVERSITIES STAFF

    BUDGET SERVICE

    POLICY AND PROGRAM
    STUDIES SERVICE

    OFFICE OF
    EDUCATIONAL
    TECHNOLOGY
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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**

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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. 2007	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

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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

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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

Restart Operations 31.6%
Higher Education 14.1%
Homeless Youth 0.2%
Displaced Students 54.1%
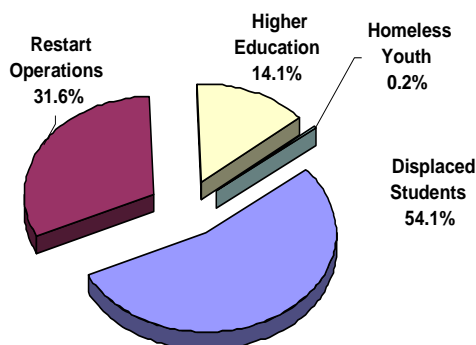
Civil Rights Enforcement

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
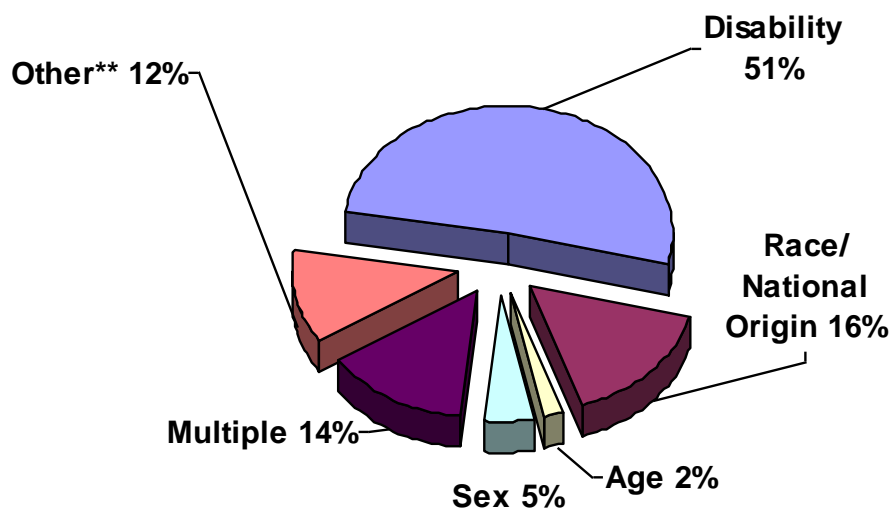
** Indicates no jurisdiction or jurisdiction not yet determined.

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.

Management's Discussion and Analysis

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
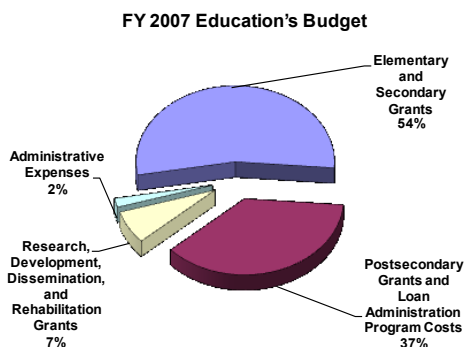
Postsecondary education grants and administration of student financial assistance accounted for 37 percent, including loan programs costs that helped more than 10 million students and their parents to better afford higher education during FY 2007. An additional 7 percent went toward programs and grants 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

*Management's Discussion and Analysis*

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.

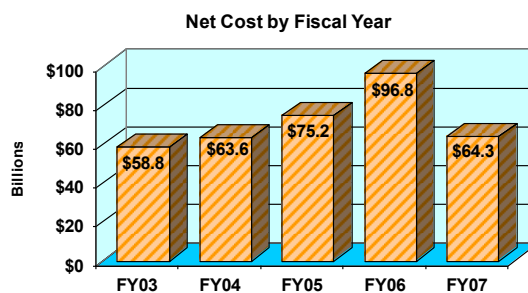## Total Assets vs. Total Liabilities
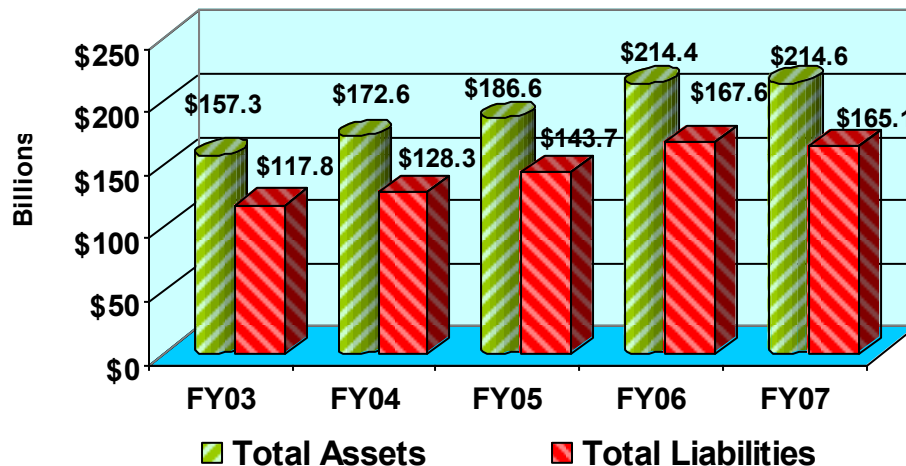
Statement of Net Cost. The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Department's total program net costs, as reflected on the Statement of Net Cost, page 105, were $64.3 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

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	Improve Student Achievement
	3	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

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.*

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.

Net Cost by Fiscal Year

Fiscal Year	Billions
FY03	$58.8
FY04	$63.6
FY05	$75.2
FY06	$96.8
FY07	$64.3

Management's Discussion and Analysis

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.

Management's Discussion and Analysis

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

Management's Discussion and Analysis

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 Discussion and Analysis

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.
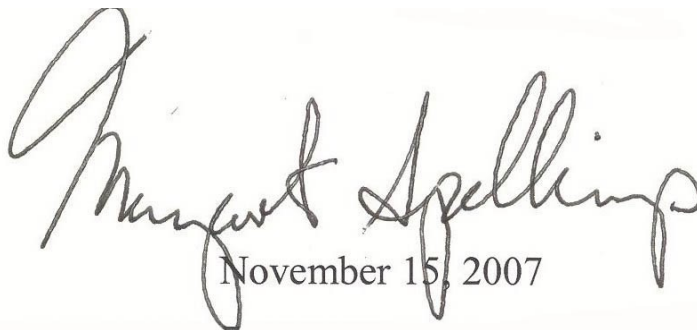
We are cognizant of the Inspector General's concerns regarding the Department's challenges regarding the proper storage of personally identifiable information, the lack of progress in implementing a two-factor authentication and encryption and the completion of system migration of mission critical systems 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.

November 15, 2007

Management's Discussion and Analysis

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.

Management's Discussion and Analysis

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.

Management's Discussion and Analysis