U.S. Department of Education

Fiscal Year 2008 Performance and Accountability Report

No Child Left Behind

U.S. Department of Education
Margaret Spellings
Secretary

Office of the Chief Financial Officer
Thomas Skelly
Delegated to Perform Functions of
Chief Financial Officer

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

November 14, 2008

About the Department of Education's
Fiscal Year 2008 Performance and Accountability Report

The Department of Education's publicly available *Fiscal Year 2008 Performance and Accountability Report* (PAR) will be available on the Department's Web site at http://www.ed.gov/about/reports/annual/2008report/index.html. A print version, provided in limited distribution, contains the exact content provided in the online version. Additionally, a color print summary document containing a CD of the entire PAR will be available in January 2009.

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

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

November 14, 2008

It is my pleasure to present you with our *Fiscal Year 2008 Performance and Accountability Report*—an annual report card of the U.S. Department of Education's efforts and outcomes during the past fiscal year. In this year's report, we detail the goals and objectives of our new strategic plan and provide data based on measures from previous strategic plans to ensure continuity of reporting.

By testing students annually, disaggregating the data, and holding schools accountable for results, *No Child Left Behind* (NCLB) has allowed us to target resources to help students who are falling behind. In the absence of reauthorization, this year I moved forward to make sensible changes to how the law is implemented. Responding to the need for added flexibility to help reformers target their efforts, in March, I invited states to join a differentiated accountability pilot program to develop more nuanced ways of evaluating underperforming schools. In October, I issued regulations to strengthen and improve NCLB by making it easier for eligible students to access free tutoring and school choice. These regulations also will require all states to use the same formula to calculate high school graduation rates.

We have also made important progress in higher education, but work remains in making college more affordable, accessible, and accountable to students and families. In accordance with the renewed *Higher Education Act* and the recommendations of my Commission on the Future of Higher Education, in October I announced a plan to streamline the federal student aid application and provide earlier feedback to students about how much aid they can expect to receive. In addition, the Department released a four-part plan in May to ensure the continued availability of student loans in the 2008-09 school year.

Just as the Department is using data and accountability to track improvements in the performance of our schools, we are committed to assessing our own performances to determine whether we are achieving meaningful results in meeting identified needs. We continue to set high expectations for management practices, fiscal integrity, and a culture of high performance.

Although our performance data are fundamentally complete and reliable, we continue to improve timeliness and accuracy as discussed in the Management's Discussion and Analysis section of this report. I am pleased that for the seventh year in a row, the Department has earned a clean opinion from independent auditors on its financial statements. This report includes information and assurances about the Department's financial management systems and management controls required by the *Federal Managers' Financial Integrity Act of 1982.* These systems and controls provide reasonable assurance that the objectives of the Act are being met, except for one material weakness identified by management—Information Security. For further discussion, please see the Management's Assurances section of the Management's Discussion and Analysis on pages 1-44 of this report.

The quality of education our country delivers is a key determinant of the kind of future we can expect. The Department of Education remains committed to our mission *to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*

Sincerely,

//s//

Margaret Spellings

Contents

Figures

Management's Discussion and Analysis

Our Mission and History

Mission. The U.S Department of Education's mission is *to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access*. Adopted in May 2007, it retains the Department's historic role of "providing equal access to a high-quality education," and affirms the need to provide access to a high-quality education and to improve the academic performance of all learners.

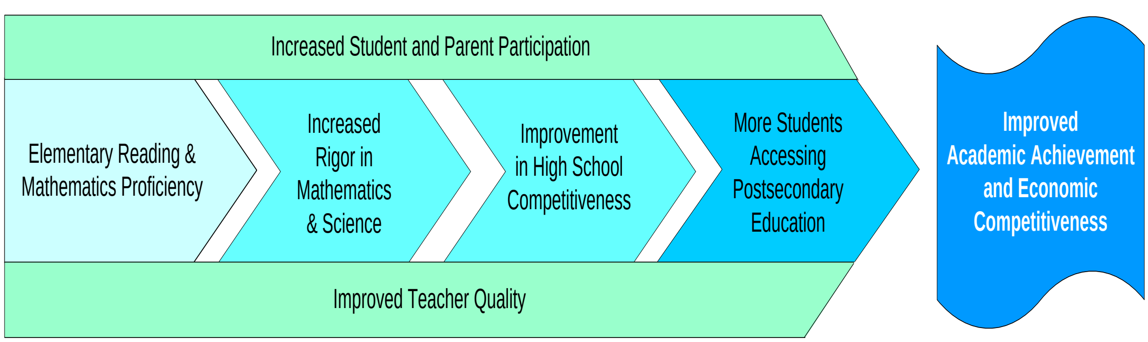
To succeed in a highly competitive global economy, our nation must have world-class higher education and continuous learning options that derive from a secondary education system that graduates high school students with advanced mathematics and science skills. Students with these skills are the product of rigorous mathematics and science programs in elementary and middle schools that focus on inclusion of all students in challenging and comprehensive instruction using best practices and research-based techniques.

America has a great range of educational environments to meet the diverse needs of its students: public schools, public charter schools, specialized schools and nonpublic schools. This report discusses how the Department of Education (the Department) supports these initiatives and activities.

History. 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. For a summary of education legislation since that time, go to: http://nces.ed.gov/pubs2008/2008022_4.pdf

The Department is committed to giving students the skills they need. It 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 strategy on management practices, fiscal integrity and a culture of high performance.

Continuous National Improvement Through Education



Who We Are: Our Organization and Workforce

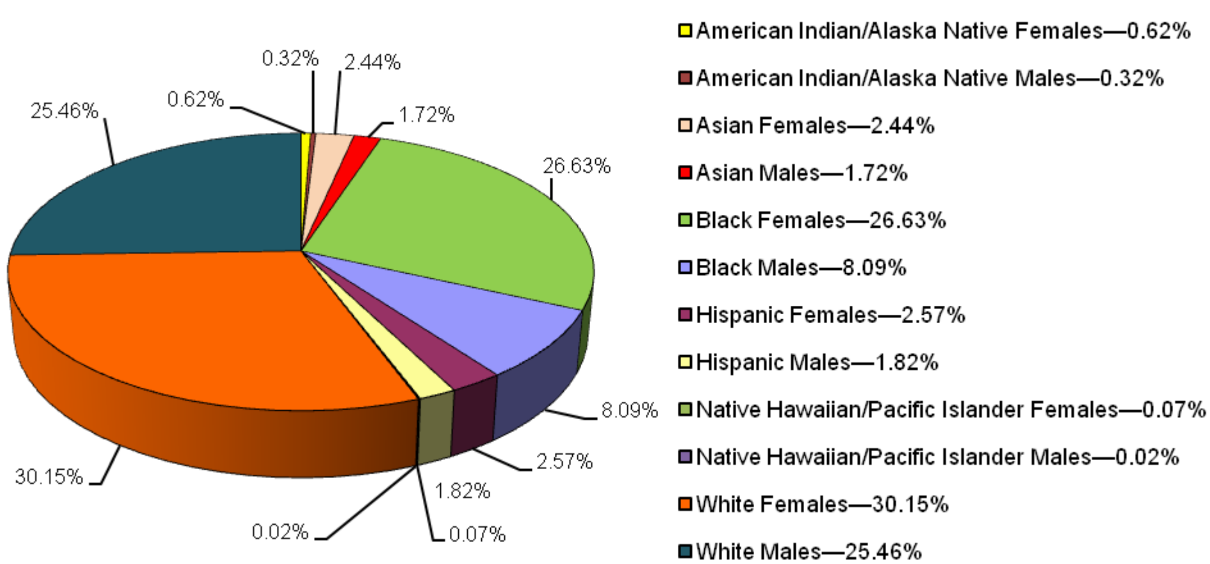
Workforce Overview

The Department has the smallest workforce of any cabinet-level agency, with an approximate workforce for fiscal year (FY) 2008 of 4,400.

Department of Education Workforce Makeup

According to the U.S. Equal Employment Opportunity Commission, *Federal Agency Annual EEO Program Status Report* for the period covering October 1, 2006 to September 30, 2007, achieving an "accountability for results" culture and addressing human capital needs are two critical factors in attaining equal opportunity in the workforce. This includes promoting a fair, efficient, responsive and productive work environment for all employees, and recruiting and retaining a workforce that is skilled, diverse and committed to excellence.

Figure 1. Department of Education Workforce Composition by Race/Ethnicity



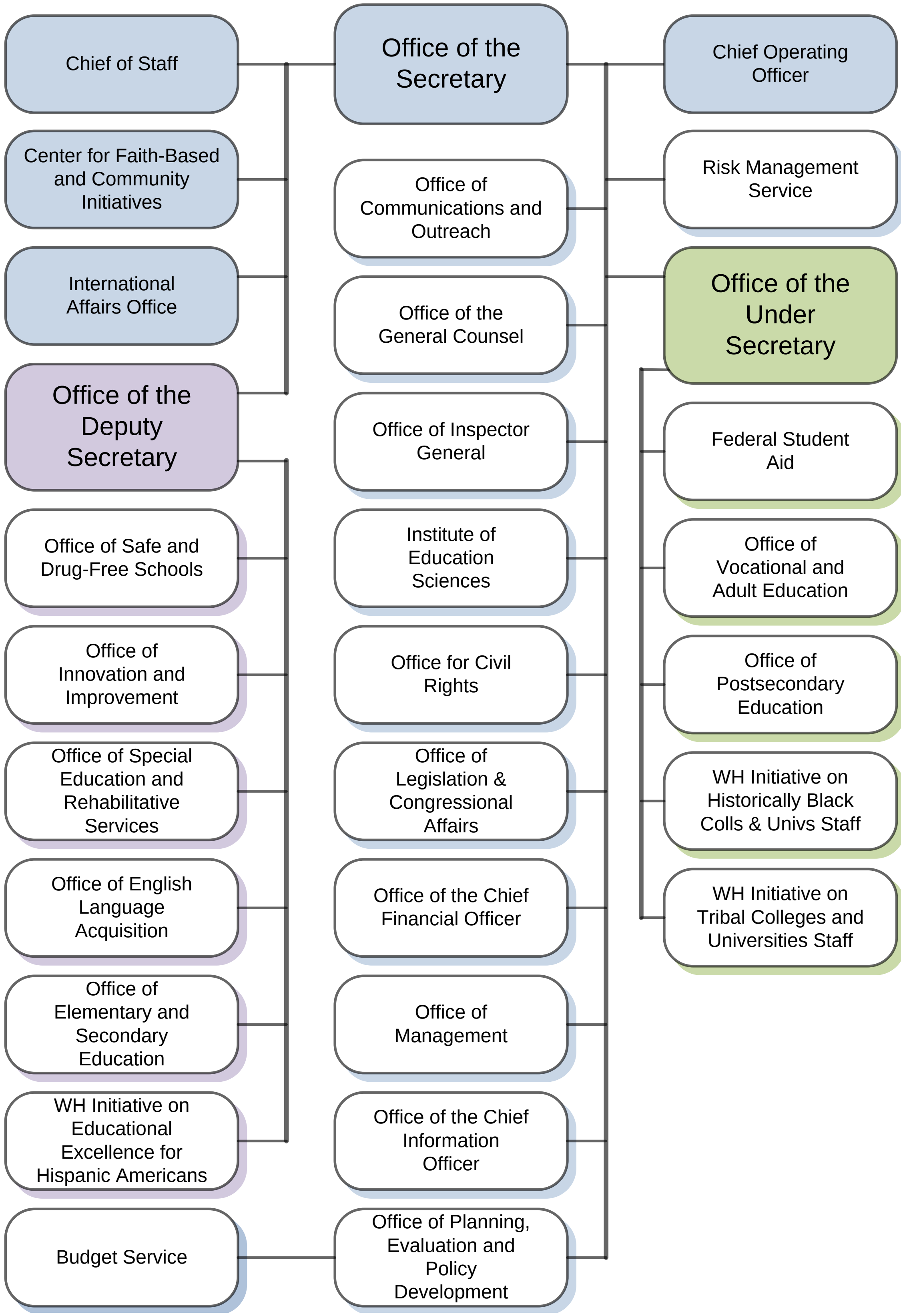
Note: The total does not equal 100 percent due to rounding.

Source: U.S. Equal Employment Opportunity Commission, *Federal Agency Annual EEO Program Status Report* for the period covering October 1, 2006 to September 30, 2007.

Organization

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

Figure 2. Department of Education Coordinating Structure FY 2008



Who We Serve: Our Public Benefit

Every American has a stake in the nation's educational success. The Department's Web site and non-electronic tools focus on our primary customers—students, teachers, parents and administrators. With the *No Child Left Behind Act of 2001 (No Child Left Behind)*, the federal government strengthened its commitment to elementary and secondary students. Higher education assistance provides access to postsecondary education for a significant number of the nation's undergraduates.

Elementary and Secondary Students

According to the Department's report, *The Condition of Education 2008,* in the 2008–09 school year public school enrollment is expected to approach 50 million students. Total public school enrollment is projected to set new records each year from 2008 to 2017, at which time it is expected to reach 54.1 million. See more on Departmental services to students at http://www.ed.gov/students/landing.jhtml.

Teachers

According to National Center for Education Statistics projections, there are more than 3.2 million teachers in U.S. public elementary and secondary schools in the 2008–09 school year. *No Child Left Behind* requires that all teachers be highly qualified in the core academic subjects they teach. See more details at http://www.ed.gov/teachers/landing.jhtml.

Parents

No Child Left Behind has made schools more accountable to parents and provided parents with information and options for their children's education. If a school in need of improvement does not show progress for several years, parents of students in that school can transfer their children to another school in the district or request supplemental educational services, (e.g., free tutoring). See more details at http://www.ed.gov/parents/landing.jhtml.

State and Local Educational Agencies

The Department works with state educational agencies to provide local educational agencies with the tools they need. See more details at: http://www.ed.gov/about/contacts/state/index.html?src=gu

Administrators

Principals, superintendents and other administrators are at the center of school reform and accountability efforts. See more details at http://www.ed.gov/admins/landing.jhtml.

Postsecondary Students and Institutions

More students are acquiring degrees in colleges. To assist students otherwise unable to afford postsecondary education, the Department provides assistance through programs such as the Federal Pell Grant Program, the Federal Family Education Loan Program, the Federal Direct Loan Program, the Federal Perkins Loan Program and the Federal Work-Study Program, authorized under Title IV of the *Higher Education Act of 1965*. See more details at http://www.ed.gov/finaid/landing.jhtml?src=rt.

Continuous Improvement: The Department Reports on a New Strategic Plan

Continuity and Change

Since the Department published its first 5-year strategic plan under the *Government Performance and Results Act of 1993,* each successive plan has further refined the goals of improving student achievement, increasing access to higher education and implementing high-quality management standards within the Department.

Departmental performance measures for management over the last 10 years have focused on student assessments with emphases on reading and mathematics, performance standards for schools and districts, teacher preparation, use of scientifically based research in the classroom, access to higher education and improved internal management. Performance measures also have focused on core indicators of continuous improvement, including:

- Increasing percentages of all students who meet or exceed *Proficient* and *Advanced* performance levels in national and state assessments of reading, mathematics and other core subjects.
- Improving proficiency levels of students in high-poverty schools who show continuous improvement comparable to those for the nation as a whole.
- Increasing high school attendance and graduation rates, particularly in high-poverty schools and among students with disabilities and others at risk of school failure.
- Increasing numbers of high school students who successfully complete Advanced Placement courses each year, including students in high-poverty schools.
- Providing access to students pursuing higher education or other successful transitions into employment, further education or the military.
- Improving internal controls and addressing management challenges within the Department of Education.

The current strategic plan continues to report on these key indicators of performance and adds several new measures of performance focused on high school improvement and human capital.

As shown by the *Strategic Plan* Comparison on the following page, these core goals, objectives and measures have been the consistent focus of the Department's strategic planning process. The comparison also shows continuity among goals and objectives between plans.

STRATEGIC PLAN COMPARISON

2007–2012 *Strategic Plan*	2002–2007 *Strategic Plan*
Mission: *Promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access*	**Mission:** *Ensure equal access to education and to promote educational excellence throughout the nation*
Goal 1: Improve student achievement, with a focus on bringing all students to grade level in reading and mathematics by 2014	**Goal 1: Create a Culture of Achievement** **Goal 2: Improve Student Achievement** **Goal 3: Develop Safe and Drug-Free Schools** **Goal 4: Transform Education into an Evidence-Based Field**
Obj. 1: Improve student achievement in reading *Obj. 2: Improve student achievement in mathematics*	*2.1: Ensure that all students read on grade level by the third grade* *2.2: Improve mathematics and science achievement for all students*
Obj. 3: Improve teacher quality	*2.4: Improve teacher and principal quality*
Obj. 4: Promote safe, disciplined and drug-free learning environments	*3.1: Ensure that our schools are safe and drug free*
Obj. 5: Increase information and options for parents *Obj. 6: Increase high school completion rate*	*1.3: Increase information and options for parents* *2.3 Improve the performance of all high school students*
Obj. 7: Transform education into an evidence-based field	*1.4: Encourage the use of scientifically based methods within federal education programs*
Goal 2: Increase the academic achievement of all high school students	**Goal 1: Create a Culture of Achievement** **Goal 2: Improve Student Achievement**
Obj. 1: Increase the proportion of high school students taking a rigorous curriculum	*1.3: Increase flexibility and local control* *2.3: Improve the performance of all high school students*
Obj. 2: Promote advanced proficiency in mathematics and science for all students	*2.2: Improve mathematics and science achievement for all students*
Obj. 3: Increase proficiency in critical foreign languages	*2.5: Improve student knowledge of world languages*
Goal 3: Ensure the accessibility, affordability and accountability of higher education and better prepare students and adults for employment and future learning	**Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education**
Obj. 1: Increase success in and completion of quality postsecondary education	*5.1: Reduce the gaps in college access and completion among student populations differing by race/ethnicity, socioeconomic status and disability while increasing the educational attainment of all* *5.2: Strengthen accountability of postsecondary education institutions* *5.4: Strengthen Historically Black Colleges and Universities, Hispanic-Serving Institutions and Tribal Colleges and Universities* *5.6: Increase the capacity of U.S. postsecondary education institutions to teach world languages, area studies and international issues*
Obj. 2: Deliver student financial aid to students and parents effectively and efficiently	*5.3: Establish effective funding mechanisms for postsecondary education*
Obj. 3: Prepare adult learners and individuals with disabilities for higher education, employment and productive lives	*5.1: Reduce the gaps in college access and completion among student populations differing by race/ethnicity, socioeconomic status and disability while increasing the educational attainment of all* *5.5: Enhance literacy and employment skills of American adults*
Management Goal: Cross-Goal Strategy on Management	**Goal 6: Establish Management Excellence**
Obj. 1: Maintain and strengthen financial integrity and management and internal controls	*6.1: Develop and maintain financial integrity and management and internal controls* *6.3: Manage information technology resources, using e-gov, to improve services for our customers and partners* *6.4: Modernize the Student Financial Assistance programs and reduce their high-risk status*
Obj. 2: Improve the strategic management of the Department's human capital	*6.2: Improve the strategic management of the Department's human capital strategies*
Obj. 3: Achieve budget and performance integration to link funding decisions to results	*6.5: Achieve budget and performance integration to link funding decisions to results*

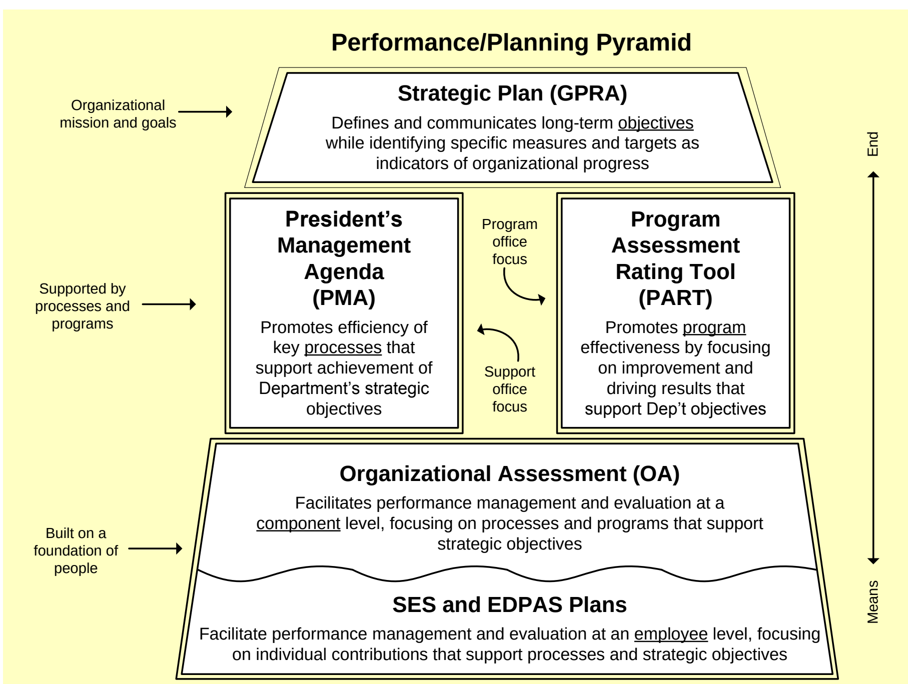
Strategic Plan

The U.S. Department of Education's *Strategic Plan for Fiscal Years 2007–12* sets high expectations for America's schools, students and for the Department. It streamlines Department goals and measures while stressing continuity.

- **Goal 1:** Improve student achievement and teacher quality and renew troubled schools so that every student can read and do math at grade level by 2014, as called for by *No Child Left Behind*.
- **Goal 2:** Encourage more rigorous and advanced coursework to improve the academic performance of our middle and high school students.
- **Goal 3:** Work with colleges and universities to improve access, affordability and accountability, to prepare students and adults for employment and future learning.
- **Cross-Goal Strategy on Management:** Strengthen strategic management controls**,** including human capital, and link funding to results.

Discontinued Strategic Measures. A total of 54 measures in the *Strategic Plan 2002–2007* have been replaced by new measures in the *Strategic Plan for Fiscal Years 2007–12.* Of those measures, 10 measures exceeded the FY 2007 targets, 10 met their targets, 8 did not meet their targets and two have pending results. Remaining measures either had no data reported or programs did not collect data in FY 2007. Eleven measures continue as part of the current strategic plan. A list of discontinued measures is provided on page 113.

The pillars of the strategic plan are the *President's Management Agenda* (see page 35), the Organizational Assessment (see page 16), the Program Assessment Rating Tool (see page 20) and employee performance evaluations, including Senior Executive Service.



Management Challenges Met Over Time

The Department has met or shown significant progress on all seven management goals set by the Department 10 years ago:

- Auditors will issue an unqualified (clean) opinion on the Departmentwide annual financial statements every year. **MET**
- Open audit recommendations related to financial statement audits will be addressed and closed. **SIGNIFICANT PROGRESS** (see Audit Report on page 175).
- Internal controls will be improved and material weaknesses and system non-conformances will be reduced as described in the Department's annual *Federal Managers' Financial Integrity Act* report. **MET**
- The Department's student financial aid programs will be removed from the Government Accountability Office's (GAO) list of "High Risk" Programs. **MET**
- The Department's financial systems will be in substantial compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), which requires that financial management systems provide reliable, useful and timely information. **MET**
- Findings in statewide single audits and program review reports will decrease as the number of Cooperative Audit Resolution and Oversight Initiative projects increases with the Department's state partners. **MET**[1]
- Debt management for Federal Student Aid will continue to improve: student loan defaults will decrease and recovery of defaulted student loans will increase. **MET**[2]

The Department has remained consistent in its central goals, continuously improving the quality of performance measures and the validation and verification of received data. Additionally, the Department has streamlined its annual reports and performance plans to increase transparency, better presenting the Department's public benefits of the federal role in education. The Department continues to provide forward-looking national leadership in the promotion of educational excellence.

[1] The last Cooperative Audit Resolution and Oversight Initiative audits were resolved in 2002 and 2006 respectively. The overall number of audit findings was reduced in subsequent statewide audits. As a result of this process, the Department is now focusing on mitigating risk, reducing the potential for improper payments, and seeking to reduce the overall number of audit findings. In 2006, the Department issued an audit findings "library" that provided information on audit findings by Department program to assist principal offices with their monitoring efforts. In 2007, the Department created the Risk Management Service to develop and coordinate a Departmentwide risk management strategy, and to coordinate and support consistent quality management of formula and competitive grants.

[2] Cohort default rates have steadily declined over the last decade from 9.9 percent in 1998 to 5.1 percent in 2007; recoveries have steadily increased from 8 percent in 1999 to 10.8 percent in 2005 (FSA-held portfolio and tracked under GPRA). Since 2005, the Department has tracked Direct Loan and Federal Family Education Loan program recoveries. The Department has steadily met and mostly exceeded the targets and is on track to exceed the targets this year.

Our Accomplishments for FY 2008 and Ongoing Initiatives

Protecting Student Access and Affordability in Higher Education

As part of its continued commitment to ensure that all qualified students have access to federal student loans, the Department has developed a four-part Plan designed to improve the functioning of the student loan marketplace. The four components of the Plan are an offer to purchase Federal Family Education Loan program (FFEL) loans from lenders and to offer lenders access to short-term liquidity; a pledge to work with the student lending community on solutions to ensure the FFEL program and other student lending programs that serve the best interest of students and taxpayers; an enhanced Lender of Last Resort program to provide access to FFEL program loans for students who face difficulty obtaining conventional loans; and a Federal Direct Loan Program with increased capacity.

The Plan includes a loan purchase commitment under which the Department agrees to purchase new FFEL loans for the 2008-09 academic year and to offer FFEL lenders access to short-term liquidity. The Plan also includes strengthening the FFEL Lender of Last Resort program to help ensure that students are able to obtain FFEL loans and increasing the Department's capacity to make loans under the Federal Direct Student Loan program.

The Department has joined with the Department of the Treasury to analyze market conditions in light of the decision by some lenders to suspend participation in the FFEL. The Department is also committed to supporting the current FFEL program as a successful public/private partnership, while protecting taxpayer interests.

New Loan Purchase Programs Address Student Aid Needs

During FY 2008, the Department of Education implemented a new statutory loan purchase authority to ensure that credit market disruptions did not cause eligible students and their parents to lose access to FFEL loans for the 2008-2009 academic year. The Department also revised agreements with FFEL guaranty agencies under the existing Lender of Last Resort (LLR) authority to provide further assurance that loans would be available for all eligible borrowers.

Emergency Loan Purchase Authority. In FY 2008, Congress enacted the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) which authorizes the Department to buy loans from FFEL lenders when the Department determines that there is not sufficient loan capital to meet the demand for loans. This authority was recently extended to authorize loan purchases through July 1, 2010.

Lenders may access capital under this authority in two ways: by selling eligible FFEL loans directly to the Department or by selling the Department participation interests in eligible FFEL loans. In FY 2008, the Department directly purchased over 20,000 loans valued at approximately $59 million. In FY 2008, the Department purchased more than $5 billion in participation interests in FFEL loans.

Participating lenders represent to the Department that they will continue to participate in the FFEL program and that when funds become reasonably available from private sources on affordable terms, they will originate new loans or acquire existing loans made by other lenders. For additional information, please see http://federalstudentaid.ed.gov/ffelp/.

Lender of Last Resort. The *Higher Education Act of 1965*, as amended, requires guaranty agencies (GAs) to make loans as a lender of last resort to those students who are unable to obtain FFEL loans from conventional FFEL lending sources. GAs may arrange for a conventional FFEL lender to make Lender of Last Resort loans or may make loans directly with their own resources. The Department may advance funds to a GA to make lender of last resort loans if that GA cannot arrange for such lending by another party and lacks other resources sufficient to make the needed loans. The Department will require that any federal advances be deposited in the GA's Federal Fund and that loans made from those funds be assigned to the Department promptly after they are disbursed. The Department did not make federal advances for Lender of Last Resort loans in FY 2008 and none are currently anticipated for FY 2009.

TEACH Grant Program. Authorized by the *College Cost Reduction and Access Act of 2007*, this program offers grants of up to $4,000 to students agreeing to teach math, science or other specialized subjects in a high-poverty school for at least 4 years within 8 years of their graduation. If students fail to fulfill the service requirements, grants turn into Unsubsidized Stafford Loans, with interest accrued from the time of the grant award.

Because the grants turn into loans when the service obligations are not satisfied, budget and accounting treatment of the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program is consistent with the *Federal Credit Reform Act of 1990*. Subsidy costs reflecting the net present value of grant costs less expected future loan payments are recorded in the TEACH Grant Program Account. In FY 2008, the Department disbursed approximately 800 grants exceeding $1.4 million under TEACH.

Information Resources for Students and Parents. The Department and the Federal Trade Commission have jointly released a consumer guide to help students and their families navigate the maze of offers they may face when seeking new student loans or consolidating existing student loans to pay for higher education. *Student Loans: Avoiding Deceptive Offers* provides advice to help consumers detect deceptive marketing offers from private companies seeking their student loan business. See more details at http://ombudsman.ed.gov/CRE43-studentloans3.pdf.

Improving college access, affordability and accountability are key to giving more Americans a chance at higher education and keeping America economically competitive. Families need more information about students' federal aid eligibility so that they can plan ahead for college. The Department's *FAFSA4caster* gives families an important tool they can use to make decisions about the future. The *FAFSA4caster* calculates a student's eligibility for federal student aid, reduces the time it will take to complete the Free Application for Federal Student Aid (FAFSA) and simplifies the financial aid process for students and families. For more details see http://www.federalstudentaid.ed.gov.

The Reauthorization of the *Higher Education Act*

A college education continues to be the best path to the strengthening the future of our nation. The *Higher Education Opportunity Act,* the latest renewal of the *Higher Education Act of 1965*, continues the effort to make college more affordable and expands college access. The legislation encourages colleges to rein in price increases, improves integrity and accountability in student loan programs, simplifies the federal student aid application process, expands college access and support for low-income and minority students and increases college aid for veterans and military families. The Act establishes measures to ensure equal college opportunities for students with disabilities, encourages colleges to adopt energy-efficient practices and strengthens our workforce and competitiveness.

Indicators To Track the Nation's Educational Progress

No Child Left Behind is providing parents, educators and the public with historic levels of data about how schools in the United States are performing. The five leading education indicators—achievement in reading and mathematics, the achievement gap, high school graduation, college readiness and college completion—complement *No Child Left Behind* by providing a snapshot of national trends. These five were selected because they are national, reliable, results-based, and, in most cases, annual. Further, it is believed that they best capture the Department's overarching goals in that they encompass metrics of the performance of the United States education system from elementary through postsecondary. The five indicators were averaged, with equal weighting, to produce a single summary (composite) indicator. For more information and technical notes on how the indicators are calculated, go to http://www.ed.gov/nclb/accountability/results/trends/index.html.

Education Indicator	2000	2007
Achievement: What percentage of 4th- and 8th-graders are proficient or above in reading and mathematics?	25%	33%
Achievement Gap: What percentage of black and Hispanic 4th-and 8th-graders are proficient or above in reading and mathematics as compared to the same cohort of white students?	23%	35%
High School Graduation: What is the percentage of public high school students who earn a regular diploma in four years?	72%	74%
College Readiness: Of the high school students who take a college entrance exam, what percentage are ready for a college course?	42%	42%
College Completion: What percentage of our young labor force (25-34 years old) have at least a bachelor's degree?	29%	31%
Composite	**38%**	**43%**

Strengthening *No Child Left Behind*

This year, Secretary Spellings developed new regulations to strengthen and clarify *No Child Left Behind.* The regulations focus on improved accountability and transparency, uniform and disaggregated graduation rates and improved parental notification for supplemental educational services and public school choice. These new regulations outline the criteria that states must meet to incorporate individual student progress into their definitions of adequate yearly progress. Additionally, the regulations strengthen the provisions of the law on school restructuring by clarifying that restructuring interventions must generally be more rigorous than a school's prior corrective actions and that interventions must address the reasons that the school is in restructuring.

The Secretary has also created a National Technical Advisory Council, made up of experts in the fields of education standards, accountability systems, statistics and psychometrics, that is tasked with advising the Department on the implementation of standards, assessments and accountability systems.

A Uniform Definition of Graduation Rate. The Department has established a uniform method for calculating high school graduation rates that identifies how many incoming freshmen in a high school graduate within four years with a regular high school diploma. All states must now use the same formula that follows a cohort of first-time ninth grade students and calculates how many of those students graduate with a regular high school diploma within four years. The formula adjusts the initial cohort to account for students who transfer into or out of the cohort. Each state is responsible for setting a graduation rate goal and annual key targets, and for disaggregating data by race, ethnicity, disability, limited English proficiency and income level to report graduation rates and to determine adequate yearly progress.

***Strengthening Public School Choice and Supplemental Educational Services*.** An interim report on state and local implementation of *No Child Left Behind's* public school choice and supplemental educational services options found that the number of students participating in both options has increased substantially. However, in school year 2004-05 only a small proportion of eligible students took advantage of the options available to them. See more details at http://www.ed.gov/rschstat/eval/choice/implementation/achievementanalysis.pdf. A parent survey found that only a small percentage of eligible parents knew they had been notified about the school choice option and only a slightly larger percentage knew that their child was eligible for supplemental services. The Department has proposed regulations to provide timely and clear notification to parents whose children attend Title I schools identified as in need of improvement and who are eligible for supplemental educational services.

New Regulations for Title I Build On Accountability. The Department's new regulations for Title I of the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by *No Child Left Behind,* build on the advancements of state assessments and accountability systems, as well as strengthening the public school choice and supplemental educational services provisions of *No Child Left Behind*. The new regulations require states to explain the states' minimum group size to provide statistically reliable information, and report state National Assessment of Educational Progress (NAEP) reading and mathematics results on their state report cards. These regulations were published on October 28 and will become effective on November 28, 2008. See more details at http://www.ed.gov/policy/elsec/reg/title1/index.html.

New Flexibilities Under *No Child Left Behind*

Growth Model Pilot. The Department continues to provide expanded flexibilities to states under *No Child Left Behind,* including the Growth Model Pilot, which allows states that adhere to the core principles of *No Child Left Behind* to include measures of individual students' annual progress in the calculation of adequate yearly progress. This year, the Department opened the growth model pilot to all eligible states.

Differentiated Accountability. In FY 2007, Secretary Spellings announced another important flexibility under *No Child Left Behind.* The new initiative, differentiated accountability, allows eligible states to distinguish between those schools in improvement that are just missing the mark and those that need significant reform. Differentiated accountability allows states to vary the intensity and type of interventions to match the reasons that lead to a school's identification for restructuring.

In return for this flexibility, states participating in the program must commit to building their capacity for school reform, taking the most significant actions for the lowest-performing schools, addressing teacher effectiveness and using data to determine the types and categories of intervention. As part of a pilot program, states meeting four core principles (accountability, differentiation, interventions and restructuring) may propose a differentiated accountability model. In order to participate in the pilot, a state's standards and assessment system must be fully approved, the state must have no significant monitoring findings, the state must have an approved highly qualified teacher plan and the state must provide timely adequate yearly progress information to the public.

Additionally, the Secretary has created a pilot program for states participating in Supplemental Educational Services (SES) for students attending Title I schools in year one of school improvement status. This pilot allows school districts to offer tutoring ahead of schedule under *No Child Left Behind*. States approved for the SES pilot must meet the following criteria: timely notification of adequate yearly progress; a state SES evaluation in progress; and a state assessment system for which the Department has granted Full Approval with Recommendations.

Progress in Reading, Mathematics and Science Achievement

Every day, schools in the U.S. work to make progress toward the goal of having all students perform on grade level or better in reading and mathematics by 2014. Achievement of this goal depends on a continued commitment to high standards, annual assessments, accountability for results, a highly qualified teacher in every classroom and information and options for parents. The Department has been tracking progress and collecting data about the academic performance of students in order to chart current achievement and plan a course of action for future progress. See more details at http://www.ed.gov/nclb/accountability/results/progress/nation.html

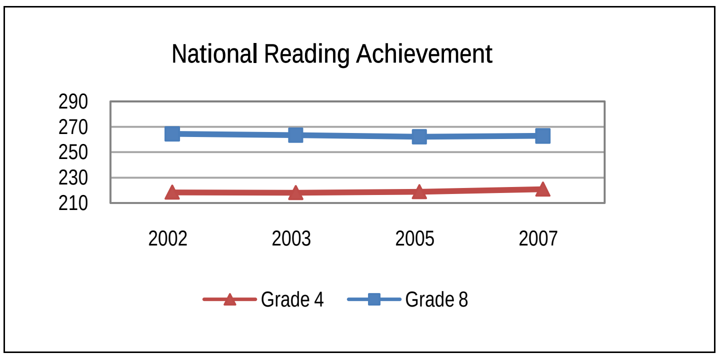


Exhibit represents NAEP reading achievement trend data from 2002 to 2007.

Source: National Assessment of Educational Progress (NAEP)

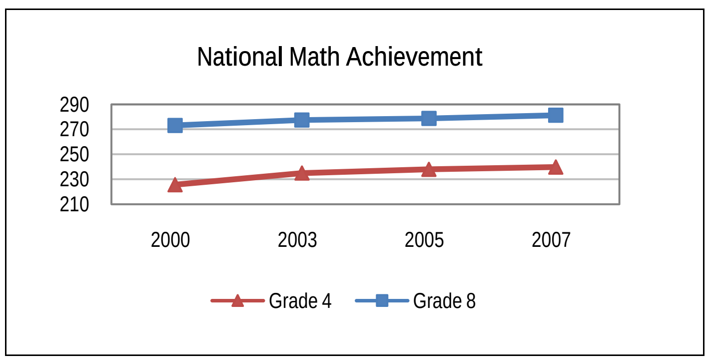
States Report Gains in Reading Achievement. The Reading First Program is an academic cornerstone of *No Child Left Behind.* Reading First builds on a solid foundation of scientifically based research and provides struggling students in the highest-need schools with the necessary resources to make progress in reading achievement. Reading First is designed to help at-risk students in grades K-3, while Early Reading First helps preschool age children.

Actual student achievement data reported by states on their annual performance reports show that Reading First students from nearly every grade and subgroup have made impressive gains in reading proficiency. In Grade 1, 44 of 50 state educational agencies (SEAs) reported increases in the percentage of students proficient in reading comprehension.

In Grade 2, 39 of 52 SEAs reported improvement and in Grade 3, 27 of 35 SEAs reported improvement.[3] For detailed Reading First state-by-state data, please visit www.ed.gov/programs/readingfirst/performance.html and http://www.ed.gov/programs/readingfirst/state-data/achievement-data.pdf

A recent report on Reading First, released by the Department's Institute of Education Sciences, provided additional information about the Department's efforts to improve reading achievement. This report found that Reading First had a positive, statistically significant impact on the total class time spent on the five essential components of reading instruction promoted by the program. However, while students at Reading First schools made notable gains and received significantly more reading instruction than those in non-Reading First schools, their improvements were not significantly different from those of students at non-Reading First schools in the same district. It is important to note that the study measured Reading First schools against other schools in Reading First districts that may have implemented the same reforms. For the full report, see http://ies.ed.gov/ncee/pdf/20084016.pdf.

Improved Proficiency in Mathematics and Science. Student achievement in mathematics and science continues to show gains since the implementation of *No Child Left Behind.* The latest results from the National Science Foundation's Math and Science Partnership Program show improved proficiency among all elementary and middle school students who participated in the program. The results also show a narrowing of the achievement gaps between both African-American and Hispanic students and white students in elementary school math and between African-American and white students in elementary and middle school science. See more detail at http://www.nsf.gov/news/news_summ.jsp?cntn_id=111514.



Source: National Assessment of Educational Progress (NAEP)

The 2007 National Assessment of Educational Progress scores for mathematics showed that the overall score for students in Grade 4 in mathematics was higher than in any previous assessment. There was improvement across the board in mathematics performance for white, African-American, Hispanic

[3] The SEAs implementing Reading First programs and providing data are the 50 states, the District of Columbia, the U.S. Virgin Islands, American Samoa, and the Bureau of Indian Affairs. SEA data are included in the calculations only if the state provided complete and reliable data for the first year of implementation through the 2006-07 school year on the same measure with the same proficiency benchmark. The number of SEAs reporting data varies because SEAs did not all provide complete and reliable data for every grade every year. Grade 3 data include only SEAs reporting on the same assessment used in Grades 1, 2 and 3.

and Asian and Pacific Islander students. The average score for fourth-graders has increased 27 points over the past 17 years and the score for eighth-graders has increased 19 points during the same period. The chart above represents trend data from 2000 to 2007. See more detail at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2007494.

Global Competitiveness Is a Vital National Interest

Foreign Languages Critical for National Security. With our expanding global economy and national security needs, it is crucial that large numbers of Americans be able to communicate in languages such as Arabic, Chinese, Russian, Korean, Hindi and Farsi. To help increase the number of Americans learning foreign languages critical to national security and commerce, the President's National Security Language Initiative is intended to address the shortage of critical foreign language speakers by supporting new and expanded programs in grades K-12. The Initiative also helps educate teachers in those languages. Speaking another's language promotes understanding, conveys respect, strengthens our ability to engage people from other nations and governments and provides others with an opportunity to learn more about America and its people. See more details at http://www.ed.gov/about/inits/ed/competitiveness/nsli/index.html

The Department and the European Union Partner to Address Global Issues. The Department of Education and the European Union are jointly funding projects to advance international curriculum development and student exchanges. The projects fund collaborative efforts between colleges and universities in the United States and Europe to develop programs of study in a wide range of academic and professional disciplines. The projects will foster student exchanges and address crucial global issues. Each project consists of a consortium of U.S. and European institutions with funding provided by both the Department and the European Union.

Ongoing Improvement Initiatives

The Organizational Assessment. The Department's Organizational Assessment (OA) is the Departmentwide performance management system, developed in response to the requirements of Executive Order 13450, *Improving Government Program Performance,* as well as the Office of Personnel Management's requirement that each federal agency evaluate its principal offices on an annual basis. The OA operates at the principal office level and is designed to integrate and align all of the Department's performance management elements, including the *Strategic Plan,* the Secretary's annual priorities, the priorities of the principal offices and other requirements of law and of the President. The OA provides a framework for communicating goals and priorities to employees and for aligning employee performance plans with the objectives of Department and principal offices. The OA measures are incorporated into employee performance plans where appropriate. The OA focuses on activities that support the primary objectives of the principal office and of the Department as a whole.

The Department's G5 Initiative. The Department is currently replacing its legacy Grant Administration and Payment System with a new state-of-the-industry system called G5. This new system is being implemented by means of a three-phased approach, and will incorporate numerous enhancements for both grantees and Department staff. Phase 1 of the G5 implementation addressed the payments functionality of the grants process, while Phases 2 and 3 address the pre- and post-Award functionality, respectively.

The G5 system is being implemented in consideration of the Department's role as a Grants Management Line of Business lead in the consortium of federal agencies participating in this effort. The Department has established partnerships with two agencies, the Department of the Interior and the Department of Labor, and one agency office, the Department of Justice Office of Community Oriented Policing Services, to further this goal.

The Department Creates the Risk Management Service. As part of implementing risk management, the Department has created the Risk Management Service. It is responsible for mitigating risks that may adversely affect the advancement of the Department's mission, in coordination with the Risk Management Coordinating Council and the Department's principal offices. The Risk Management Service is developing and coordinating a Departmentwide risk management strategy that supports consistent, quality management of formula and discretionary grants, and related program-funded activities across the Department.

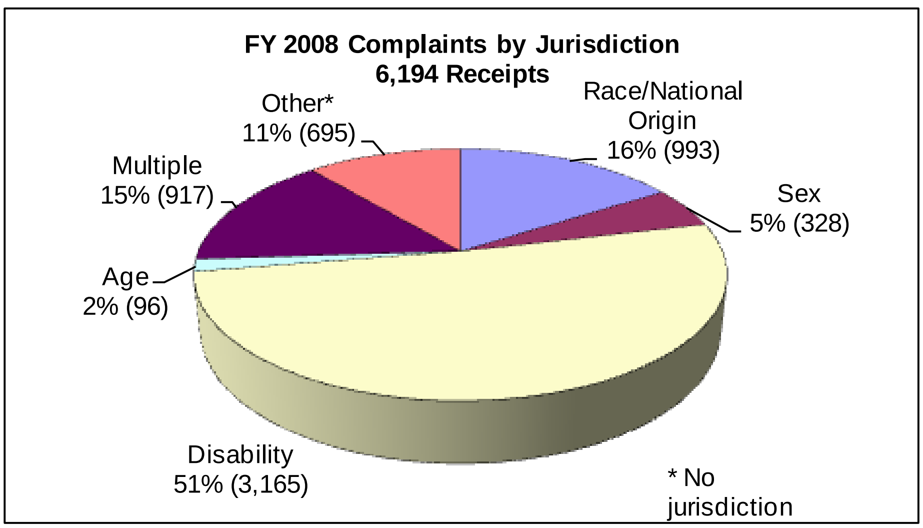
Renewed Focus on Program Monitoring**.** In addition to the activities underway in the Risk Management Service, program offices across the Department are enhancing their program monitoring activities. The Department encouraged offices to place a renewed focus on program monitoring by utilizing a risk-based approach to identify grantees in need of heightened monitoring. Corrective actions for audits of guaranty agencies, lenders and servicers, and schools were implemented and on-going efforts were focused on the monitoring of the Title I, Reading First and Migrant Education programs.

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 funds from the Department. In addition, the Department enforces laws intended to ensure 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.[4] These anti-discrimination laws protect more than 49.8 million students attending elementary and secondary schools[5] and more than 18.2 million students attending colleges and universities.[6]

The Office for Civil Rights (OCR), a law 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 and 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 2008, the Department received 6,194 complaints of discrimination and resolved 5,943.[7] 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, the majority of complaints received by the Department allege discrimination due to disability.



[4] The Department enforces Title VI of the *Civil Rights Act of 1964* (prohibiting discrimination based on race, color and national origin); Title IX of the *Education Amendments of 1972* (prohibiting sex discrimination in education programs); Section 504 of the *Rehabilitation Act of 1973* (prohibiting disability discrimination); the *Age Discrimination Act of 1975* (prohibiting age discrimination); and Title II of the *Americans with Disabilities Act of 1990* (prohibiting disability discrimination by public entities, whether or not they receive federal financial assistance). The Department also enforces the *Boy Scouts of America Equal Access Act,* enacted in 2002. This law addresses equal access for the Boy Scouts of America and other designated youth groups to meet in public schools receiving funds from the Department.

[5] U.S. Department of Education, National Center for Education Statistics (2007). *Projections of Education Statistics to 2015* (NCES-2008-060), Washington, D.C.: Table 1.

[6] Ibid, Table 10.

[7] Data source is the Office for Civil Rights' Case Management System.

In addition to complaint investigations, the Department conducts compliance reviews that address specific civil rights issues of national concern. Forty-two compliance reviews initiated in FY 2008 ensured:

- physical access of students with disabilities to colleges and universities;
- access to educational services for limited English proficient students and effective communication with parents of limited English proficient students;
- national origin minority students are not inappropriately included in or excluded from special education services;
- nondiscrimination in athletics programs and activities on the basis of sex;
- schools have established and are implementing procedural safeguards required by laws prohibiting discrimination on the bases of sex, disability and age; and
- nondiscriminatory access to Advanced Placement and other high-level programs.

The Department's provision of technical assistance takes many forms from responding to *ad hoc* phone calls to delivering formal presentations. Through the Office for Civil Rights' 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. In FY 2008, the Assistant Secretary for Civil Rights issued and posted to the Internet six *Dear Colleague Letters* addressing significant issues such as nondiscriminatory access by students with disabilities to high-level programs, e.g. Advanced Placement programs and how OCR determines which athletic activities can be counted under Title IX to ensure that male and female students are provided equal opportunities to participate in intercollegiate and interscholastic athletics programs. Another letter announced the "Wounded Warrior Initiative," which is intended to provide support to veterans with disabilities who may wish to begin or continue their postsecondary education following military service. The letters can be found at http://www.ed.gov/about/offices/list/ocr/whatsnew.html. The Office's site also offers an online complaint form, http://www.ed.gov/about/offices/list/ocr/complaintintro.html, through which the Department now receives approximately 68 percent of its discrimination complaints.

Linking Taxpayer Dollars to Performance Results: Accountability Through the Integration of Results With Investment

Our emphasis on sound financial practices, performance results and program accountability reflects a strong desire to use taxpayers' dollars as effectively as possible. The Department strives to tie the performance of our programs with budget requests and to strengthen the link between financial investments and program quality.

The Program Assessment Rating Tool. Since FY 2002, the Office of Management and Budget (OMB) has required federal agencies to assess the quality of government programs using the Program Assessment Rating Tool (PART). OMB uses this assessment across federal agencies to gauge the effectiveness of funded programs, ensure that programs meet statutory requirements and demonstrate accountability for the taxpayers' investments in federal programs. A PART review helps identify a program's strengths and weaknesses to inform funding and management decisions.

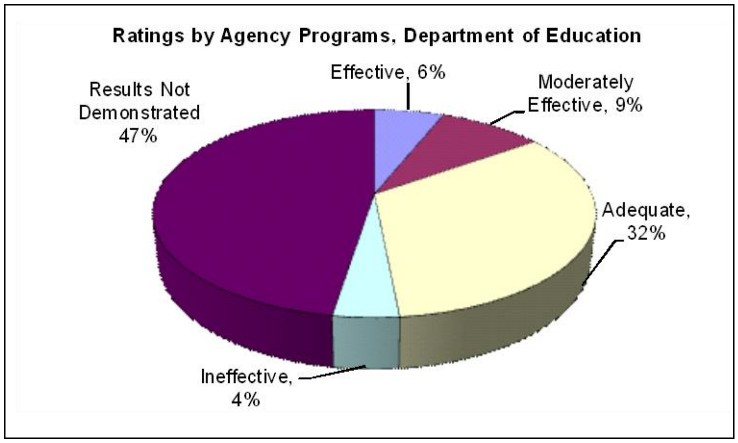
The Department uses PART assessments to inform priorities for budget requests to Congress. Each program receives a score for program purpose and design, strategic planning, program management and program results. Once a program has undergone a PART review, the Department implements follow-up actions based on PART recommendations to improve program effectiveness. The PART helps the Department ensure that resources are targeted toward those programs and activities most likely to demonstrate the greatest public benefit.

The Department has proposed investing in programs receiving a PART rating of *Effective, Moderately Effective* or *Adequate*, while proposing major reform or elimination of programs rated *Ineffective*. For programs rated *Results Not Demonstrated*, the Department has proposed continued funding if the programs are likely to demonstrate results in the future and do not duplicate the activities or purposes of similar programs.

In FY 2008, the Department assessed a total of eight programs, seven of which were reassessments, bringing the total number of programs assessed under the PART since 2002 to 93, including some that no longer receive funding. Programs accounting for about 98 percent of the Department's budget authority have now been assessed using the PART.

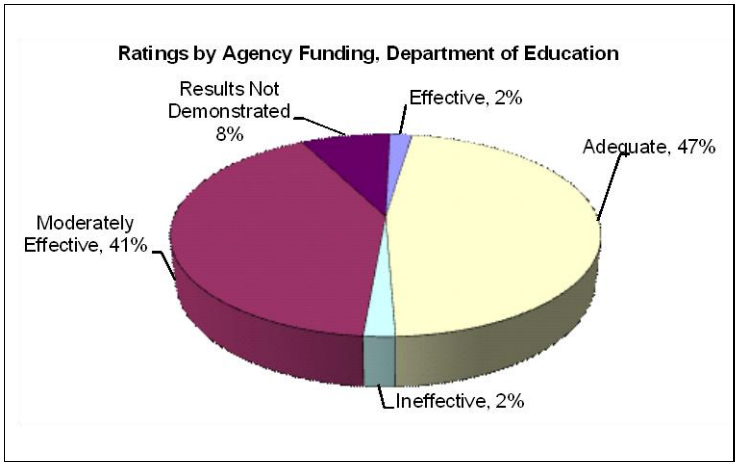
To access PART evaluations of Department programs to date, go to: http://www.whitehouse.gov/omb/expectmore/agency/018.html

FY 2002–2008 PART	
Effective	6
Moderately Effective	8
Adequate	31
Ineffective	4
Results Not Demonstrated	44
Total PARTs Completed	93



Notes: Percentages of ratings by agency programs may not total 100 percent due to rounding. Total includes PART ratings for programs not currently funded.

Ratings of Programs by FY 2008 Agency Spending (Dollars in Millions)	
Effective	$1,337
Moderately Effective	28,405
Adequate	32,506
Ineffective	1,596
Results Not Demonstrated	5,923
Total PARTs Completed	$69,767



Linking Program Performance with Budget Submissions. To further the goal of aligning program performance with budget requests, the Department combines its annual performance plan and annual budget to create an annual performance budget. The Department has identified specific key measures that reflect the Department's four major strategic goals that were identified in its new strategic plan. Last year's strategic planning process, as required by the *Government Performance and Results Act of 1993*, offered an opportunity to re-examine our goals, program objectives and performance measures. The new strategic plan improves on previous efforts to ensure continued funding of the programs that have proven beneficial for the populations they serve. For more detail on the annual performance budget, see http://www.ed.gov/about/reports/annual/2009plan/fy09perfplan.pdf

Challenges Linking the Program Performance to Funding Expenditures. Linking performance results, expenditures, and budget for Department programs is complicated because 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, or 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 a subsequent year.

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

The results presented in this report cannot be attributed solely to the actions taken related to FY 2008 funds but to a combination of funds from across several fiscal years. Furthermore, 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.

Performance Evaluations Improve Accountability. To further demonstrate accountability for the taxpayers' investment in education spending, each year the Department publishes evaluations of selected programs. These evaluations serve to identify both best practices and programs that cannot demonstrate success and to inform senior management about programs in need of additional support. The Department uses evaluations to help identify programs that may be eliminated from the budget or recommended for reduced funding. Several offices in the Department have the responsibility for designing and implementing evaluations of program and management activities and operations. Those include the Institute of Education Sciences, and the Office of Planning, Evaluation, and Policy Development. Additionally, the Department's Office of Inspector General and the Government Accountability Office audits and reports provide guidance and feedback on improvements in management and program operations. Pages 122-124 contain a summary of selected evaluations released in FY 2008. Additionally, the Department provides guidance to grant recipients on developing evaluations based on scientifically rigorous evidence. More detail is available at http://ies.ed.gov/ncee/pubs/evidence_based/evidence_based.asp.

How We Validate Our Data

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 *No Child Left Behind*, accuracy of state and local educational agency performance data is even more crucial, because funding decisions are made and management actions are taken on the basis of this performance information.

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 to the public by several months. Data time lags have been cut from up to 24 months for some performance data in FY 2006 to an average of 8.5 months in FY 2008. 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 further improvement in the timeliness of data submitted to the Department.

Performance Data

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

Department data validation and verification 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 using a Departmentwide matrix and through expert reviews.

External Quality. Standardization of data collection by school districts—reported by local educational agencies to state educational agencies, aggregated by states and reported to the Department—is the first critical step in the collection and reporting of high-quality data.

- In 2008, the Department solicited applications for awards to fund the development or improvement of statewide longitudinal data systems, which are already under way in 27 states.
- In school year 2008-2009, state educational agencies are required to fully report educational data through the Department's ED*Facts* collection system. Transition agreements with the Department will ensure the smooth transitions to a single electronic system.

The Department is working with internal and external partners 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 goal of the National Forum on Education Statistics, sponsored by the Department's 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. The forum plans, recommends and implements 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. See more details at http://nces.ed.gov/forum/data_quality.asp.

Internal Validity. Verification and validation of performance data support the accuracy and reliability of performance information, reduce the risks of inaccurate performance data and provide a sufficient level of confidence to Congress and the public that performance data are credible.

OMB Circular A-11, Part 6, section 230.5, *Assessing the completeness and reliability of performance data,* requires each agency to design a procedure for verifying and validating data that it makes public in its annual performance plans and reports. Additionally, the *Government Performance and Results Act of 1993* describes the means to be used to verify and validate measured values. Finally, the *Reports Consolidation Act of 2000* requires that the transmittal letter included in annual performance reports contains an assessment by the agency head of the completeness and reliability of the performance data included in the reports.

In response, the Department has developed a matrix to guide principal offices responsible for reporting data in performance measures to address issues of data integrity and credibility. The matrix provides a framework for validating and verifying performance data before it is collected and reported and will be used to evaluate data prior to publication.

The Department's data validation criteria require that:

- The goal and measure are appropriate to the mission of the organization and measured performance has a direct relation to the goal.
- The goal and measure are realistic and measurable, achievable in the time frame established, and challenging in their targets.
- The goal and measure are understandable to the lay person, language is unambiguous, and terminology is adequately defined.
- The goal and measure are used in decision-making about the effectiveness of the program and its benefit to the public.

For more information on the matrix and its implementation, go to http://www.ed.gov/about/reports/annual/data-verfication.doc.

Data Management

Management Excellence. The Department develops and uses data to strengthen internal controls. One of the most visible areas in which this occurs is the annual budget development process. The Department uses program performance data to inform the formulation and execution of the Department's budget, fulfilling a governmentwide 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 with which to make informed budget and policy decisions. These systems will enhance the budget process and increase the accuracy and reliability of information received from outside sources.

Internal Control Measures. The Department also produces financial data for official submission to Congress, 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 the Department's audit report and in management's assurance of internal control over financial reporting assessment. The financial statements, associated notes and auditor's reports can be found on pages 127–190. The required Limitations of the Financial Statements can be found on page 34. Management's assurance of internal control can be found on page 41.

Overview of Performance Results

In FY 2008, 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, based on the *Strategic Plan for Fiscal Years 2007–12.*

The table below summarizes the Department's performance results for FY 2008 key measures. There are 81 key performance measures that support the Department's mission and strategic goals. Most data for FY 2008 will be available during FY 2009.

For the most recent data available, FY 2007, the Department met or exceeded targets for 28 key measures, showed improvement for 23, did not meet 12, and is awaiting data for 9 measures. For 5 measures, baselines were established. The remaining 4 have no targets or data for FY 2007.

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. The new Strategic Plan required the establishment of new key measures, though some key measures were previously in place as program performance measures and, therefore, have historical data.

Shown below are the results for each key measure as of October 10, 2008. The table shows whether the result met or exceeded, did not meet but improved over the prior years or failed to meet the expected target. The shaded areas indicate that a measure was not in place or no data was available during this 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 has been established. For measures for which data are not currently available, the date the data are expected has been indicated.

Legend

√ = Met or exceeded target	× = Target not met	+ = Target not met but improved over prior years
NA = No Measure for period	— = Data not collected	[xxxx] = Unique identifier in GPRA database
* = Baseline established		

Performance Results for FY 2008 Key Measures

Performance Results Summary	FY 2008	FY 2007	FY 2006
Strategic Goal 1—Improve student achievement, with a focus on bringing all students to grade level in reading and mathematics by 2014			
1.1. Improve student achievement in reading			
A. Percentage of all students who achieve proficiency on state reading assessments [89a0pg]	Sept. 2009	+	*
B. Percentage of low-income students who achieve proficiency on state reading assessments [89a0pj]	Sept. 2009	+	*
C. Percentage of American Indian/Alaska Native students who achieve proficiency on state reading assessments [89a0pm]	Sept. 2009	+	*
D. Percentage of African-American students who achieve proficiency on state reading assessments [89a0ps]	Sept. 2009	+	*

Performance Results Summary	FY 2008	FY 2007	FY 2006
E. Percentage of Hispanic students who achieve proficiency on state reading assessments [89a0pv]	Sept. 2009	+	*
F. Percentage of students with disabilities who achieve proficiency on state reading assessments [89a0q3]	Sept. 2009	+	*
G. Percentage of Limited English Proficient students who achieve proficiency on state reading assessments [89a0q4]	Sept. 2009	×	*
H. Percentage of career and technical education "concentrators" who are proficient in reading [89a0q5]	May 2009	NA	NA
1.2. Improve student achievement in mathematics			
A. Percentage of all students who achieve proficiency on state math assessments [89a0q9]	Sept. 2009	+	*
B. Percentage of low-income students who achieve proficiency on state math assessments [89a0qa]	Sept. 2009	+	*
C. Percentage of American Indian/Alaska Native students who achieve proficiency on state math assessments [89a0qb]	Sept. 2009	+	*
D. Percentage of African-American students who achieve proficiency on state math assessments [89a0qd]	Sept. 2009	+	*
E. Percentage of Hispanic students who achieve proficiency on state math assessments [89a0qe]	Sept. 2009	+	*
F. Percentage of students with disabilities who achieve proficiency on state math assessments [89a0qg]	Sept. 2009	+	*
G. Percentage of Limited English Proficient students who achieve proficiency on state math assessments [89a0qh]	Sept. 2009	+	*
H. Percentage of career and technical education "concentrators" who are proficient in mathematics [89a0qi]	May 2009	NA	NA
1.3. Improve teacher quality			
A. Percentage of total core academic classes taught by highly qualified teachers [89a0qk]	Mar. 2009	+	*
B. Percentage of total core elementary classes taught by highly qualified teachers [1182]	Sept. 2009	+	+
C. Percentage of core elementary classes in high-poverty schools taught by highly qualified teachers [899zv]	Sept. 2009	+	*
D. Percentage of core elementary classes in low-poverty schools taught by highly qualified teachers [899zx]	Sept. 2009	+	*
E. Percentage of total core secondary classes taught by highly qualified teachers [1183]	Sept. 2009	+	+
F. Percentage of core secondary classes in high-poverty schools taught by highly qualified teachers [899zw]	Sept. 2009	+	*
G. Percentage of core secondary classes in low-poverty schools taught by highly qualified teachers [899zy]	Sept. 2009	+	*
1.4. Promote safe, disciplined and drug-free learning environments			
A. Percentage of students in grades 9 through 12 who carried a weapon (such as a knife, gun, or club) on school property one or more times during the past 30 days [1467]	NA	+	NA
B. Percentage of students in grades 9 through 12 who missed one or more days of school during the past 30 days because they felt unsafe at school, or on their way to and from school [89a0qm]	NA	+	NA
C. Percentage of students in grades 9 through 12 who were offered, given, or sold an illegal drug by someone on school property in the past year [1463]	NA	√	NA
1.5. Increase information and options for parents			
A. Percentage of eligible students exercising choice [89a0qo]	Dec. 2008	*	NA
B. Percentage of eligible students participating in supplemental educational services [89a0qp]	Sept. 2009	+	NA
C. Number of charter schools in operation [89a0qq]	Dec. 2008	√	√

Performance Results Summary	FY 2008	FY 2007	FY 2006
1.6. Increase high school completion rate			
A. Percentage of total 18–24-year-olds who have completed high school [89a0qt]	Jul. 2010	Jul. 2009	√
B. Percentage of African-American 18–24-year-olds who have completed high school [89a0qu]	Jul. 2010	Jul. 2009	√
C. Percentage of Hispanic 18–24-year-olds who have completed high school [89a0qv]	Jul. 2010	Jul. 2009	√
D. Averaged freshman graduation rate [89a0qy]	Jul. 2010	Jul. 2009	×
1.7. Transform education into an evidence-based field			
A. Number of Department-supported reading or writing programs and practices with evidence of efficacy using What Works Clearinghouse standards [89a0nu]	√	√	*
B. Number of Department-supported mathematics or science programs and practices with evidence of efficacy using What Works Clearinghouse standards [89a0nv]	√	√	*
C. Number of Department-supported teacher quality programs and practices with evidence of efficacy using What Works Clearinghouse standards [89a0nw]	√	√	*
D. Number of visits to the What Works Clearinghouse Web site [89a0r3]	√	*	NA
Strategic Goal 2—Increase the academic achievement of all high school students			
2.1. Increase the proportion of high school students taking a rigorous curriculum			
A. The percentage of low-income students who qualify for Academic Competitiveness Grants [89a0r6]	Apr. 2009	*	NA
B. The number of Advanced Placement classes available nationwide [89a0r7]	—	—	NA
C. The number of Advanced Placement tests taken by all public school students [89a0r8]	Jan. 2009	√	NA
D. The number of Advanced Placement tests taken by low-income public school students [1149]	Jan. 2009	√	√
E. The number of Advanced Placement tests taken by Minority (Black, Hispanic, Native American) public school students [1150]	Jan. 2009	√	√
F. The number of teachers trained through Advanced Placement Incentive grants to teach Advanced Placement classes [89a0r9]	—	—	NA
2.2. Promote advanced proficiency in mathematics and science for all students			
A. The number of Advanced Placement tests in mathematics and science taken nationwide by all public school students [89a0x2]	Jan. 2009	√	*
B. The number of Advanced Placement tests in mathematics and science taken nationwide by low-income public school students [89a0x3]	Jan. 2009	√	*
C. The number of Advanced Placement tests in mathematics and science taken nationwide by minority (Black, Hispanic, Native American) public school students [89a0x4]	Jan. 2009	√	*
D. The number of teachers trained through Advanced Placement Incentive grants to teach Advanced Placement classes in mathematics and science [89a0rc]	—	—	NA
2.3. Increase proficiency in critical foreign languages			
A. Combined total number of Advanced Placement and International Baccalaureate tests in critical foreign languages passed by public school students [89a0re]	Jan. 2009	*	NA

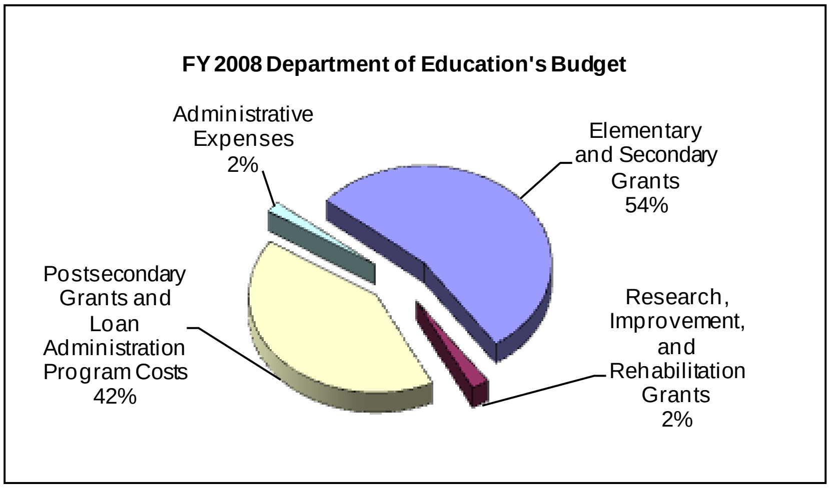
Performance Results Summary	FY 2008	FY 2007	FY 2006
Strategic Goal 3—Ensure the accessibility, affordability and accountability of higher education and better prepare students and adults for employment and future learning			
3.1. Increase success in and completion of quality postsecondary education			
A. Percentage of high school graduates aged 16–24 enrolling immediately in college [89a0ri]	Dec. 2008	×	*
B. Percentage of Upward Bound participants enrolling in college [1627]	Dec. 2010	Dec. 2009	Dec. 2008
C. Percentage of career and technical education students who have transitioned to postsecondary education or employment by December of the year of graduation [89a0rj]	May. 2009	×	×
D. Percentage of full-time degree-seeking undergraduate students at Title IV institutions who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution [89a0ry]	Dec. 2008	×	*
E. Percentage of full-time degree-seeking undergraduate students at Historically Black Colleges and Universities who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution [1587]	Dec. 2008	×	×
F. Percentage of full-time degree-seeking undergraduate students at Hispanic-Serving Institutions who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution [1601]	May 2008	×	×
G. Percentage of students enrolled at all Title IV institutions completing a four-year degree within six years of enrollment [89a0rz]	Jul. 2009	Jan. 2009	√
H. Percentage of freshmen participating in Student Support Services who complete an associate's degree at original institution or transfer to a four-year institution within three years [1618]	Dec. 2009	Dec. 2008	+
I. Percentage of first-time full-time degree-seeking undergraduate students enrolled at 4-year Historically Black Colleges and Universities graduating within six years of enrollment [1589]	Dec. 2009	Dec. 2008	√
J. Percentage of students, enrolled at 4-year Hispanic-Serving Institutions graduating within six years of enrollment [1603]	Dec. 2009	Dec. 2008	√
K. Percentage of postsecondary career and technical education students who have completed a postsecondary degree or certification [89a0s0]	May 2008	×	√
3.2. Deliver student financial aid to students and parents effectively and efficiently			
A. Direct administrative unit costs for origination and disbursement of student aid (total cost per transaction) [1919]	√	√	*
B. Customer service level on the American Customer Satisfaction Index for the Free Application for Federal Student Aid (FAFSA) on the Web [2207]	√	×	×
C. Pell Grant improper payments rate [89a0s2]	×	×	*
D. Direct Loan recovery rate [89a0s3]	√	√	*
E. Federal Family Education Loan recovery rate [89a0s4]	√	√	*
3.3. Prepare adult learners and individuals with disabilities for higher education, employment and productive lives			
A. Percentage of state vocational rehabilitation agencies that meet the employment outcome standard for the Vocational Rehabilitation State Grants program [1681]	Apr. 2009	√	√
B. Percentage of adults served by the Adult Education State Grants program with a high school completion goal who earn a high school diploma or recognized equivalent [1386]	Dec. 2008	√	√

Performance Results Summary	FY 2008	FY 2007	FY 2006
C. Percentage of adults served by the Adult Education State Grants program with a goal to enter postsecondary education or training who enroll in a postsecondary education or training program [1387]	Dec. 2008	√	√
D. Percentage of adults served by the Adult Education State Grants program with an employment goal who obtain a job by the end of the first quarter after their program exit quarter [1388]	Dec. 2008	√	√
Strategic Goal 4—Cross-Goal Strategy on Management			
4.1. Maintain and strengthen financial integrity and management and internal controls			
A. Maintain an unqualified (clean) audit opinion [2204]	√	√	√
B. Achieve and maintain compliance with the *Federal Information Security Management Act of 2002* [89a0s9]	×	×	*
C. Percentage of new discretionary grants awarded by June 30 [89a0sa]	×	√	*
4.2. Improve the strategic management of the Department's human capital			
A. Percentage of employees believing that leaders generate high levels of motivation and commitment [89a0sr]	Dec. 2008	√	*
B. Percentage of employees believing that managers review and evaluate the organization's progress towards meeting its goals and objectives [89a0ss]	Dec. 2008	√	*
C. Percentage of employees believing that steps are taken to deal with a poor performer who cannot or will not improve [89a0st]	Dec. 2008	√	*
D. Percentage of employees believing that department policies and programs promote diversity in the workplace [89a0sv]	Dec. 2008	×	*
E. Percentage of employees believing that they are held accountable for achieving results [89a0sy]	Dec. 2008	√	*
F. Percentage of employees believing that the workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals [89a0sx]	Dec. 2008	√	*
G. Average number of days to hire is at or below the OPM 45-day hiring model for non-SES [89a0sm]	√	√	*
H. Percentage of employees with performance standards in place within 30 days of start of current rating cycle [89a0sn]	√	×	*
I. Percentage of employees who have ratings of record in the system within 30 days of close of rating cycle [89a0so]	Dec. 2008	√	*
4.3. Achieve budget and performance integration to link funding decisions to results			
A. Percentage of Department program dollars in programs that demonstrate effectiveness in terms of outcomes, either on performance indicators or through rigorous evaluations [89a0sq]	√	√	√

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 seventh consecutive year, we achieved an unqualified (clean) opinion from independent auditors on the annual financial statements. Since FY 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 from management's internal control assessment.

Sources of Funds



The Department managed a budget in excess of $68 billion during FY 2008, of which 54 percent supported elementary and secondary education grant programs.

Postsecondary education grants and administration of student financial assistance accounted for 42 percent, including loan program costs that helped more than 11 million students and their parents to better afford higher education during FY 2008. An additional 2 percent went to programs and grants encompassing research and improvement, 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 the William D. Ford Federal Direct Loan Program loans, which comprise 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 ESEA 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 program's FY 2008 appropriations exceeded $10 billion. In addition, the TEACH Grant Program was implemented this year. This program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

The FFEL Program helps ensure that the loan capital for approximately 3,100 private lenders is available to students and their families. Through 35 active state and private nonprofit guaranty agencies, lenders and schools, the Department administers the FFEL

Program to help students and families pay for postsecondary education by providing grants and low-rate loans. The Department is active in all phases of the loan life-cycle from determining borrower eligibility during the Free Application for Federal Student Aid process to processing guarantor claims for reinsurance. As of the end of September 2008, the total principal balance of outstanding guaranteed loans held by lenders was approximately $415 billion. The government's estimated maximum exposure for defaulted loans was approximately $405 billion.

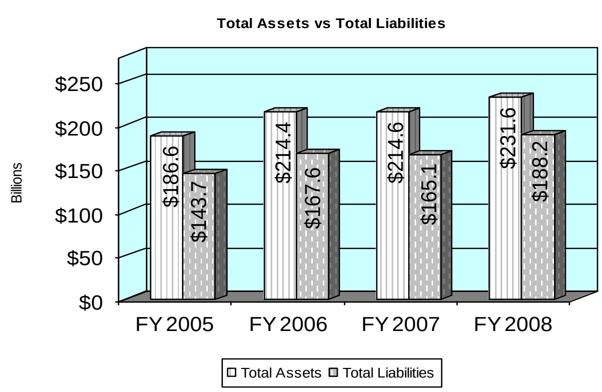
The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) amended the FFEL Program to authorize the Secretary to buy FFEL loans for the 2008-2009 academic year. Within the existing FFEL Program, the Department has implemented two activities under this temporary loan purchase authority to purchase FFEL loans generally originated between July 1, 2008 and June 30, 2009. These two activities include: loan purchase commitments where the Department purchases loans directly from FFEL lenders, and loan participation purchases where the Department purchases participation interests in FFEL loans.

On October 7, 2008, President Bush signed P.L. 110-350, which extended the Secretary of Education's authority to purchase FFEL loans. This authority, originally enacted in the ECASLA, would have otherwise expired on September 30, 2009; P.L. 110-350 extended the authority through September 30, 2010. The Administration recently announced plans to replicate the 2008-2009 loan purchase and participation options for the 2009-2010 award year. Other approaches to purchase outstanding FFEL loans are also under consideration, but specific terms and conditions have yet to be determined.

The William D. Ford Direct Loan Program, added to the Higher Education Act of 1965 (HEA) in 1993 by the *Student Loan Reform Act of 1993,* enables the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. As of September 30, 2008, the value of the Department's direct loan portfolio was $109.9 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 accompanying notes for FY 2008 appear on pages 128-169. An analysis of the principal financial statements follows.

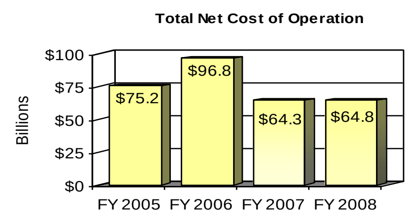


Balance Sheet. The Balance Sheet presents, as of a specific point in time, the recorded value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department. The Balance Sheet displayed on page 128 reflects total assets of $231.6 billion, an 8 percent increase over FY 2007. The change is primarily due to the increase in Credit Program Receivables. Credit Program Receivables increased by $18.8 billion, a 16 percent increase over FY 2007. 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 and to loan purchase commitments and loan participation purchases under the FFEL Program. The net portfolio for direct loans increased by over $10.8 billion due to increased direct loan disbursements and borrower interest collections. FFEL Program loans increased by $7.9 billion during FY 2008, due primarily to loan volume and activity related to loan purchase commitments and loan participation purchases. Fund Balance with the Treasury decreased by 3 percent from FY 2007.

Total Liabilities for the Department increased by 14 percent. This change is primarily due to an increase in borrowing during FY 2008. Borrowing increased for the Direct Loan Program and to provide funds for the loan purchase commitments and loan participation purchases activity under the FFEL Program. Liabilities for Loan Guarantees for the FFEL Program decreased $7.6 billion due primarily to FFEL defaulted claims payments and the subsidy re-estimate. 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.

The Department's Net Position as of September 30, 2008 was $43.3 billion, a $6.3 billion decrease versus the $49.6 billion Net Position as of September 30, 2007.

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 129, were $64.8 billion, a 1 percent increase from FY 2007. The increase largely occurred for programs in support of the Promote Academic Achievement in Elementary and Secondary Schools goal, the Special Education goal, and the Transformation of Education goal.



The Statement of Net Cost is presented to be consistent with the Department's strategic goals and the *President's Management Agenda*. As required by the *Government Performance and Results Act of 1993*, each of the Department's reporting organizations has been aligned with the major goals presented in the Department's *Strategic Plan for Fiscal Years 2007–12*.

In FY 2007, the Department streamlined its strategic goals to better serve its mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. Strategic Goals 1, 2 and 3 are sharply defined

Net Cost Program	Goal No.	Strategic Goal
Ensure Accessibility, Affordability and Accountability of Higher Education and Career and Technical Advancement	3	Ensure the accessibility, affordability and accountability of higher education and better prepare students and adults for employment and future learning
Promote Academic Achievement in Elementary and Secondary Schools	1	Improve student achievement, with a focus on bringing all students to grade level in reading and mathematics by 2014
	2	Increase the academic achievement of all high school students
Transformation of Education	1	Improve student achievement, with a focus on bringing all students to grade level in reading and mathematics by 2014
Special Education		Cuts across Strategic Goals 1, 2 and 3

directives that guide the Department's reporting organizations to carry out the vision and programmatic mission, and the Net Cost programs can be specifically associated with these three strategic goals. The Department has a Cross-Goal Strategy on Management, which is considered a high-level premise on which the Department bases its foundation for the other three goals. As a result, we do not assign specific programs to this goal for presentation in the Statement of Net Cost.

Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. The statement displayed on page 131 shows that the Department had $193.9 billion in total budgetary resources for the year ended September 30, 2008. These budgetary resources were composed of $79.1 billion in appropriated budgetary resources and $114.8 billion in non-budgetary credit reform resources, which primarily consist of borrowing authority for the loan programs. Of the $31.2 billion that remained unobligated at year end, $29.2 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 fiscal year or future fiscal years.

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2008 and FY 2007 pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

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

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

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 governmentwide 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. The Office of Management and Budget assesses "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 2008 the Department received a *Green* status in Financial Management for the fifth consecutive year. The Department maintained *Green* on progress for six out of eight target initiatives by making sufficient progress on its quarterly scorecard deliverables. Significantly, the current status of Improved Credit Management was upgraded from *Red* to *Yellow* based on improved communications between the Department and OMB regarding various issues affecting the loan programs.

President's Management Agenda
FY 2008 Scorecard

		Q4-2008		Q4-2007	
	Target Area	**Status**	**Progress**	**Status**	**Progress**
Government-wide Initiatives	Financial Performance	G	G	G	G
	Commercial Services Management	Y↓	G	G	G
	Human Capital	Y	G	Y	G
	e-Government	Y	Y	Y	Y
	Performance Improvement	G	G	G	G
Program Initiatives	Faith-Based and Community Initiatives	G	G	G	G
	Eliminating Improper Payments	Y	Y↓	Y	G
	Improved Credit Management (New Initiative in FY 2006)	Y↑	G	R	G

G = *Green* Y = *Yellow* R = *Red* NA = not applicable

Inspector General's Discussion of Management Challenges

The Office of Inspector General (OIG) works to promote efficiency, effectiveness and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses.

The *Reports Consolidation Act of 2000* requires OIG annually to identify and summarize the top management and performance challenges facing the Department, as well as to provide information on the Department's progress in addressing those challenges. Based on our recent work and knowledge of the Department's programs and operations, we have identified six specific challenge areas for the Department for 2009: (1) student financial assistance programs and operations; (2) information security and management; (3) grantee oversight and monitoring; (4) contract awards, performance and monitoring; (5) data integrity; and (6) human resources services.

Recent OIG work has identified that the predominant challenge facing the Department within each of these areas is implementation and coordination of effective monitoring and oversight. While the Department is working to make progress in these areas, it is evident that additional focus, attention and emphasis are needed. Only by significantly improving its monitoring and oversight activities and capabilities will the Department be an effective steward of the billions of taxpayer dollars supporting its programs and operations.

Challenge: Student Financial Assistance Programs and Operations

The federal student financial assistance programs involve over 6,200 postsecondary institutions, more than 3,100 lenders, 35 guaranty agencies and many third party servicers. During FY 2008, Federal Student Aid (FSA), the Departmental office with responsibility for these programs, provided $96 billion in awards and oversaw an outstanding loan portfolio of over $500 billion. FSA must conduct effective monitoring and oversight to help protect higher education dollars from waste, fraud and abuse. Effective oversight of these programs has been a long-standing and significant challenge for FSA, as it has not hired personnel with the necessary skills and has not devoted the necessary resources to identify and implement effective oversight and monitoring of its programs or program participants. Furthermore, recent problems in the credit market could have an adverse impact on the loan programs, putting these dollars and programs at an even higher risk. Effective implementation of the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), providing authority for the Department to purchase lender loans, the Lender of Last Resort program and expanding the capacity of the Direct Loan program will be crucial to protecting students and federal funds.

The Department's Progress: FSA has agreed to improve the management of its programs and to develop and implement consistent oversight procedures. FSA is in the process of restructuring and improving its Chief Compliance Officer organization for the oversight of the Federal Family Education Loan program. The Department is finalizing steps in response to our audit work on 9.5 percent special allowance payments (SAP) by requiring all lenders billing at the 9.5 percent SAP rate to be paid at the regular rate until the Department receives the results of acceptable audits to determine the eligibility of loans for payments at the 9.5 percent rate. The Department is also in the process of implementing the authorities provided by ECASLA for the Loan Participation/Purchase programs, and establishing internal controls to provide for accountability and monitoring of compliance with the law and program agreements.

Challenge: Information Security and Management

The *Federal Information Security Management Act* (FISMA) requires each federal agency to develop, document and implement an agency-wide program to provide information security and develop a comprehensive framework to protect the government's information, operations and assets. To ensure the adequacy and effectiveness of information security controls, Inspectors General conduct annual independent evaluations of the agencies' information security programs and report the results to the Office of Management and Budget (OMB).

In our information security audits to support our FISMA requirements, we have identified security weaknesses that the Department must address to protect its systems and to maintain its security certification and accreditation. These weaknesses include certain management, operational and technical security controls; the incident handling process and procedures; intrusion detection system deployments; and enterprise-wide technical configuration standards for all systems.

With regard to information management, the Department's anticipated information technology (IT) capital investment portfolio for FY 2009 is over $540 million, with many resource-intensive projects pending. It is critical that the Department have a sound IT investment management control process that can ensure that technology investments are appropriately evaluated, selected, justified and supported. This oversight and monitoring process must address IT investments as an agency-wide portfolio. It must also ensure that individual projects are appropriately managed so they meet their technical and functional goals on time and on budget. This is an area that continues to challenge the Department.

In addition, work conducted since 2004 has revealed weaknesses in FSA's management of its National Student Loan Data System (NSLDS) – the central database for Title IV information on loans, grants, students, borrowers, lenders, guaranty agencies, schools and servicers. These weaknesses involve a lack of effective internal control procedures for granting access to external users, security plans that did not comply with the Department's IT security policy and contract employees working in NSLDS without appropriate security clearances, all of which increase the risk for inappropriate disclosure or unauthorized use of sensitive and personally identifiable information in NSLDS.

The Department's Progress: The Department continues its efforts to establish a mature computer security program as it relates to technical configuration standards for all of its systems, managing its outsourced contractors who operate its critical information systems, and improving its incident handling program and intrusion detection systems. In addition, the Department recently established plans to improve its controls relating to the protection of personally identifiable information in order to meet the standards and good practice requirements established by OMB. Management, budget and contracting constraints, however, have hampered the Department in moving forward with improving these controls.

With regard to IT management, while the critical issue of independent assessment remains unaddressed, the Department has recently strengthened the IT capital investment program by expanding membership on two of its review groups, the Investment Review Board and the Planning and Investment Review Working Group. The Department continues its efforts to strengthen individual business cases and to map proposed investments to an agency-wide enterprise architecture strategy.

Challenge: Grantee Oversight and Monitoring

The success of an organization's mission and the achievement of its goals depend on how well it manages its programs. Our recent audits, inspections and investigations continue to uncover problems with program control and oversight of Department grantees and program participants, placing billions of taxpayer dollars at risk of waste, fraud, abuse and non-compliance. The Department must ensure that all entities involved in its programs are adhering to statutory and regulatory requirements and that the offices responsible for administering these programs are providing adequate oversight of program participants. Without effective monitoring and oversight, the Department is not able to identify and manage the risks associated with its grant programs. Only by improving effective oversight of its operations and demanding accountability by its managers, staff, contractors and grantees can the Department be an effective steward of the billions of taxpayer dollars supporting its programs and operations.

The Department's Progress: The Department has initiated steps to improve its performance in this area. The Secretary established a new Grants Policy Team and a Risk Management Service (RMS) office that are reviewing all policies, including requirements for monitoring, with the objective of developing standards that would apply across all formula grant programs. During the past year, RMS has initiated several projects to address issues with some of the Department's high-risk grantees. For example, RMS is working closely with Puerto Rico and the Virgin Islands, including holding several on-site meetings with senior staff. RMS also invited representatives from multiple federal agencies to initiate a cross-cutting approach to address a variety of issues in American Samoa. As additional high-risk issues are identified by RMS the staff works with states and school districts to address the concerns. The Grants Policy Team also is completing the process of revising the Education Department General Administrative Regulations to incorporate performance management requirements for funded applicants. In addition, the Office of Elementary and Secondary Education continues to enhance its monitoring system and will continue to conduct Title I program reviews of all states at least once during a three-year monitoring cycle.

The Department continues to implement an Enterprise Risk Management program throughout the Department. As part of this program, the Department is developing a risk management data analysis tool. Based on input from the Oak Ridge National Laboratory and other sources, the Department is in the process of identifying specific tool capabilities and the data and other indicators to be incorporated into the tool.

Challenge: Contract Awards, Performance and Monitoring

The Department contracts for many services that are critical to its operations, at a cost of over $1 billion a year. The Department must improve its procurement and contract management processes to ensure that it is receiving quality goods and services in accordance with contract terms. OIG audits, inspections and investigations uncovered problems in the area of contractor activities, including: inadequate oversight and monitoring of contractor performance; failure to identify and take corrective action to detect and prevent fraudulent activities by contractors; not ensuring that the procurement and contract management processes provide assurance that the Department receives quality goods and services for its money; and inadequate attention to improper payments.

The Department's Progress: The Department and FSA have each hired consultants to review their acquisition processes and make recommendations for improvement. In addition, the Department recently revised its Contracting Officer's Representative Training Program to incorporate more stringent certification, training and recordkeeping requirements. The Department is working with applicable principal offices to ensure all future performance-based contracts include appropriate contractor incentives and disincentives.

Challenge: Data Integrity

Data integrity is both a compliance issue and a performance issue. Recipients and sub-recipients, as well as the Department, must have controls in place and effectively operating to ensure that accurate, reliable data are reported. Without valid and reliable data, the Department cannot make effective decisions on its programs or know if the funds it disburses are indeed reaching the intended recipients. States must annually collect and report various performance data to the Department in the consolidated state performance report, including the number of persistently dangerous schools, graduation and dropout rates, assessment results, and the number of schools identified as in need of improvement. In several nationwide reviews by our office, the Government Accountability Office and others, we collectively found issues of noncompliance with data collection and reporting requirements and lack of effective controls to ensure data quality. For example, in our reviews of the data that four states used to report graduation and dropout rates, we found that the data were not always accurate, consistent throughout the state, complete and verifiable. We found that in some states student enrollment status was incorrectly classified, a student group was not included in calculations, reportable dropouts were not reported, and inadequate or no documentation was available to verify data accuracy. We also questioned the validity of the data when calculations of the graduation or dropout rates did not meet required definitions, which resulted in the reviewed states reporting graduation or dropout rates that were overstated.

The Department's Progress: The Department recognized the need to improve its data quality and data reliability and launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network, now called ED*Facts*, provides state educational agencies (SEAs) and the federal government the capacity to transfer and analyze information about education programs. Through ED*Facts*, the Department instituted data validation and verification steps and required states to address their data issues before the Department will officially accept the data.

To help ensure that SEAs will be ready to submit education data through ED*Facts* exclusively by established deadlines, the Department requires each SEA to submit a State Submission Plan yearly with actual submission, to date, and planned submission dates. The Department monitors the progress of the states by comparing actual submissions to the plan to ensure that the states stay on schedule. Further, the Department is planning to give $80,000 to each SEA to assist with efforts in getting education data submitted to ED*Facts* in a more efficient and effective manner.

To decrease the risk of inconsistent education data in consolidated state performance reports, certain parts of the report are pre-populated with ED*Facts* data. In addition, the

Department is able to create ad hoc reports from ED*Facts* data to provide to entities such as Congress, without having to individually ask SEAs or program offices for the information. This provides for a more efficient use of time in preparing reports, and it decreases the risk of inconsistent reporting of education data.

The Department has advised us that it is working in coordination with the Data Quality Campaign and the National Forum on Education Statistics to help SEAs implement, by FY 2009, high-quality, longitudinal data systems that include a state data audit system assessing data quality, validity and reliability. The Department has also advised us that it worked with a task force of state, local and federal experts (organized through the National Center for Education Statistics) to develop a resource document for local educational agencies to use with their staff to ensure and improve data quality.

Challenge: Human Resources Services

Like most federal agencies, the Department will see a significant percentage of its workforce eligible for retirement in 2009. The Department is also continuing to experience a significant change in critical skill requirements for many of its staff. Identification and prompt implementation of needed action steps to adequately address these succession planning and workforce issues, including recruitment, hiring and retention, is critically important.

The Department's Progress: The Department stated that it is committed to improving the strategic management of human capital. In response to the results of a recent Federal Human Capital Survey, the Department took a three-pronged approach to address the performance culture concerns identified by the survey: (1) senior leadership involvement; (2) principal office action planning training, and (3) the Departmentwide Action Planning Team (APT). In November 2007, the APT's planning efforts received recognition from the Office of Personnel Management for the most outstanding work completed by a planning team.

The APT presented 50 long-term, mid-term, and short-term recommendations in the areas of rewards and recognition, managing a diverse workforce, and execution of performance management, 49 of which the Department agreed to implement. During FY 2008, 36 of the recommendations were implemented. The majority of the action items not completed are linked to the implementation of a new employee performance management system that is planned for FY 2010, pending negotiations with the American Federation of Government Employees Council 252, the union representing Department employees.

In addition to implementing the APT recommendations, while the Department has made some progress in reducing the processing time in bringing new employees on board and has put metrics in place to monitor its performance in this area, it must continue to identify and adopt innovative ways to ensure that skilled, high-performing employees are available and deployed appropriately.

Management's Assurances

Federal Managers' Financial Integrity Act

As required under the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), 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 page 43 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. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving of the Department's management controls.

Material Weakness Reported in FY 2007 Resolved. Corrective actions have been implemented to resolve the "Monitoring and Oversight of Guaranty Agencies, Lenders and Servicers" material weakness reported in the FY 2007 PAR. Federal Student Aid (FSA) implemented significant corrective actions in response to OIG and GAO audits regarding the monitoring and oversight of guaranty agencies, lenders and servicers. FSA also refined efforts to identify and implement changes needed in the approach to program management, including procedures for performing program reviews. These actions have led to a significant improvement in the internal controls related to the monitoring and oversight of guaranty agencies, lenders and servicers.

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 187–188 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 the U.S. Government Standard General Ledger at the transaction level.

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 one material weakness. The detail of this exception is 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*. As a result of this assessment, the Department identified one material weakness in its internal control over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, as of September 30, 2008. Other than the exception 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. 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. In accordance with the results of this assessment, the Department of Education can provide reasonable assurance that its internal control over financial reporting as of June 30, 2008, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

//s//

Margaret Spellings
November 14, 2008

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 certification and accreditation; risk assessment; security awareness and training; contingency planning; configuration management; incident response and handling media protection controls; physical and environmental protection; personnel security controls; output handling and data retention; systems access controls; identification and authentication controls; and audit and accountability.	The Office of the Chief Information Officer is implementing a number of mitigating actions to correct IT security deficiencies found in management, operational, and technical controls.	September 30, 2009
			Implement the Managed Security Service Provider IV&V capabilities in the area of operational Intrusion Detection Monitoring and incident escalation, Situational Awareness, Vulnerability Management and Cyber Security Management.	Awarded August 22, 2008, ongoing through September 30, 2009
			Mitigate weaknesses in password protection by implementing a two-factor authentication solution derived In accordance with NIST standards using Logical Access and certificate enabled tokens, and the ED PIV Card in conjunction with card readers.	September 28, 2009
			• In coordination with the IT Provider, establish a Logical Access test lab to conduct proof of concept testing.	January 31, 2009
			• Develop an integrated identity management plan that addresses full operational capability for logical access and two-factor identification.	April 30, 2009
			Correct deficiencies found in protecting personally identifiable information (PII) by encrypting laptop computers and other mobile media instruments containing PII such as thumb drives or external hard drives.	
			• Begin the fielding of notebooks with an enterprise NIST-approved encryption technology.	July 31, 2009
			• Complete the project plan for deployment of encrypted laptops and other mobile media instruments containing PII, such as thumb drives and external hard drives	August 15, 2009

Performance Details

Performance Details Overview

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

Key Measures

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

How to Read This Report

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

Explanation of Documentation for Key Measures

Table. Provides trend data including the latest reported data.

Source. Provides bibliographic information.

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

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

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

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

Not all measures will include all data fields described above.

Program Assessment Rating Tool Analysis

The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget as a standardized process for determining program effectiveness in a consistent way across government agencies. Programs are assessed and receive scores on a scale of 0 to 100 in each of four weighted sections: program purpose and design (weighted 20 percent), strategic planning (10 percent), program management (20 percent) and program results and accountability (50 percent). Weighted scores are combined and translated into one of four ratings: *Effective, Moderately Effective, Adequate and Ineffective*. A rating of *Results Not Demonstrated* is given if the program does not have agreed-upon performance measures or lacks performance data against an established target. For detailed information about the results of the

Department's PARTed programs, please visit http://www.whitehouse.gov/omb/expectmore/agency/018.html.

Programs

Each program that has measures under the *Government Performance and Results Act of 1993* supports at least one of our strategic goals. In applicable goal chapters, a table provides a summary of each program's performance results over four years and FY 2008 budget and expenditures.

Methodology for Program Performance Summary

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

In the Program Performance Summary tables that are part of each goal chapter of this *FY 2008 Performance and Accountability Report,* we provide an overview of the performance results on the program measures for each of the past four years from FY 2005 through FY 2008. For each year, the Department assesses performance on the measures that were established for that year in a program's published plan, and provides the percentage of measures whose targets were *Met or Exceeded*, the percentage of targets *Not Met* but showing improvement over prior years, the percentage whose measure targets were *Not Met* and the percentage of measures that lack data.

The percentages with no data may include measures for which the Department was unable to collect data and/or measures with pending data. In some cases, the target was defined as the establishment of a baseline. In the case of these measures, if data were collected and a baseline established, then that measure was considered *Met*. If the Department was unable to collect the data to establish the baseline, that measure was counted as having *No Data*.

The tables also identify, by shading, those programs that did not have a performance plan for a particular year from FY 2005 through FY 2008. The table includes the PART assessment rating for each program.

The full individual program performance reports for FY 2008 are available at http://www.whitehouse.gov/omb/part/index.html.

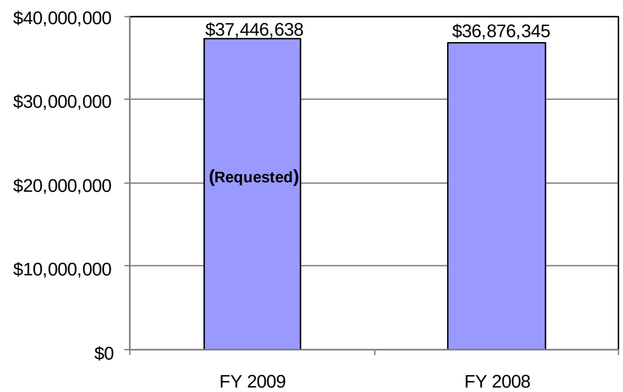
GOAL 1: Improve Student Achievement, With a Focus on Bringing All Students to Grade Level in Reading and Mathematics by 2014

Overview

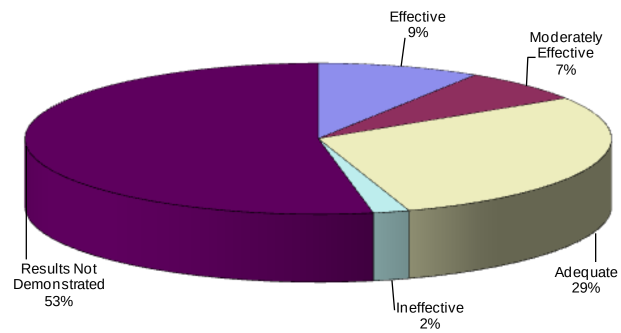
Strategic Objectives:

- Improve student achievement in reading
- Improve student achievement in mathematics
- Improve teacher quality
- Promote safe, disciplined and drug-free learning environments
- Increase information and options for parents
- Increase high school completion rate
- Transform education into an evidence-based field

Goal 1 Resources
($ in thousands)

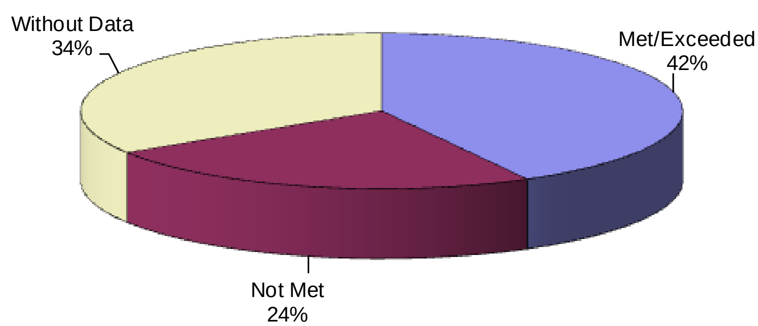


Goal 1 PART Ratings by Program



Note: Each year the Department analyzes the percentage of program performance targets that were met or exceeded, not met but improved over time, not met, or for which data are not yet available. Since the Department has a lag in the time data are received for the established targets, the FY 2007 target results are presented here. For more information on *PART Ratings by Programs* and *Percent of Targets Met and Not Met,* see *Program Performance Summary* at the end of this goal.

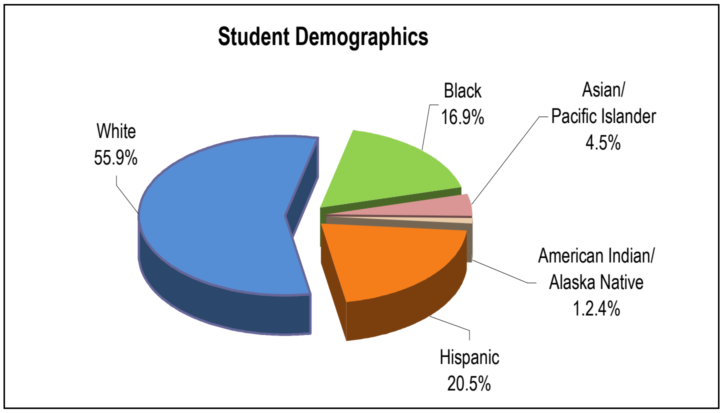
Goal 1 FY 2007 Percent of Targets



Key Measures

Improving student proficiency and closing the achievement gap are the cornerstones of the Department's work. In FY 2008, the Department identified 37 key measures to report our progress. Results on these key measures are shown below. See page 46 for an explanation of the documentation fields for the key measures. To provide context for data presented in Goal 1, student demographic are provided.

Figure 3. Student Demographics (public school students by race and ethnicity and special populations, school year 2005-2006)



	United States
Total Students	49,676,964
Low-Income Students	40.9%
Limited English Proficient	8.5%
Students with Disabilities	13.6%

***** Demographic breakdowns do not add to 100 percent due to rounding

Source: National Center for Education Statistics (NCES), Common Core of Data, 2005–06 School Year

Strategic Goal 1, Objective 1: Improve student achievement in reading

Research shows that students who fail to read well by the fourth grade have a greater likelihood of dropping out of school and encountering diminished life opportunities compared with other students. Providing consistent support for reading success from the earliest age has critically important benefits. The largest national reading initiative, Reading First, supports local efforts by providing formula grants to states, which then award competitive grants to high-need districts.

These grants are designed to enhance the reading skills of children in grades K-3 through the use of instructional materials, diagnostic assessments and professional development based on scientifically-based reading research. Under the Early Reading First program, funds are awarded through competitive grants to districts to provide early childhood literacy instruction based on scientifically-based reading research. Additional federal support for reading instruction goes to states through the large formula grants for disadvantaged students (Title I Grants to Local Educational Agencies) and for special education (Special Education Grants to States). Additional support is provided by career and technical education (Career and Technical Education State Grants) and programs under Title III.

Figure 4. NAEP Reading Achievement for 2006–2007 (Public School Students)

	% of 4th Graders *Basic*	% of 4th Graders *Proficient*	% of 8th Graders *Basic*	% of 8th Graders *Proficient*
All	66%	32%	73%	29%
White	77%	42%	83%	38%
Black	46%	14%	54%	12%
Hispanic	49%	17%	57%	14%

Source: 2007 National Assessment of Educational Progress (NAEP) Data

Measures for Objective 1	2005		2006		2007		2008	
Percentage of students who achieve proficiency on state reading assessments:	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.1.A. All students (89a0pg)			*	68.3	72.3	70.2	76.2	Sept. 2009
1.1.B. Low-income students (89a0pj)			*	55.3	60.9	57.4	66.5	Sept. 2009
Students from major racial and ethnic groups:								
1.1.C. American Indian/Alaska Native (89a0pm)			*	60.1	65.1	62.4	70.1	Sept. 2009
1.1.D. African-American (89a0ps)			*	55.5	61.1	58.4	66.6	Sept. 2009
1.1.E. Hispanic (89a0pv)			*	52.0	58.0	54.3	64.0	Sept. 2009
1.1.F. Students with disabilities (89a0q3)			*	38.7	51.8	41.5	50.0	Sept. 2009
1.1.G. Limited English proficient students (89a0q4)			*	39.8	47.3	38.8	54.9	Sept. 2009

* New measure in 2007. 2006 actual data are reported as baseline for 2007 and 2008 targets

Source: Consolidated State Performance Reports

Analysis of Progress. For the measures in Objective 1, the targets were not met, but improved over prior years for FY 2007, except for a decline in actual result for measure 1.1.G.

Data Quality and Timeliness. The Consolidated State Performance Report (CSPR) is submitted annually to the U.S. Department of Education to report on multiple *No Child Left Behind* programs. One purpose of this report is to integrate state, local and federal programs in planning and service delivery. Data for 2008 expected in September 2009.

Target Context. The goal is for 100 percent of all students to achieve proficiency on state reading assessments by 2014. The baselines are the actual results in 2006. Starting in 2007 and ending in 2014, there are eight years to close the gap between the 2006 baseline and the 2014 ultimate goal of 100 percent. Therefore, targets for 2007 and 2008 were calculated by: (1) subtracting the baseline percentage from 100 percent to determine the gap that must be closed; (2) then dividing that gap by 8 to determine the annual improvement that would be needed if the gap were to be closed in a linear fashion; and (3) adding that annual increment to the 2006 baseline to arrive at the

2007 target; and (4) increasing the 2007 target by another annual incremental improvement to arrive at the 2008 target.

Measures for Objective 1	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.1.H. Percentage of career and technical education "concentrators" who are proficient in reading (89a0q5)					*	N/A	61**	May 2009

* New measure in 2007 ** Targets based on performance targets the Department has negotiated with states.
N/A = Not Available

Source: Career and Technical Education Annual Performance Report (state program)

Analysis of Progress. Unable to assess.

Data Quality and Timeliness. Data for 2008 are expected in May 2009.

Target Context. This measure replaces a former measure related to the percentage of vocational concentrators meeting state-established academic standards. *Carl D. Perkins Career and Technical Education Act of 2006* (Perkins IV) guidance prescribes the measures that a state must use to measure career and technical education students' attainment of challenging academic content standards and student achievement standards. Perkins IV requires a state to use its academic assessments (i.e., the state's reading/language arts tests) implemented under section 1111(b)(3) of the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by the *No Child Left Behind Act* to measure career and technical education students' attainment of the state standards. Moreover, a state must report the number or percent of career and technical education students who score at the proficient level or above on the state's assessments in reading/language arts administered under the ESEA to measure the academic proficiency of secondary career and technical education students against the ESEA standards.

Report Explanation. New measure established in 2007 for the *Carl D. Perkins Career and Technical Education Act of 2006* (CTE). A career and technical "concentrator" is a secondary student who has earned three (3) or more credits in a single CTE program area (e.g., health care or business services), or two (2) credits in a single CTE program area, but only in those program areas where two credit sequences at the secondary level are recognized by the state and/or its local eligible recipients.

Strategic Goal 1, Objective 2: Improve student achievement in mathematics

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

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

Highlights of the FY 2005 descriptive analysis show that almost 98 percent of the partnership projects focus on developing math and science content knowledge in teachers. Over 56,000 teachers across the country worked with over 3,000 higher education faculty members in intensive professional development opportunities affecting almost 1.2 million students.

Sixty-five percent of these projects offered intensive summer institutes, most with significant follow-up during the school year, totaling on average 123 hours of professional development per teacher in a year. Another 34 percent of the projects offered intensive professional development in formats other than summer institutes, and with these individual teachers received on average 83 hours of professional development in a year. In mathematics, 71 percent of teachers made significant gains in their content knowledge as measured on pre- and post-test assessments.

Among projects with student achievement data, there was on average a 7 percent increase in achievement scores from one year to the next in classrooms with teachers who participated in the Mathematics and Science Partnership professional development. The preliminary evaluation pointed to one potential problem area for many of the projects: the quality of project evaluation plans. In response to this finding, the Department enlisted the Coalition for Evidence-Based Policy to produce “How to Solicit Rigorous Evaluations of Mathematics and Science Partnerships Projects” for state coordinators of the programs.

Figure 5. NAEP Math Achievement for 2006–2007 (Public School Students)

	% of 4th Graders *Basic*	% of 4th Graders *Proficient*	% of 8th Graders *Basic*	% of 8th Graders *Proficient*
All	81%	39%	66%	32%
White	91%	51%	77%	42%
Black	63%	15%	46%	14%
Hispanic	69%	22%	49%	17%

Source: 2007 National Assessment of Educational Progress (NAEP) Data

Measures for Objective 2 Percentage of students who achieve proficiency on state math assessments:	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.2.A. All students (89a0q9)			*	65.0	69.4	68.0	73.8	Sept. 2009
1.2.B. Low-income students (89a0qa)			*	52.3	58.3	55.9	64.2	Sept. 2009
Students from major racial and ethnic groups:								
1.2.C. American Indian/ Alaskan Native (89a0qb)			*	53.2	59.1	56.8	64.9	Sept. 2009
1.2.D. African-American (89a0qd)			*	48.8	55.2	52.9	61.6	Sept. 2009
1.2.E. Hispanic (89a0qe)			*	51.8	57.8	54.8	63.9	Sept. 2009
1.2.F. Students with disabilities (89a0qg)			*	37.8	52.2	41.9	53.4	Sept. 2009
1.2.G. Limited English proficient students (89a0qh)			*	43.3	50.4	44.7	57.5	Sept. 2009

* New measure in 2007. 2006 actual data are reported as baseline for 2007 and 2008 targets

Source: Consolidated State Performance Reports

Analysis of Progress. For the measures in Objective 2, the targets were not met, but improved over prior years for FY 2007.

Data Quality and Timeliness. The Consolidated State Performance Report (CSPR) is submitted annually to the U.S. Department of Education to report on multiple *No Child Left Behind* programs. One purpose of this report is to encourage the integration of state, local and federal programs in planning and service delivery. Measures were not in place for 2006; data for 2008 are expected in September 2009.

Target Context. The goal is for 100 percent of all students to achieve proficiency on state mathematics assessments by 2014. The baselines are the actual results in 2006. Starting 2007 and ending in 2014, there are eight years to close the gap between the 2006 baseline and the 2014 ultimate goal of 100 percent. Therefore, targets for 2007 and 2008 were calculated by: (1) subtracting the baseline percentage from 100 percent to determine the gap that must be closed; (2) then dividing that gap by 8 to determine the annual improvement that would be needed if the gap were to be closed in a straight-line fashion; (3) adding that annual increment to the 2006 baseline to arrive at the 2007 target; and (4) increasing the 2007 target by another annual incremental improvement to arrive at the 2008 target.

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.2.H. Percentage of career and technical education "concentrators" who are proficient in mathematics (89a0qi)					*	N/A	54**	May 2009

* New measure in 2007. ** Targets based on performance targets the Department has negotiated with states
N/A = Not Available

Source: Career and Technical Education Annual Performance Report (state program)

Analysis of Progress. Unable to assess.

Data Quality and Timeliness. Data for 2008 are expected in May 2009.

Target Context. This measure replaces a former measure related to the percentage of vocational concentrators meeting state-established academic standards. *Carl D. Perkins Career and Technical Education Act of 2006* (Perkins IV) guidance prescribes the measures that a state must use to measure career and technical education students' attainment of challenging academic content standards and student achievement standards. Perkins IV requires a state to use its academic assessments (i.e., the state's mathematics tests) implemented under section 1111(b)(3) of the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by the *No Child Left Behind Act* to measure career and technical education students' attainment of the state standards. Moreover, a state must report the number or percent of career and technical education students who score at the proficient level or above on the state's assessments in mathematics administered under the ESEA to measure the academic proficiency of secondary career and technical education students against the ESEA standards.

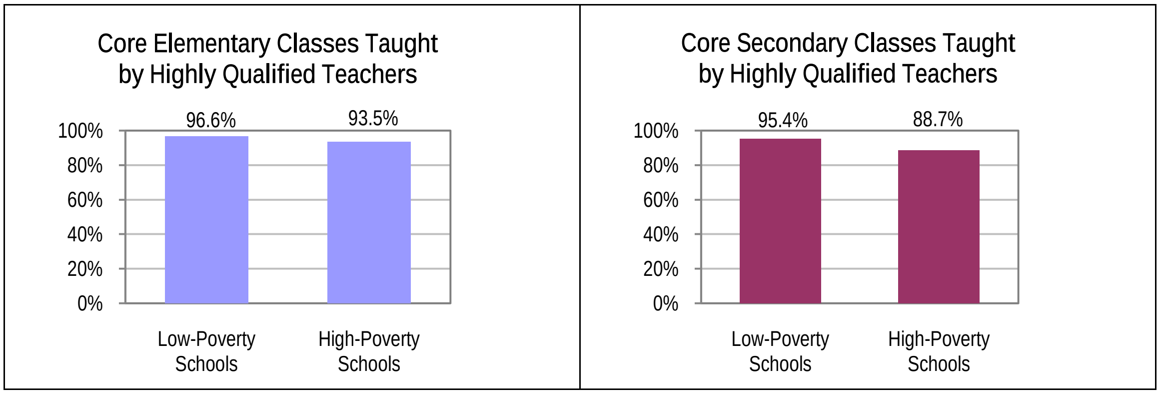
Report Explanation. New measure established in 2007 for the *Carl D. Perkins Career and Technical Education Act of 2006* (CTE). A career and technical "concentrator" is a secondary student who has earned three or more credits in a single CTE program area (e.g., health care or business services), or two credits in a single CTE program area, but only in those program areas where two credit sequences at the secondary level are recognized by the state and/or its local eligible recipients.

Strategic Goal 1, Objective 3: Improve teacher quality

No Child Left Behind requires that all core academic subject classes be taught by a teacher who is highly qualified. In order to be highly qualified, a teacher must have a bachelor's degree, have a valid state license or a certificate and have demonstrated competence in each subject he or she teaches. Special education teachers who provide instruction in core content areas must demonstrate subject competence, hold a bachelor's degree and hold a valid state certification in special education. The *Individuals with Disabilities Education Act* also requires all special educators to hold a bachelor's degree and meet full state certification in special education. Resources provided to states to meet highly qualified teacher requirements include some $3 billion from the Improving Teacher Quality State Grants program.

The Department continues to work with states and school districts to ensure that all teachers are highly qualified in core academic subjects and to ensure that poor and minority children are not taught more often than other students by unqualified or inexperienced teachers. While no states were able to meet the goal of having all core academic subject classes taught by a highly qualified teacher by the end of the 2006–07 school year, all states now have plans in place detailing their efforts in reaching this goal. Many local educational agencies continue to have difficulty recruiting and retaining highly qualified special education teachers and highly qualified secondary mathematics and science teachers. Some rural school districts also have difficulty attracting sufficient numbers of highly qualified teachers to staff their schools, particularly at the secondary level where many rural teachers must be prepared to teach multiple subjects.

Figures 6 and 7. Highly Qualified Teachers for 2006-2007 School Year



Source: Consolidated State Performance Reports, 2006–07

Measures for Objective 3 Percentage of class type taught by highly qualified teachers:	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target **	Actual	Target **	Actual
1.3.A. Total core academic classes (89a0qk)	*	91.0	*	92.0	100	94.0	100	March 2009
1.3.B. Total core elementary classes (1182)	90.0	93.0	95.0	94.0	100	95.9	100	Sept. 2009
1.3.C. Core elementary classes in high-poverty schools (899zv)	*	89.5	*	90.4	100	93.5	100	Sept. 2009
1.3.D. Core elementary classes in low-poverty schools (899zx)	*	95.0	*	95.8	100	96.6	100	Sept. 2009
1.3.E. Total core secondary classes (1183)	85.0	89.0	92.0	90.9	100	93.0	100	Sept. 2009
1.3.F. Core secondary classes in high-poverty schools (899zw)	*	84.4	*	85.7	100	88.7	100	Sept. 2009
1.3.G. Core secondary classes in low-poverty schools (899zy)	*	91.8	*	93.8	100	95.4	100	Sept. 2009

* New measure in 2006. ** Targets set in 2007-2012 strategic plan

Source: Consolidated State Performance Reports

Analysis of Progress. Target not met but improved over prior years.

Data Quality and Timeliness. The Consolidated State Performance Report (CSPR) is submitted annually to the U.S. Department of Education to report on multiple *No Child Left Behind* programs. One purpose of this report is to encourage the integration of state, local and federal programs in planning and service delivery. For 1.3.A: Data for 2008 are expected in March 2009; 1.3.B-G: Data for 2008 are expected in September 2009.

Strategic Goal 1, Objective 4: Promote safe, disciplined and drug-free learning environments

For FY 2008, the Department designated three key measures to track performance for this objective. The data for these measures provide information from a nationally representative sample of students in grades 9-12 on three important topics related to safe, disciplined and drug-free learning environments – possession of weapons at school, perception of school safety and availability of illegal drugs at school or on school property.

Drug use, violence and crime remain serious problems for school-age youth. Students cannot learn to the high standards required by *No Child Left Behind* in schools when they feel unsafe or are engaged in drug use. Generally, rates of marijuana and alcohol use by high school students have declined since 1999. While students experience fewer violent incidents at school than in their communities, national indicators of school safety have steadied in recent years after showing improvement between the early 1990s and 2003.

Despite these generally positive trends, the year was marred by some significant instances of violence on our nation's college campuses and elementary and secondary schools, including the shooting deaths of six and injuries to 18 others at Northern Illinois University. In response to this incident, and the tragedy at Virginia Polytechnic Institute and State University in 2007, for the first time the Department awarded grants to higher education institutions in 2008 to help them plan for, respond to, and recover from traumatic events that disrupt the campus learning environment. The FY 2008 cohort of grantees includes 17 institutions in 13 States. The Department also sought and received authority to expand its successful Project School Emergency Response to Violence (Project SERV) initiative to include institutions of higher education (IHEs) as potential beneficiaries, and awarded a Project SERV grant to Northern Illinois University to support efforts to restore its learning environment following the February 2008 shootings. The Department awarded seven Project SERV grants to local educational agencies in FY 2008 to help schools restore the learning environment following school shootings, school bus accidents and student homicides, and awarded a Project SERV grant to Montgomery County Public Schools in Virginia to help address the needs of the K-12 student community following the shootings at Virginia Tech.

Additionally, the Department is modifying its publication *Practical Information on Crisis Planning: A Guide for Schools and Communities* to address the unique challenges that colleges and universities face in preparing for and responding to crises. The Department will be working with the United States Secret Service and the Federal Bureau of Investigation under a memorandum of understanding to examine instances of targeted violence on college campuses to determine how threat assessment and other procedures recommended for elementary and secondary schools may be applied, with modifications as needed, to address the needs of IHEs.

The Department and the Secret Service disseminated a recently completed study on "bystanders." The study provides insight into why persons who know about school shootings do not come forward with that information. For details, go to: www.secretservice.gov/ntac/bystander_study.pdf

The Department also provided grants to promote safe, disciplined and drug-free schools using a range of strategies and approaches. About 700 new and continuation grant awards were made under the Safe Schools/Healthy Students Initiative, Mentoring Programs, Elementary and Secondary School Counseling Program, Grants to Reduce Alcohol Abuse, Partnerships in Character Education, Grants to Integrate Schools and Mental Health Systems and Student Drug Testing grants.

Measures for Objective 4	2001		2003		2005		2007	
Percentage of students in grades 9 through 12 who:	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.4.A. Carried a weapon (such as a knife, gun, or club) on school property one or more times during the past 30 days (1467)			N/A	6.0	5.0	7.0	5.0	5.9
1.4.B. Missed one or more days of school during the past 30 days because they felt unsafe at school, or on their way to and from school (89a0qm)					6.0	6.0	5.0	5.5
1.4.C. Were offered, given, or sold an illegal drug by someone on school property in the past year (1463)			N/A	29.0	28.0	25.4	27.0	22.3

N/A = Not Available

Source: Youth Risk Behavior Surveillance System, supported by the Centers for Disease Control and Prevention, part of the U.S. Department of Health and Human Services

Analysis of Progress. For FY 2007, target not met but improved over prior years for measures 1.4.a and 1.4.b. Target exceeded for 1.4.c.

Data Quality and Timeliness. Data are from the Youth Risk Behavior Surveillance System (YRBSS), a data collection supported by the Centers for Disease Control and Prevention, U.S. Department of Health and Human Services. The survey monitors six categories of priority health risk behaviors among youth, including violence and alcohol and other drug use. Data reported for these measures come from the YRBSS National Survey; data for this survey are collected in odd years and reported in the following even year. Details about the methods used to select the sample and other issues are available at: http://www.cdc.gov/HealthyYouth/yrbs/pdf/yrbss07_mmwr.pdf.

Target Context. Lower percentages indicate improvement on these measures. Based on a biennial survey; data gathered only in odd-numbered years.

Strategic Goal 1, Objective 5: Increase information and options for parents

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

New evidence shows that more families are choosing charter schools to meet the educational needs of their children. According to data gathered by the National Alliance of Public Charter Schools, more families are making choices about what school to attend. More than 1.26 million students nationwide were enrolled in charter schools as of May 2008.

Department data collected from the Center for Education Reform indicate that the number of charter schools in operation around the nation increased from 3,997 in September 2006 to 4,128 in April 2008. To help inform parents and charter school developers, the Department created a listserv so interested individuals can automatically receive notification of relevant charter school information at: http://www.ed.gov/programs/charter/csplist.html.

In addition, in FY 2008, the Charter School Program gave competitive preference to states that include projects supporting activities and interventions aimed at improving the academic achievement of secondary school students who are at greatest risk of not meeting challenging state academic standards and not completing high school.

Regarding supplemental educational services, the number of students nationwide receiving services grew from 245,267 in school year 2003–04 to 529,627 by school year 2006–07, resulting in a participation rate of 14.5 percent of eligible students. As of September 2008, state lists posted online included 3,264 approved supplemental educational services providers.

In a study conducted on behalf of the Department by the RAND Corporation, in five out of the seven large urban districts in which there were sufficient numbers of students to analyze the effects, students participating in supplemental educational services showed statistically significant positive effects in both reading and mathematics achievement.

To increase participation in supplemental educational services, the Secretary, in a 2006 letter to all chief state school officers, directed states to help their districts become fully compliant with supplemental educational services through monitoring and the provision of technical assistance. The Secretary has granted certain states and districts flexibility in implementing supplemental educational services through pilot projects.

Additionally, the Department has assigned to the Comprehensive Center on Innovation and Improvement the task of providing technical assistance to regional centers and states for supplemental educational services, including assistance to states with approval, monitoring and evaluation of providers, and to improve state and district outreach to parents.

Figure 8. Options for Parents, School Year 2006-2007

	# of Eligible Students Nationally	# of Eligible Students Participating Nationally	% of Eligible Students Participating Nationally
Supplemental Educational Services	3,645,665	529,627	14.5%
Public School Choice	5,450,081	119,988	2.2%

Source: Consolidated State Performance Reports, 2006-07

<u>Measures for Objective 5</u>	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.5.A. Percentage of eligible students exercising choice (89a0qo)			*	1.2	*	2.2	2.4	Dec. 2008

* New measure in 2006. Target set for FY 2008.

Source: Consolidated State Performance Reports

Analysis of Progress. Target set based on FY 2007 actual.

Data Quality and Timeliness. The Consolidated State Performance Report (CSPR) is submitted annually by each state to the U.S. Department of Education to report on multiple *No Child Left Behind* programs. One purpose of this report is to encourage the integration of state, local and federal programs in planning and service delivery. Data for 2008 are expected in December 2008.

Target Context. The 2006 actual serves as the baseline. The 2008 target is baseline times two.

<u>Measures for Objective 5</u>	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.5.B. Percentage of eligible students participating in supplemental educational services (89a0qp)			N/A	14	15.4*	14.5	16.8	Sept. 2009

*The 2007 target set by the Strategic Plan. N/A = Not Available.

Source: Consolidated State Performance Reports

Analysis of Progress. Target not met but improved over prior years.

Data Quality and Timeliness. The Consolidated State Performance Report (CSPR) is submitted annually by each state to the U.S. Department of Education to report on multiple *No Child Left Behind* programs. One purpose of this report is to encourage the integration of state, local and federal programs in planning and service delivery. Data for 2008 are expected in September 2009.

Target Context. The 2006 actual serves as the baseline. The target for 2007 is the baseline times 1.1 (1.1 x 2006 actual). The target for 2008 is the baseline times 1.2 (1.2 x 2006 actual).

Measures for Objective 5	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.5.C. Number of charter schools in operation (89a0qq)	3,300	3,344	3,600	3,997	3,900	4,046	4,290	Dec. 2008

Source: Consolidated State Performance Reports

Analysis of Progress. Target exceeded.

Data Quality and Timeliness. The Consolidated State Performance Report (CSPR) is submitted annually by each state to the U.S. Department of Education to report on multiple *No Child Left Behind* programs. One purpose of this report is to encourage the integration of state, local and federal programs in planning and service delivery. Data for 2008 are expected in December 2008.

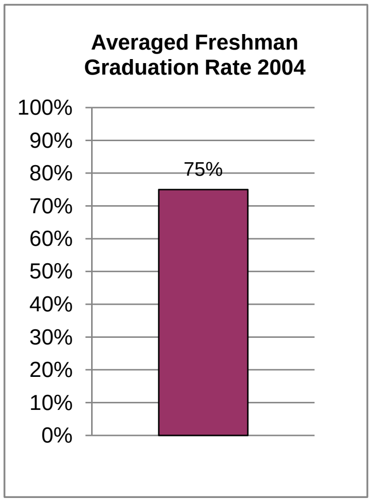
Strategic Goal 1, Objective 6: Increase high school completion rate

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

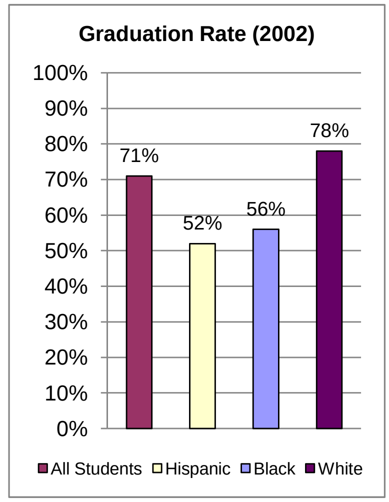
One of the major impediments to accurately calculating high school graduation rates is the lack of a comprehensive data collection system that tracks students over time. Until states have the capacity to collect these data, the Department has committed to publishing two sets of state graduation rates: state-reported rates and standardized rates prepared by the Department.

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

Figure 9. Preparing America's Students for Success



The Averaged Freshman Graduation Rate (AFGR) is a reliable definition for comparing across the states the percentage of students who graduate on time.



Source: National Center for Education Statistics (NCES)

Source: Manhattan Institute, Jay Greene, 2005

Measures for Objective 6 Percentage of 18–24-year-olds who have completed high school:	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.6.A. Total (89a0qt)	86.8	87.6	87.6	87.8	87.3	July 2009	87.4	July 2010
1.6.B. African-American (89a0qu)	83.4	85.9	83.4	84.8	85.3	July 2009	85.5	July 2010
1.6.C. Hispanics (89a0qv)	69.8	70.2	70.2	70.9	70.1	July 2009	70.3	July 2010

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Survey

Analysis of Progress. Exceeded target in FY 2006. FY 2007 unable to assess.

Data Quality and Timeliness. The *Strategic Plan for Fiscal Years 2007-2012* included measures developed in 2006. Targets for 2004/2005 (2005) were based on school year 2003-2004 data. The 2005-2006 (2006) data were released in July 2008. Data for the 2006-2007 school year (column "2007" in this table) are not expected to be available for release until July 2009; data for the 2007-2008 school year (column "2008" in the table) are not expected for release until July 2010.

Target Context. As of July 2005, 12 states used a graduation rate definition referred to as the cohort definition, which tracks students from when they enter high school to when they leave. Other states used measures based on annually reported aggregate data that did not follow the progress of individual students over time. Thirty-two of these states estimated graduation rates by dividing the number of graduates in a given year by the number of graduates plus estimates of dropouts over the preceding 4 years. This rate has been referred to as the leaver rate. The remaining states used other measures to fulfill this reporting requirement. Because of the lack of comparability in the different approaches taken to reporting on-time graduation rates, and because of limitations in the leaver rate for measuring on-time graduation, the Department publishes a rate designed to estimate on-time graduation for all states using a common data source, the Common Core of Data, produced by the National Center for Education Statistics. That rate, technically referred to as the Averaged Freshman Graduation Rate, uses aggregate data to estimate the number of first-time 9th graders in the fall 4 years prior to the graduation year being reported and divides that into the number of diplomas awarded in the reporting year.

Measures for Objective 6	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.6.D. Averaged freshman graduation rate (89a0qy)	74.3	74.4	74.3	73.4	75.2	July 2009	76.6	July 2010

Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data, State Non-fiscal Survey of Public Elementary/Secondary Education

Analysis of Progress. For FY 2007, unable to assess. Target not met for FY 2006.

Data Quality and Timeliness. The *Strategic Plan for Fiscal Years 2007-2012,* published in May 2007, included measures developed in 2006. Targets for 2004-2005 (2005) were based on school year 2003-2004 data. The 2005-2006 (2006) data were released in July 2008. Data for the 2006-2007 school year (column “2007” in this table) are not expected to be available for release until July 2009; data for the 2007-2008 school year (column “2008” in the table) are not expected for release until July 2010.

Strategic Goal 1, Objective 7: Transform education into an evidence-based field

In 1999, the National Research Council concluded that, “the complex world of education—unlike defense, health care, or industrial production—does not rest on a strong research base. In no other field are personal experience and ideology so frequently relied on to make policy choices, and in no other field is the research base so inadequate and little used” (*Improving Student Learning: A Strategic Plan for Education Research and Its Utilization,* 1999). The passage of *No Child Left Behind*, with its many references to scientifically based research, and the *Education Sciences Reform Act of 2002*, which established a new agency within the U.S. Department of Education to conduct and support scientifically valid research, signaled a commitment to transform education into an evidence-based field.

That new research agency, the Institute of Education Sciences (IES), has the primary responsibility for generating scientifically valid research on education and encouraging its use. It has established the What Works Clearinghouse as a principal mechanism for advancing evidence-based education. The Clearinghouse develops quality standards for research that purports to demonstrate that education programs are effective, and it applies those standards in disseminating findings from research to policymakers and practitioners.

Measures for Objective 7 Number of Department-supported programs and practices with evidence of efficacy using WWC** standards:	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.7.A. Reading or writing (89a0nu)			*	3	6	6	11	11
1.7.B. Mathematics or science (89a0nv)			*	1	3	4	7	8
1.7.C. Teacher quality (89a0nw)			*	1	3	3	5	5

* New measure in 2006. **What Works Clearinghouse. The 2006 actual serves as the baseline.

Source: U.S. Department of Education, Institute of Education Sciences

Analysis of Progress. In FY 2008 1.7.a Target met, 1.7.b exceeded, 1.7.c met and in FY 2007, 1.7.a Target met, 1.7.b exceeded, 1.7.c met

Data Quality and Timeliness. Data self-reported by IES.

Target Context. The Department's measures for evaluating progress towards the goal of transforming education into an evidence-based field are tied to the Clearinghouse. The measures assess the productivity of IES's investments in producing scientifically valid research on teaching and instruction with respect to the core academic competencies of reading/writing and mathematics or science. The measure that is tracked is the number of programs and practices on these topics that have been developed with IES funding and that have been shown to be effective in raising student achievement under the research quality standards of the Clearinghouse. As shown by Clearinghouse reviews of existing research on program effectiveness in reading/writing and mathematics, few older studies meet the Clearinghouse quality standards. Thus the targets under this measure are ambitious and will, if met, result in a doubling, or more, of the existing base of research-proven programs and practices.

Measures for Objective 7	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1.7.D. Number of visits to the WWC** Web site (89a0r3)					*	482,000	530,000	531,162

* New measure in 2007. The 2007 actual serves as the baseline. **WWC = What Works Clearinghouse.

Source: U.S. Department of Education, Grantee reports and materials, WWC reviews of those materials and contractor reports on IES Web site statistics

Analysis of Progress. FY 2008 target exceeded. FY 2007 target of setting baseline is met.

Data Quality and Timeliness. Data self-reported by IES.

Target Context. This measure is of utilization. It addresses the degree to which work that the Clearinghouse has identified as effective is being accessed. The Clearinghouse Web site is already heavily visited. The target calls for an annual 10 percent increase in visitors. Targets are based on the number of grants awarded in the subject areas and the maturation of the grants. The numbers are cumulative.

Goal 1: Improve Student Achievement

Program Performance Summary

Eighty two of our grant programs most directly support Goal 1. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See page 46 for the methodology of calculating the percentage of targets met, not met and without data.) Individual program performance reports are available at http://www.whitehouse.gov/omb/part/index.html. Appropriation and expenditure data for FY 2008 are included for each of these programs.

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/ Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/ Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/ Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/ Exc.	FY 2005 % Not Met	FY 2005 % No Data
21st Century Community Learning Centers (ESEA)	A	1,081	586	0	0	0	100	11	78	11	44	50	6	0	100	0
Academies for American History and Civics (ESEA)	NA	2	2	0	0	0	100	0	50	50						
Advanced Credentialing (ESEA)	NA	10	12	0	0	0	100	100	0	0	100	0	0	100	0	0
Alaska Native Education Equity (ESEA)	NA	33	35	0	0	0	100	0	100	0	33	67	0	100	0	0
Alcohol Abuse Reduction (ESEA)	NA	32	33	50	0	0	50	50	0	50	0	0	100			
American Printing House for the Blind (APEB)	RND	22	20	67	0	0	33	82	18	0	86	14	0	100	0	0
Arts in Education (ESEA)	NA	36	36	0	0	0	100	0	0	100	100	0	0	100	0	0
Character Education (ESEA)	NA	23	25	0	0	0	100									
Charter Schools Grants (ESEA)	A	211	233	12	0	0	88	25	0	75	33	0	67	50	50	0
Civic Education: Cooperative Education Exchange (ESEA)	NA	11	12													
Civic Education: We the People (ESEA)	NA	20	19	100	0	0	0	0	0	100				100	0	0
Comprehensive Centers (ESRA)	RND	57	61	25	0	0	75	100	0	0	25	0	75	Funded but no data yet		
Comprehensive School Reform (ESEA)	A	2	39	0	0	0	100	0	0	100	0	0	100	0	67	33
Credit Enhancement for Charter School Facilities (ESEA)	NA	0	30	0	0	0	100	100	0	0	100	0	0	100	0	0
Dropout Prevention Programs (ESEA)	NA	0	3													

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	FY 2008 % Met/Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/Exc.	FY 2005 % Not Met	FY 2005 % No Data
Early Childhood Educator Professional Development (ESEA)	NA	0	11	0	0	0	100	67	33	0	100	0	0	0	100	0
Early Reading First (ESEA)	ME	112	104	0	0	0	100	75	25	0	100	0	0	100	0	0
Education for Homeless Children and Youths (MVHAA)	A	64	66	0	0	0	100	40	60	0	100	0	0	100	0	0
Education for Native Hawaiians (ESEA)	NA	33	37	0	0	0	100	0	100	0	33	67	0	100	0	0
Educational Technology State Grants (ESEA)	RND	267	299	0	20	0	80	20	0	80	33	0	67	0	100	0
Elementary & Secondary School Counseling (ESEA)	NA	48	34	25	0	0	75	50	0	50	0	0	100			
English Language Acquisition (ESEA)	RND	700	616	8	0	0	92	29	71	0	71	29	0	100	0	0
Even Start (ESEA)	I	66	102	0	0	0	100	40	60	0	60	40	0	25	75	0
Exchanges with Historic Whaling & Trading Partners (ESEA)	NA	9	8	0	0	0	100	0	0	100	60	40	0	80	20	0
Foreign Language Assistance (ESEA)	NA	25	8	0	0	14	86									
Foundations for Learning (ESEA)	NA	1	1													
Fund for the Improvement of Education Programs of National Significance (ESEA)	NA	121	45													
Impact Aid Basic Support/Payments for Children with Disabilities (ESEA)	A	1,154	1,173	0	100	0	0	100	0	0	50	50	0			
Impact Aid Construction (ESEA)	A	18	9	33	33	0	34	67	0	33	0	100	0	0	100	0
Impact Aid Facilities Maintenance (ESEA)	NA	5	4													
Impact Aid Payments for Federal Property (ESEA)	RND	64	61	50	0	0	50	0	100	0	0	100	0			
Improving Teacher Quality State Grants (ESEA)	ME	2,935	3,041	0	0	0	100	0	86	14	33	67	0	100	0	0
Indian Education Grants to Local Educational Agencies (ESEA)	A	97	92	0	0	0	100	11	33	56	20	60	20	29	71	0
Indian Education National Activities (ESEA)	NA	4	3					0	0	100	0	0	100			
Javits Gifted and Talented (ESEA)	NA	7	11	0	0	0	100	67	33	0	33	0	67	100	0	0
Literacy through School Libraries (ESEA)	NA	19	19	0	0	0	100	0	0	100	100	0	0	0	50	50

Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/ Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/ Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/ Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/ Exc.	FY 2005 % Not Met	FY 2005 % No Data
Literacy Programs for Prisoners (NLA)	NA	0	3													
Magnet Schools Assistance (ESEA)	A	105	93	0	0	0	100	0	0	100	0	0	100	0	0	100
Mental Health Integration in Schools (ESEA)	NA	5	5													
Mentoring Program (ESEA)	RND	49	48	0	0	0	100	0	67	33				100	0	0
Migrant State Agency Program (ESEA)	A	380	378	0	0	0	100	62	8	30	92	8	0	92	8	0
National Assessment (ESRA)	E	98	89	0	0	0	100	100	0	0	(Off year for collection)			100	0	0
National Assessment Governing Board	NA	6	4													
National Writing Project (ESEA)	RND	24	21	0	0	0	100	0	0	100	0	0	100	0	0	100
Neglected and Delinquent State Agency Program (ESEA)	A	49	49	0	0	0	100	25	75	0	100	0	0	100	0	0
Parental Information and Resource Centers (ESEA)	RND	39	43	0	0	0	100									
Physical Education Program (ESEA)	RND	76	78	0	0	0	100	0	0	100				100	0	0
Reading First State Grants (ESEA)	E	393	1,004	0	0	0	100	88	0	12	100	0	0			
Ready-to-Learn Television (ESEA)	RND	24	29	100	0	0	0									
Ready to Teach (ESEA)	NA	11	12	100	0	0	0									
Regional Educational Laboratories (ESRA)	NA	66	63											0	0	100
Research in Special Education (ESRA)	RND	71	53	33	0	33	34	75	25	0	100	0	0			
Research, Development and Dissemination (ESRA)	E	160	236	100	0	0	0	45	33	22	71	29	0	80	20	0
Reading Is Fundamental/Inexpensive Book Distribution (ESEA)	NA	25	26	0	0	0	100	0	0	100	100	0	0	0	100	0
Rural Education (ESEA)	RND	172	169	12	0	0	88	12	0	88	0	100	0	67	33	0
Safe & Drug-Free Schools & Communities National Activities (ESEA)	NA	138	101	10	0	0	90	0	23	77	62	0	38	80	20	0
Safe & Drug-Free Schools & Communities State Grants (ESEA)	RND	295	386	100	0	0	0	45	33	22	0	0	100	71	29	0
School Improvement Grants (ESEA)	NA	491	9								0	0	100	33	67	0
School Leadership (ESEA)	NA	15	14	0	0	0	100	100	0	0	100	0	0			

Program Name	PART Rating	Appro-pria-tions† FY 2008 ($ in mil.)	Expen-ditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008				FY 2007			FY 2006			FY 2005		
				% Met/ Exc.	% Not Met But Impro-ved	% Not Met	% No Data	% Met/ Exc.	% Not Met	% No Data	% Met/ Exc.	% Not Met	% No Data	% Met/ Exc.	% Not Met	% No Data
Special Education Grants for Infants and Families (IDEA)	RND	436	472	33	0	33	34	40	40	20	33	67	0	33	67	0
Special Education Grants to States (IDEA)	RND	10,948	11,164	0	0	0	100	33	58	9	75	0	25	60	40	0
Special Education Parent Information Centers (IDEA)	RND	27	26	0	0	0	100	100	0	0	100	0	0			
Special Education Personnel Preparation (IDEA)	RND	88	90	12	0	0	88	75	12	13	67	33	0	100	0	0
Special Education Preschool Grants (IDEA)	RND	374	387	8	8	0	84	33	67	0	50	50	0	0	100	0
Special Education State Personnel Grants (IDEA)	NA	23	48	0	0	0	100	100	0	0	100	0	0	/// (not funded)		
Special Education Technical Assistance and Dissemination (IDEA)	RND	48	51	17	0	0	83	33	33	34	33	0	67			
Special Education Technology and Media Services (IDEA)	RND	39	31	0	0	0	100	80	20	0	67	0	33	50	50	0
Special Education Studies and Evaluation	NA	9	8													
Special Olympics Education Programs	NA	12	1													
Special Programs for Indian Children (ESEA)	NA	19	19	0	0	0	100	0	0	100	29	0	71	0	0	100
Star Schools Program (ESEA)	NA	0	12	0	100	0	0	100	0	0						
State Assessments (ESEA)	A	409	424	0	0	0	100	0	0	100	100	0	0	67	33	0
State Grants for Incarcerated Youth Offenders (HEA)	NA	22	68	0	0	0	100	100	0	0	100	0	0	0	100	0
State Grants for Innovative Programs (ESEA)	RND	0	101	17	17	0	66	67	0	33	50	50	0	75	25	0
Statewide Data Systems (ESRA)	NA	48	28											/// (not funded)		
Statistics (ESRA)	E	88	85	0	0	0	100	60	40	0	33	67	0	0	0	0
Striving Readers (ESEA)	NA	35	31	0	0	0	100	100	0	0						
Supplemental Education Grants (CFAA)	NA	18	14											/// (not funded)		
Teacher Incentive Fund (ESEA)	NA	97	63	0	0	0	100									
Teacher Quality Enhancement (HEA)	RND	34	64	0	0	0	100	33	67	0	100	0	0	100	0	0

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008				FY 2007			FY 2006			FY 2005		
				% Met/ Exc.	% Not Met But Improved	% Not Met	% No Data	% Met/ Exc.	% Not Met	% No Data	% Met/ Exc.	% Not Met	% No Data	% Met/ Exc.	% Not Met	% No Data
Aid for Elementary and Secondary Education (Hurricane Relief)	NA	0	160													
Teaching American History (ESEA)	RND	118	79	0	0	0	100									
Title I Evaluation (ESEA)	NA	9	13													
Title I Grants to Local Educational Agencies (ESEA)	ME	13,899	12,990	0	0	7	93	0	73	27	71	0	29			
Training and Advisory Services (CRA)	A	7	7	80	0	20	0	80	20	0	100	0	0			
Transition to Teaching (ESEA)	A	44	47	0	0	0	100	75	25	0	100	0	0	75	25	0
Troops-to-Teachers (ESEA)	A	15	15	0	0	0	100	33	33	34	67	33	0	100	0	0
Voluntary Public School Choice (ESEA)	NA	25	21	0	0	0	100	0	0	100	100	0	0	100	0	0
Women's Educational Equity (ESEA)	NA	2	2	0	0	0	100	100	0	0	100	0	0	0	0	100
TOTAL		**36,876**	**^36,324**													

† Budget for each program represents program budget authority.
‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2008 expenditures may include funds from prior years' appropriations.
* The "Not Met But Improved Over Prior Years" column is new for FY 2008.
Shaded cell denotes that the program did not have targets for the specified year.
^Estimated accruals in the amount of $721 million are excluded from the FY 2008 expenditure.

APEB: *Act to Promote the Education of the Blind*
CFAA: *Compact of Free Association Amendments Act of 2003*
CRA: *Civil Rights Act of 1964*
ESEA: *Elementary and Secondary Education Act of 1965*
ESRA: *Education Sciences Reform Act of 2002*
HEA: *Higher Education Act of 1965*
IDEA: *Individuals with Disabilities Education Act*
NLA *National Literacy Act of 1991*
MVHAA: *McKinney-Vento Homeless Assistance Act*

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

GOAL 2: Increase the Academic Achievement of All High School Students

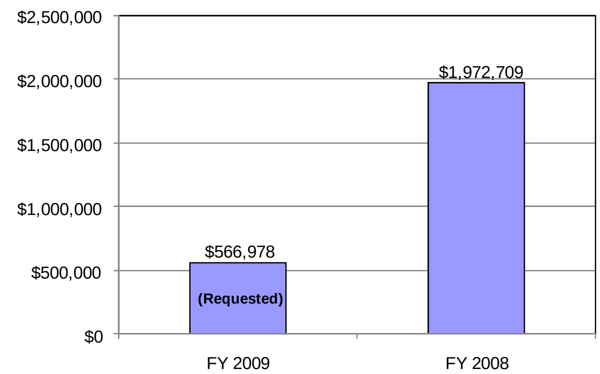
Overview

Strategic Objectives:

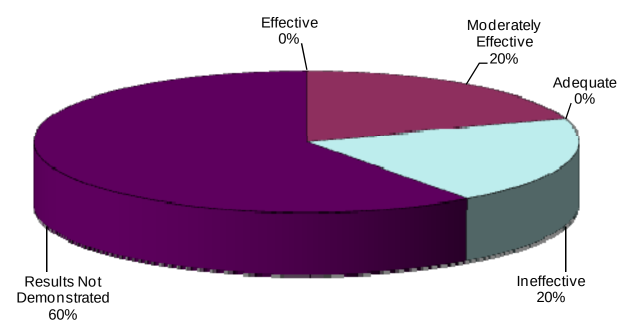
- Increase the proportion of high school students taking a rigorous curriculum
- Promote advanced proficiency in mathematics and science for all students
- Increase proficiency in critical foreign languages

Note: The apparent drop in resources from FY 2007 to FY 2008, as shown by the Goal 2 resources chart, reflects the fact that program participation in the ACG/SMART grant program during the first 2 years has been significantly below initial estimates, resulting in large funding balances brought forward for possible use in future years. As part of the FY 2008 appropriation, Congress rescinded $525 million of this unused balance. Estimates indicate future funding will substantially exceed the amounts needed to support anticipated grant awards. Accordingly, as part of the FY 2009 budget the Administration proposed to permanently cancel $652 million in unneeded ACG/SMART grant balances in FY 2009. This would not affect the amount of grants awarded, but would eliminate funding that current estimates indicate will not be needed.

Goal 2 Resources
($ in thousands)

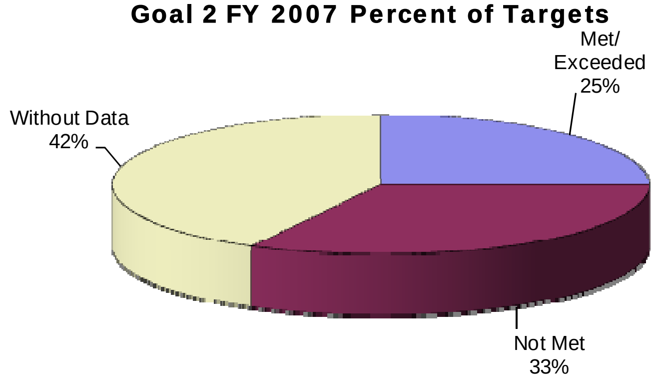


Goal 2 PART Ratings by Program



Note: Each year the Department analyzes the percentage of program performance targets that were met or exceeded, not met but improved over time, not met, or for which data are not yet available. Since the Department has a lag in the time data are received for the established targets, the FY 2007 target results are presented here. For more information on *PART Ratings by Programs* and *Percent of Targets Met and Not Met,* see *Program Performance Summary* at the end of this goal.

Goal 2 FY 2007 Percent of Targets

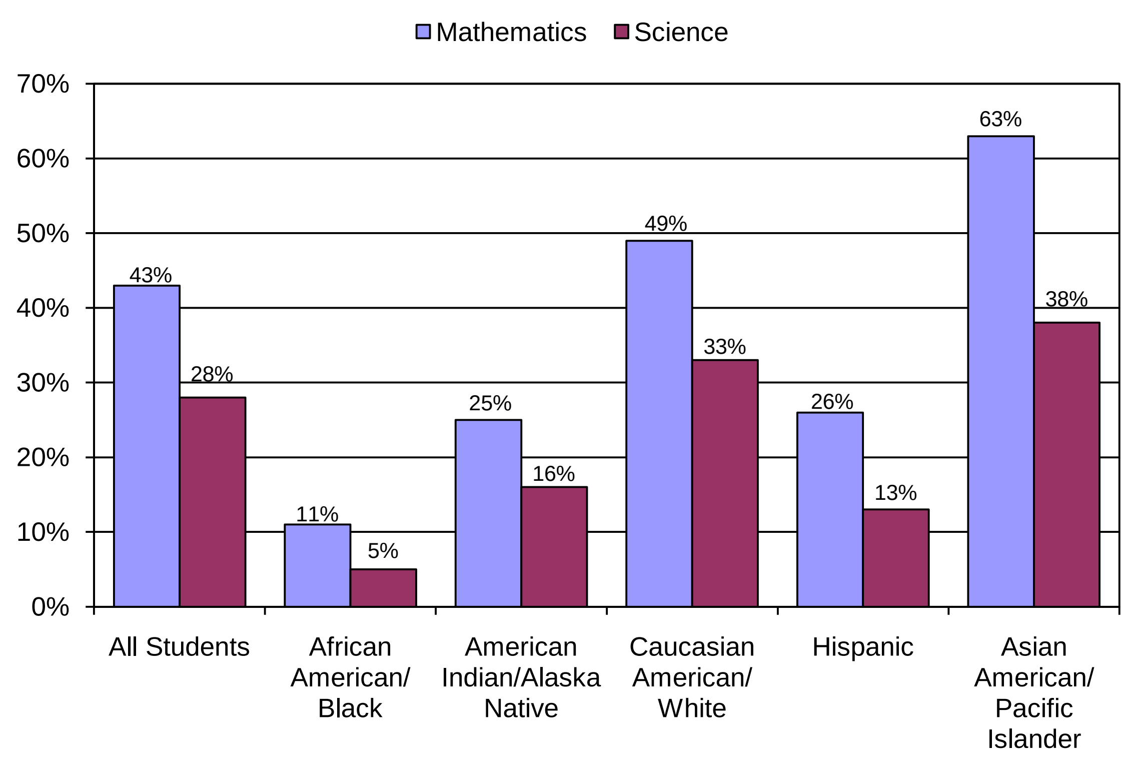


Key Measures

To better equip our students to compete in the global economy, the Department encourages states to adopt high school course work and programs of study that prepare all students for a postsecondary credential and facilitate a seamless transition from high school to college or the workforce.

The *2008 ACT College Readiness Report* presented results of the 2008 ACT scores. The Department uses ACT data to measure students' readiness for postsecondary education. The ACT is a national college admission and placement examination that assesses high school students' general educational development and their ability to complete college-level work. The ACT score results demonstrate the importance of taking challenging courses in preparation for success after high school. For the high school graduating class of 2008, in mathematics only about 43 percent of tested students overall were identified as ready for college level work and in science only 28 percent were ready for college-level work. According to the 2008 ACT report, only 1 percent of graduating seniors were planning to take a major college course of study in mathematics and only 5 percent were planning to major in biological and physical sciences.

Figure 10. Percentage of 2008 High School Graduating Class Meeting ACT College Readiness Benchmark Scores*



* Benchmark scores for mathematics and science were 22 and 24, respectively. A benchmark score is the minimum score needed on an ACT subject-area test to indicate a 50% chance of obtaining a grade of B or higher or about a 75% chance of obtaining a C or higher in the college course.

SOURCE: ACT, 2008 (http://www.act.org/news/data/08/benchmarks.html)

The Department funds the training of additional instructors of Advanced Placement (AP) and International Baccalaureate (IB) classes in mathematics, science, and critical-need foreign languages. The Department continues to support achievement in mathematics, science, and critical-need foreign languages through incentives for teachers to teach advanced courses. Currently, 25 percent of first-time, full-time Pell Grant recipients nationally receive an Academic Competitiveness Grant. The Department has set a goal to double the number of students receiving Academic Competitiveness and National Science and Mathematics Access to Retain Talent (SMART) Grants by 2010-11.

With a strong emphasis on preparing high school students for success in postsecondary education and in the global economy, the Department has selected this goal to emphasize in its *Strategic Plan.* Goal 2 encompasses 11 key performance measures and includes programs in academic competitiveness and innovation and improvement through Advanced Placement and International Baccalaureate programs. Other programs represented under this goal include Mathematics and Science Partnerships and the Adjunct Teacher Corps. See page 46 for an explanation of the documentation fields for the key measures.

Strategic Goal 2, Objective 1: Increase the proportion of high school students taking a rigorous curriculum

The American Competitiveness Initiative is a comprehensive strategy to keep our nation the most innovative in the world. Its goal is to strengthen high schools and prepare students for college or the workforce. The Department is committed to expanding Advanced Placement (AP) and International Baccalaureate (IB) programs to increase teacher training in mathematics, science, and critical foreign languages; to increase the number of students taking AP and IB mathematics, science, and critical foreign language exams; and to triple the number of students passing AP-IB tests. Academic Competitiveness grants continue to provide financial incentives for students to take a rigorous course of study in high school and college. To qualify for Academic Competitiveness grants, students must complete rigorous coursework, maintain good grades, be U.S. citizens, be full time students, and be eligible for Federal Pell Grants.

Measures for Objective 1	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.1.A. Percentage of low-income students who qualify for Academic Competitiveness Grants (89a0r6)					*	35	42	April 2009

* New measure in 2007. The 2007 actual serves as the baseline.

Source: National Student Loan Data System via Common Origination and Disbursement system data.

Data Quality and Timeliness. Data for 2008 are expected in April 2009.

Target Context. We met our FY 2007 target of setting the baseline. FY 2007 was the first year of the Academic Competitiveness Grants (ACG) program. Targets were developed as follows: the numerator was determined through a review of Financial Student Aid records; the denominator was developed from high school graduation records for the 2004-05 and 2005-06 school years, with the estimates narrowed for low-income students by use of the 2003-04 National Postsecondary Student Aid Study (NPSAS) and state estimates of the proportion of students taking rigorous curricula. The target is a challenging goal for the program – a 20 percent increase in the proportion of qualified students given ACG grants.

Report Explanation. The definition of low income is the definition that has been established for Pell Grant recipients. Eligibility for ACG was limited to 2 high school graduating classes. This permitted the Department to isolate the eligible group against which to calculate the actual. However, going forward, the number of eligible high school graduating classes increases by 1 each year making a valid analysis impossible to calculate without data that will permit a more elaborate analysis of program data or from a survey such as NPSAS. NPSAS data will be available in early 2009 with program data available soon after. The target was set last year and again this year on a path to double recipients of ACG by 2011.

Additional Information. Academic Competitiveness Grants were funded through FY 2011.

<u>**Measures for Objective 1**</u>	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.1.B. Number of Advanced Placement classes available nationwide (89a0r7)					*	Not collected	BL +10%	Not collected

* New measure in 2007, so no target. The 2007 actual will serve as the baseline.

BL = Baseline

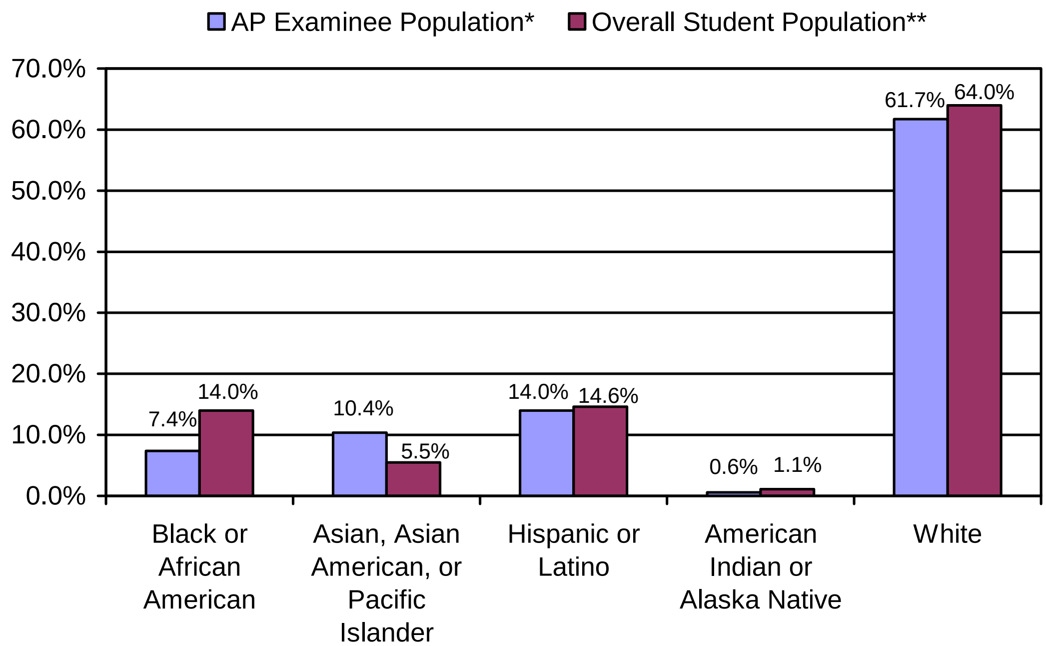
Source: The College Board, Ledger of Authorized Advanced Placement Courses

Data Quality and Timeliness. Data for 2007 were not collected on this measure. The Ledger of Authorized Advanced Placement Courses was only initiated in 2007 and no data base has been developed from which to extract the data.

For the public school graduating class of 2007, there were approximately 2.8 million high school graduates. Those graduates who took an AP exam at some point in high school numbered 698,182 or 24.9 percent – up 18.1 percent from 2002. The total number of AP exams taken by the class of 2007 across their entire high school years numbered 1,957,424. In 2007, 15,505 secondary schools located in the 50 states and the District of Columbia participated in the AP program. Of those, 12,241 were public schools, an increase of 204 schools over the previous year. See more detail at: (http://professionals.collegeboard.com/data-reports-research/ap/nation)

High schools serving students from low-income families tend to offer few, if any, Advanced Placement courses. The Department continues to support efforts to make AP courses available to students who now have limited access to these courses. Because low-income and minority students are underrepresented in AP classrooms, the Department targets Advanced Placement Incentive (API) grants to high-poverty high schools and works with states to promote the use of federal aid for AP exam fees by low-income and minority students. The Department is working to identify and disseminate information on promising practices for expanding the successful participation of low-income and minority students in AP courses.

Figure 11. The Class of 2007: Race/Ethnicity of AP Examinees vs. Graduating Seniors in U.S. Public Schools



* These examinees include all public school students in the class of 2007 who took an AP Exam at any point in high school. Note: Because some AP Exam takers identify themselves as "Other" for ethnicity or do not provide ethnicity, the "AP Examinee Population" in this figure only represents 94.1 percent of the AP population.

** *Knocking at the College Door* (2003), Western Interstate Commission for Higher Education

Source: The College Board, 2008

Measures for Objective 1 Number of Advanced Placement tests taken by public school students:	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.1.C. Total (89a0r8)	*	1,759,299	N/A	1,943,565	1,953,000	2,133,594	2,168,000	Jan 2009
2.1.D. Low-income (1149)	*	223,263	209,411	267,286	230,352	286,028	253,387	Jan 2009
2.1.E. Minorities (Black, Hispanic, Native American) (1150)	*	315,203	336,000	359,372	376,000	413,847	421,000	Jan 2009

* New measure in 2005, so no target. The 2005 actual serves as the baseline.

N/A = Not Available

Source: The College Board, Freeze File Report

Analysis of Progress. No target was established in FY 2006 for the total number of Advanced Placement tests taken by public school students as this was a new measure under the Department's new Strategic Plan. Targets for low-income and minority students were previously established by the program office. We exceeded our targets for FY 2007 for all three measures. The Department continues to see growth in the overall numbers of Advanced Placement courses and tests taken by public school students.

Data Quality and Timeliness. Data are reported annually. Data are analyzed by the College Board and by the U.S. Department of Education.

Target Context.

2.1.C: This measure was not in place as a key strategic measure prior to 2005. We met our 2005 target of setting the baseline. Baseline data were used to set future targets. We exceeded our 2007 target. Data for 2008 are expected in January 2009. No target was set for 2006 as the Department's new *Strategic Plan* was only in force beginning in FY 2007.

2.1.D: This measure was not in place as a key strategic measure prior to 2005. We used the 2005 data to establish the baseline on which to base future targets. We exceeded both our 2006 and 2007 targets.

2.1.E: This measure was not in place as a key strategic measure prior to 2005. We used the 2005 actual data to establish the baseline on which to base future targets. We exceeded both our 2006 and 2007 targets.

To expand access to advanced course work for low-income and minority students, the Department is promoting efforts to increase the number of teachers qualified to teach AP and IB classes in high-need schools. Working with Congress, the Department will seek to expand support for API grants to provide assistance to state educational agencies and local educational agencies to prepare additional teachers to deliver instruction in AP and IB courses.

Based on a proven model of results backed by credible data, the Advanced Placement Incentive Program provides grants to increase the participation of low-income students in AP courses and tests. Grants provide support for the development or expansion of AP courses, professional development for teachers, curriculum development, the purchase of books and supplies, and pre-Advanced Placement courses to prepare students for academic achievement in Advanced Placement classes. For more detail, see:
(http://www.ed.gov/programs/apincent/index.html)
(http://www.ed.gov/programs/apfee/index.html)

Measures for Objective 1	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.1.F. Number of teachers trained through Advanced Placement Incentive grants to teach Advanced Placement classes (89a0r9)					*	Not collected	BL +5%	Not collected

* New key measure in 2007, so no target. The 2007 actual will serve as the baseline.

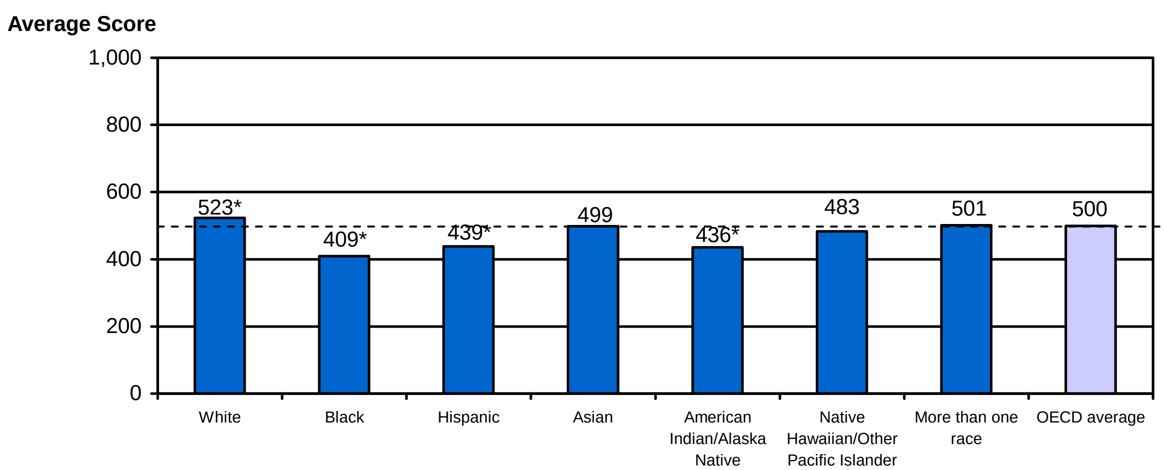
Source: U.S. Department of Education, Advanced Placement Incentive Program, *Annual Performance Reports*

Data Quality and Timeliness. These data were not collected because of a delay in proposed rulemaking. Funds were not appropriated for the Advanced Placement Incentive program as authorized by the *America COMPETES Act.*

Strategic Goal 2, Objective 2: Promote advanced proficiency in mathematics and science for all students

Strengthening mathematics and science achievement is an economic imperative for the nation. As prospective employers increase their reliance on advanced mathematics and science skills, high schools must provide more rigorous instruction in these subjects. According to the Program for International Student Assessment (PISA), a system of international assessments that measures the performance of 15-year-olds in reading literacy, mathematics literacy, and science literacy every three years against the 30 member countries of the Organization for Economic Cooperation and Development (OECD), fifteen-year-old students in the United States had an average score of 489 on the combined science literacy scale in 2006, lower than the OECD average score of 500. U.S. students scored lower on science literacy than their peers in 16 of the other 29 OECD countries. In 2006, the average score in mathematics literacy was 474, lower than the OECD average of 498. Twenty-three OECD jurisdictions scored higher than the United States in mathematics literacy in 2006. For more detail, see: (http://nces.ed.gov//pubs2008/2008016.pdf).

Figure 12. Average Scores of U.S. 15-year-old Students on Combined Science Literacy Scale, by Race/Ethnicity, 2006



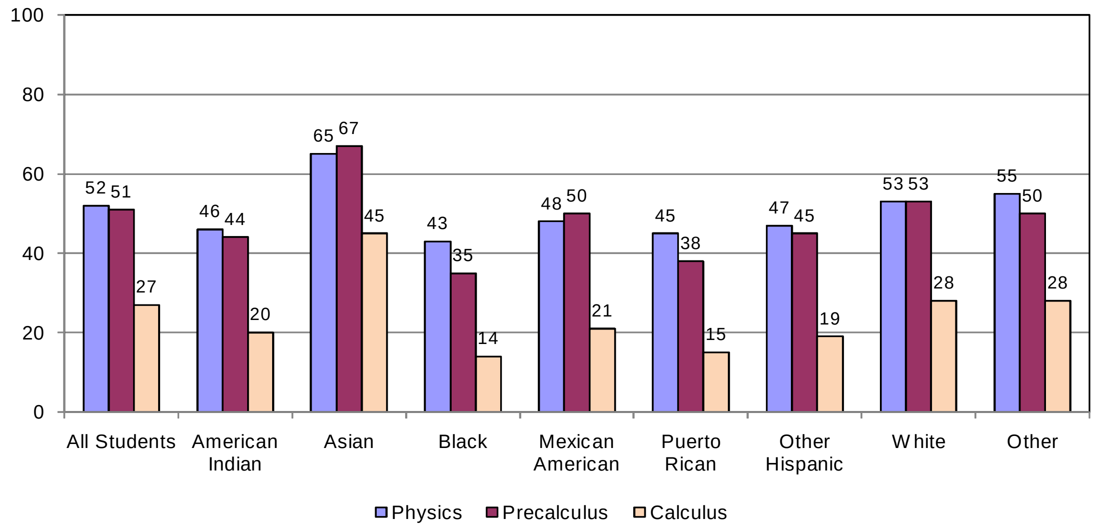
* *p< .05.* Significantly different from the OECD average at the .05 level of statistical significance.

NOTE: Black includes African-American, and Hispanic includes Latino. Students who identified themselves as being of Hispanic origin were classified as Hispanic, regardless of their race. The Organization for Economic Cooperation and Development (OECD) average is the average of the national averages of the OECD member jurisdictions. Because of an error in printing the test booklets, the United States mean performance may be wrongly estimated by approximately 1 score point. The impact is below one standard error.

SOURCE: Organization for Economic Cooperation and Development (OECD), Program for International Student Assessment (PISA), 2006

According to the latest Scholastic Achievement Test (SAT) data from the College Board, between 1998 and 2008, the percentage of college-bound seniors taking precalculus increased from 42 percent to 51 percent. Over the same ten-year period, the percentage of college bound seniors taking calculus increased from only 25 percent to 27 percent, and the percentage taking physics increased from 50 to 52 percent. For more detail, see: http://professionals.collegeboard.com/profdownload/cbs-08-Page-1-Table-1.pdf

Figure 13. Percentage of 2008 College-Bound Seniors Taking Physics, Precalculus, and Calculus, by Race/Ethnicity



Source: The College Board, 2008 http://professionals.collegeboard.com/profdownload/cbs-08-Page-9-Graph-8.pdf

The Department encourages increased access to and participation in Advanced Placement or International Baccalaureate classes by low-income and minority students. To offer challenging courses, schools must have qualified teachers. The Department promotes efforts to increase the number of teachers who have the academic content knowledge needed to teach advanced classes in mathematics and science, especially in schools where access to rigorous course work is limited. The Department encourages state educational agencies and local educational agencies to offer incentives, such as salary increments or bonuses, to teachers to become qualified to teach AP and IB courses.

Measures for Objective 2	2005		2006		2007		2008	
Number of Advanced Placement tests in mathematics and science taken nationwide by public school students:	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.2.A. Total			*	589,701	631,000	644,550	681,000	Jan 2009
2.2.B. Low-income			*	60,692	65,000	66,337	70,000	Jan 2009
2.2.C. Minorities (Black, Hispanic, Native American)			*	74,762	80,000	86,061	86,000	Jan 2009

* New measure in 2006. The 2006 actual served as the baseline.

Source. The College Board, Freeze File Report

Analysis of Progress. We exceeded our 2007 targets for all three measures. The number of advanced placement tests in mathematics and science taken nationwide continues to increase.

Data Quality and Timeliness. Data are reported annually. Data for 2008 are expected in January 2009.

Target Context. We met our 2006 target of setting the baseline. We established future targets based on the 2006 actual data.

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.2.D. Number of teachers trained through Advanced Placement Incentive grants to teach advanced placement classes in mathematics and science (89a0rc)					*	Not collected	BL+ 5%	Not collected

* New measure in 2007, so no target. The 2007 actual serves as the baseline.

Source: U.S. Department of Education, Advanced Placement Incentive Program, *Annual Performance Reports*

Data Quality and Timeliness. These data were not collected because of a delay in proposed rulemaking. Data for this measure were not collected because there were no appropriated funds for the Advanced Placement Incentive program authorized under the *America COMPETES Act.*

Strategic Goal 2, Objective 3: Increase proficiency in critical foreign languages

American students must master critical need foreign language skills for our nation to remain globally competitive and to ensure national security. These languages include Arabic, Farsi, Chinese, Japanese, Korean, and Russian. According to the Center for Applied Linguistics, in 1997, only about 24 percent of public elementary schools reported teaching foreign languages, and most of those schools focus on giving students introductory exposure to a language rather than achieving overall proficiency. For additional information, go to http://www.cal.org/resources/pubs/flinstruct.html. According to the 2002 *Digest of Education Statistics,* only about 44 percent of American high school students are enrolled in foreign language classes. Of those, most were enrolled in Spanish or French.

The President's National Security Language Initiative will increase the number of Americans mastering critical need languages and at a younger age; increase the number of advanced-level speakers of critical-need foreign languages; and increase the number of teachers of critical need languages. The Department will focus resources toward educating students and teachers in critical-need foreign languages and increasing the number of advanced-level speakers in those languages.

The Department of Education has set a goal to double the number of the number of students receiving American Competitiveness and SMART grants by 2010-11.

Measures for Objective 3	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2.3.A. Combined total of Advanced Placement and International Baccalaureate tests in critical foreign languages passed by public school students (89a0re)					*	3,557	4,093	Jan 2009

*New measure in 2007. The 2007 actual served as the baseline.

Source: The College Board Freeze File Report and International Baccalaureate North America, *Examination Review and Data Summary.*

Analysis of Progress. In 2007 and 2008, the College Board tested in AP for critical languages for Chinese and Japanese. Results for 2008 are not yet available. In 2007 and 2008, International Baccalaureate of North America tested the critical languages of Arabic, Chinese, Japanese, Korean, and Russian.

Data Quality and Timeliness. Data are reported annually by the International Baccalaureate of North America and the College Board.

Target Context. We met our FY 2007 target to establish a baseline. Targets are based on a total of all tests passed, regardless of score received.

Report Explanation. The total number of exams in critical foreign languages for the College Board in 2007 was 3,253. In 2007, the total number of exams in the IB program in critical foreign languages was 304. For the College Board, in 2007, the total number of exams taken in critical foreign languages receiving a score of “3” or above was 2,810. For the International Baccalaureate tests, the total number of tests for 2007 receiving a score of “4” and above was 247. For 2008, the total number of IB tests receiving a score of “4” and above was 225.

Goal 2: Increase the Academic Achievement of All High School Students

Program Performance Summary: Nine of our grant programs most directly support Goal 2. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See page 46 for the methodology of calculating the percentage of targets met, not met, and without data.) Appropriation and expenditure data for FY 2008 are included for each of these programs. Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2008report/program.html. Appropriation and expenditure data for FY 2008 are included for each of these programs.

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/ Exc.	FY 2008 % Not Met But Impro-ved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/ Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/ Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/ Exc.	FY 2005 % Not Met	FY 2005 % No Data
Academic Competitiveness and SMART Grants (HEA)	NA	395	515						New Program							
Advanced Placement (ESEA)	ME	44	36	0	0	0	100	33	33	34	80	20	0			
Career and Technical Education National Programs (CTEA)	NA	8	10	0	0	0	100	0	100	0	0	100	0	0	100	0
Career and Technical Education State Grants (CTEA)	I	1,161	1,121	0	0	0	100	33	67	0	44	56	0	44	56	0
Close Up Fellowships (ESEA)	NA	2	1	0	0	0	100	0	0	100	100	0	0			
Excellence in Economic Education (ESEA)	NA	1	1	0	0	0	100	0	0	100	0	0	100	0	0	100
Mathematics and Science Partnerships (ESEA)	RND	179	188	0	0	0	100	100	0	0	100	0	0	0	0	100
Smaller Learning Communities (ESEA)	A	80	99	0	0	0	100	0	0	100	56	44	0	67	33	0
Tech Prep State Grants (CTEA)	RND	103	102	0	0	0	100	33	67	0	67	33	0	33	67	0
TOTAL		1,973	^2,073													

† Budget for each program represents program budget authority.
‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2008 expenditures may include funds from prior years' appropriations.
* The "Not Met But Improved Over Prior Years" column is new for FY 2008.
A shaded cell denotes that the program did not have targets for the specified year.
^Estimated accruals in the amount of $39 million are excluded from the FY 2008 expenditure.

CTEA: *Carl D. Perkins Career and Technical Education Act*
ESEA: *Elementary and Secondary Education Act of 1965*
HEA: *Higher Education Act of 1965*

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

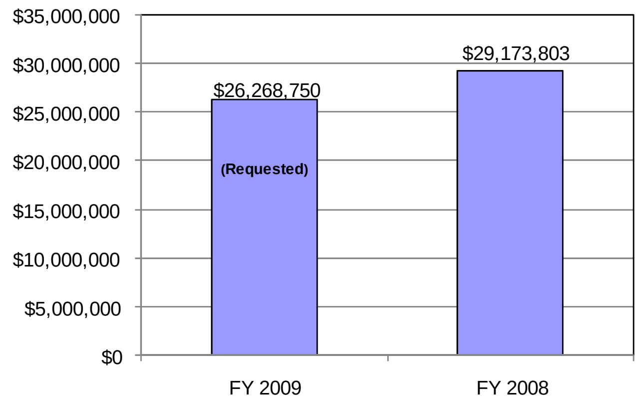
GOAL 3: Ensure the Accessibility, Affordability, and Accountability of Higher Education and Better Prepare Students and Adults for Employment and Future Learning

Overview

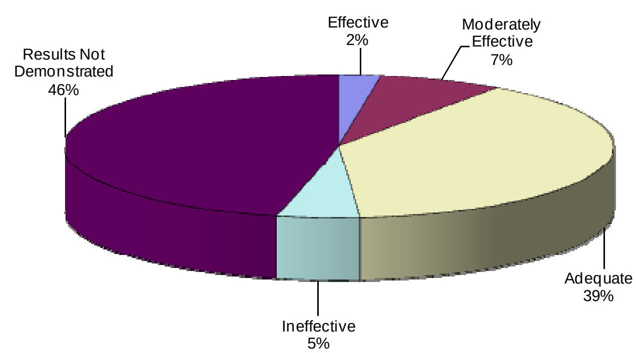
Strategic Objectives:

- Increase success in and completion of quality postsecondary education
- Deliver student financial aid to students and parents effectively and efficiently
- Prepare adult learners and individuals with disabilities for higher education, employment, and productive lives

Goal 3 Resources
($ in thousands)



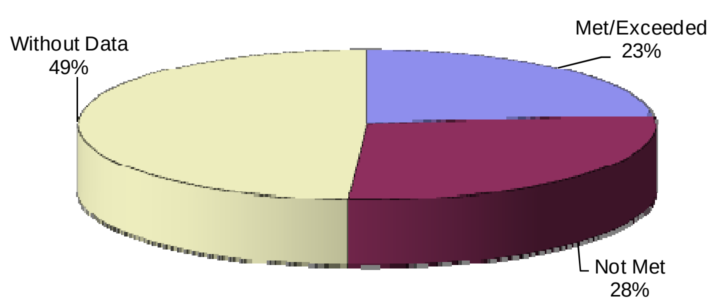
Goal 3 PART Ratings by Program*



* Detail may not total to 100% due to rounding.

Note: Each year the Department analyzes the percentage of program performance targets that were met or exceeded, not met but improved over time, not met, or for which data are not yet available. Since the Department has a lag in the time data are received for the established targets, the FY 2007 target results are presented here. For more information on PART Ratings by Programs and Percent of Targets Met and Not Met, see Program Performance Summary at the end of this goal.

Goal 3 FY 2007 Percent of Targets



Key Measures

During FY 2008, the Department monitored progress on the new measures and goals established in 2007, which are aligned with the recommendations of the Commission on Higher Education, the Academic Competitiveness Council and the Secretary's Action Plan for Higher Education. These strategies focus on ensuring the accessibility, affordability and accountability of higher education institutions, and better preparing students for employment and future learning. In order to remain competitive in the dynamic global economy, and to meet America's current and future needs, higher education must continue to be innovative, use technology effectively, measure student outcomes, and conduct rigorous evaluations of its own performance.

The data presented here show the progress that the Department has made to date and provide the starting point for forward movement to meet the challenges faced by adult learners, postsecondary students, their families and institutions of higher education. According to data from the Bureau of the Census, only 36 percent of Americans over the age of 25 have an associate's degree or higher. As a nation, more individuals must enroll in and complete a postsecondary education program. Institutions of higher education must become more transparent in providing relevant information to the public and more attuned to trends in global economic development.

See page 46 for an explanation of the documentation fields for key measures.

Strategic Goal 3, Objective 1: Increase success in and completion of quality postsecondary education

Affordability is fundamental for promoting access to higher education, and academic preparation is also fundamental for access and critical for success once students are enrolled. Grants and loans are the largest source of federal financial support to postsecondary students. In FY 2008, the Department delivered or supported the delivery of approximately $96 billion in grant, work-study and loan assistance federal aid to almost 11 million postsecondary students and their families throughout America. These students attend approximately 6,200 institutions of higher education accredited by dozens of accrediting agencies. Many of these students receive loans from approximately 3,100 lenders with 35 guaranty agencies guaranteeing those loans.

In September 2007 President Bush signed the *College Cost Reduction and Access Act* (CCRAA), providing the largest increase in student aid funding in a generation. This landmark legislation, which was to an extent based on proposals advanced in the 2008 President's Budget, invested over $15 billion in new mandatory funds over 5 years to raise the maximum Federal Pell Grant to $5,400 by award year 2012-2013.

The federal TRIO programs continue to help low-income, first generation students, who are traditionally underrepresented in higher education, prepare for, enroll in and succeed in college. TRIO Upward Bound and Talent Search programs help low-income, first generation students prepare for college. TRIO Educational Opportunity Centers (EOC) help adults enroll in college. Student Support Services fosters retention and graduation support to students who are enrolled in postsecondary schools and the McNair Post-Baccalaureate Achievement prepares undergraduate students who are underrepresented in graduate education for doctoral study. With a focus on student outcomes, the Department measured TRIO program performance by assessing the percentage of Upward Bound, EOC and Talent Search students enrolling in college and college completion rates for

Student Support Services students and the percentage of McNair participants enrolling and persisting in graduate school.

The Academic Competitiveness Grant Program, which first awarded grants to nearly 300,000 students during the 2006-07 academic year, encourages students to take more challenging courses in high school.

The National SMART Grant Program, which awarded the first grants to nearly 61,000 students during the 2006-07 academic year, encourages students to pursue college majors in high demand in the global economy, such as science, mathematics, technology, engineering, and critical foreign languages.

In addition, the Department will design criteria for identifying successful community colleges. Possible indicators of success include dual enrollment/early college programs; meaningful partnerships with four-year institutions or industry; developmental education programs that work for students; high transfer rates to four-year institutions; career pathways that are well-articulated and meaningful for high school-to-college and adult education-to-career; and the use of data to drive institutional decision-making. The Department will broadly disseminate innovative practices and program details and will fund colleges to replicate successful programs and initiatives in other locations.

Measures for Objective 1	**2005**		**2006**		**2007**		**2008**	
Postsecondary Enrollment	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.1.A. Percentage of high school graduates aged 16–24 enrolling immediately in college (89a0ri)			*	68.6	68	66	68	Dec. 2008

* New measure in 2006, so no target. The 2006 actual served as the baseline.

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Survey.

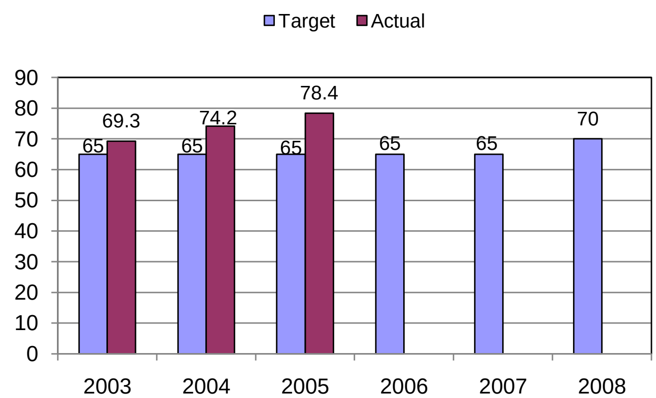
Analysis of Progress. The enrollment rate declined slightly from 2006 to 2007.

Data Quality and Timeliness. The *Strategic Plan for Fiscal Years 2007-2012,* published in May 2007 included measures developed in 2006. Data for the 2007-2008 school year (column “2008” in the table) are expected for release December 2008.

Target Context. We did not meet our 2007 target of 68 percent.

Report Explanation. Although overall enrollment declined from 2006 to 2007, the gap between enrollment of white and Hispanic students narrowed dramatically from 19.2 to 10.6 percent and the gap between white and black students narrowed from 17.5 to 13.0 percent. Since 2002, the percentage of high school graduates enrolling immediately in college has fluctuated between 64 and 69 percent.

Figure 14. Percentage of Upward Bound Participants Enrolling in College



Source: U.S. Department of Education, Office of Postsecondary Education, *Upward Bound Program Annual Performance Report.*

Measures for Objective 1 Postsecondary Enrollment	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.1.B. Percentage of Upward Bound participants enrolling in college (1627)	65	78.4	65	Dec. 2008	65	Dec. 2009	70	Dec. 2010

Source: U.S. Department of Education, Office of Postsecondary Education; *Upward Bound Program Annual Performance Report.*

Analysis of Progress. Based on actual data significantly increasing over recent years, targets beyond 2008 have been increased.

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

Target Context. Based on consecutive years of performance exceeding targets, the targets were increased to 70 percent for 2008 and 75 percent for 2009. The target for FY 2008 was increased to 70 percent as part of the fall 2006 PART update and to 75 percent for 2009 in the spring 2007 PART update.

Report Explanation. The percentage is the percent of "college ready" participants who enroll in a postsecondary institution.

Note: The 78.3 percent enrollment rate previously reported for FY 2006 was reported in error.

Additional Information. The Upward Bound Program Web site may be accessed at: http://www.ed.gov/programs/trioupbound/index.html

Measures for Objective 1 Postsecondary Enrollment	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.1.C. Percentage of career and technical education students who have transitioned to postsecondary education or employment by December of the year of graduation (89a0rj)	*	87	88	87	89	86	90	May 2009

* New measure in 2005. The 2005 actual served as the baseline.

Source. *Career and Technical Education Annual Performance Report* and *Grantee Performance Reports.*

Analysis of Progress.

Data Quality and Timeliness. Actual data are entered through FY 2007. Data for 2008 are expected in May 2009, and a new baseline will be established under *Carl D. Perkins Career and Technical Education Act of 2006* (Perkins IV) guidance. States submit their reports to the Department each year through an electronic system. At that time, each grant recipient must attest to the accuracy and completeness of their submission by entering an Electronic Personal Identification Number that is supplied to them by the Department. The Office of Vocational and Adult Education staff then completes a check on the accuracy and completeness of the data and follows up with states as necessary.

Target Context. We met our 2005 target of setting the baseline. The 2008 and 2009 targets are based on state-adjusted performance levels that were negotiated with and approved by the Department.

Report Explanation. The Secretary used the transition authority in section 4 of Perkins IV to allow states to develop and put in place new measurement approaches for the Perkins IV indicators. As a result, states are not required to report data on this indicator until 2009.

Measures for Objective 1 Postsecondary Persistence	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.1.D. Percentage of full-time degree-seeking undergraduate students at Title IV institutions who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution (89a0ry)			*	70	71	70	71	Dec. 2008
3.1.E. Percentage of first time full-time degree-seeking undergraduate students at Historically Black Colleges and Universities who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution (1587)	N/A	65	65	64	66	62	66	Dec. 2008

Measures for Objective 1 Postsecondary Persistence	2005		2006		2007		2008	
3.1.F. Percentage of first time full-time degree-seeking undergraduate students at Hispanic-Serving Institutions who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution (1601)	N/A	66	67	64	68	63.5	68	May 2008

* New measure in 2006. The 2006 actual served as the baseline.

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

Analysis of Progress. For 3.1.E and 3.1.F the rates declined slightly between FY 2006 and FY 2007.

Data Quality and Timeliness. Data are provided by institutions and are subject to a rigorous review process by NCES. Beginning with FY 2008, persistence will be reported for the first time along with the numerator and denominator generating the percentage. Therefore, the rate established for any program can be aggregated as a mean instead of a median rate – increasing the accuracy of the measurement.

Target Context.

3.1.D: We met our 2006 target of setting the baseline. We did not meet the 2007 national target of 71 percent.

3.1.E: Institutions report a persistence rate, not the numerator and denominator. As a result, the persistence rate for the HBCU program is calculated as a median. The target is derived by applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for school year 2003-04, which was 3.6 percent. The reason for decline in persistence is unknown. The Department is beginning to analyze grantee performance for this program which may provide some insight into factors behind this decline.

3.1.F: The HBCU program actual persistence rate of 64 percent in FY 2004 was multiplied by 1.0363 to generate the long-term target (for 2009) of 66 percent. Annual increases are estimated to be 0.6 percent each year through 2009 and 0.3 percent beginning in 2010.

Report Explanation.

3.1.D: Persistence measures the percentage of full-time degree-seeking undergraduate students at Title IV institutions who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same institution.

3.1.F: Institutions report a persistence rate, not the numerator and denominator. As a result, the persistence rate for the HSI program is calculated as a median. The target is derived by applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for school year 2003-04 which was 1.12 percent. Therefore, the HSI program actual persistence rate of 66.5 percent in FY 2004 was multiplied by 1.0112 to generate the long-term target (for 2009) of 68 percent. Annual increases are estimated to be 0.2 percent each year through 2009 and 0.1 percent beginning in 2010.

Additional Information. The Historically Black Colleges and Universities Program Web site may be accessed at http://www.ed.gov/programs/iduestitle3b/index.html. The Hispanic-Serving Institutions Program Web site may be accessed at http://www.ed.gov/programs/idueshsi/index.html.

Measures for Objective 1 Postsecondary Completion	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	
3.1.G. Percentage of students enrolled at all Title IV institutions completing a four-year degree within six years of enrollment (89a0rz)	*	57.1	56	57.5	57	Jan. 2009	57	Jul. 2009
3.1.H. Percentage of freshmen participating in Student Support Services who complete an associate's degree at original institution or transfer to a four-year institution within three years (1618)	*	24.5	27	24.6	27.5	Dec. 2008	27.5	Dec. 2009
3.1.I. Percentage of students enrolled at 4-year Historically Black Colleges and Universities graduating within six years of enrollment (1589)	*	38	37	38	39	Dec. 2008	39	Dec. 2009
3.1.J. Percentage of students enrolled at 4-year Hispanic-Serving Institutions graduating within six years of enrollment (1603)	*	35	34	35	37	Dec. 2008	37	Dec. 2009
3.1.K. Percentage of postsecondary career and technical education students who have completed a postsecondary degree or certification (89a0s0)	*	42	45	47	46	40	47	May 2009

* New measure in 2005. The 2005 actual served as the baseline.

Source:

3.1.G: U.S. Department of Education, NCES. Integrated Postsecondary Education Data System, Graduation Rate Survey

3.1.H: U.S. Department of Education, *TRIO Annual Performance Report*

3.1.I: U.S. Department of Education, NCES. Integrated Postsecondary Education Data System, Graduation Rate Survey

3.1.J: U.S. Department of Education, NCES. Integrated Postsecondary Education Data System, Graduation Rate Survey

3.1.K: *Career and Technical Education Annual Performance Report; Grantee Performance Reports*

Analysis of Progress.

3.1.G: Met our 2005 target of setting the baseline. We exceeded our 2006 target of 56 percent. The percentage of bachelor's degree-seeking students completing a four-year degree within six years of enrollment also improved, increasing to 57.5 percent in FY 2006 from 57.1 percent in FY 2005.

3.1.H: Made progress from the prior year but did not meet our 2006 target of 27. The percentage of Student Support Service participants completing an Associates degree at original institution or transferring to a four-year institution increased slightly from 2005 to 2006, the first increase since 2003.

3.1.I: Exceeded our 2006 target of 37. The percentage of students enrolled at four-year Historically Black Colleges and Universities graduating within six years of enrollment remained unchanged in 2006.

3.1.J: Exceeded our 2006 target of 34. The percentage of students enrolled at four year Hispanic-Serving Institutions graduating within six years of enrollment remained unchanged in 2006.

3.1.K: We met our 2005 target of setting the baseline. We exceeded our 2006 target of 45 but did not meet our 2007 target of 46.

Report Explanation.

3.1.G: The data for FY 2005, 56.4 percent, was previously reported incorrectly.

3.1.H: Data reporting has recently been improved to report completion of associate's and bachelor's degrees separately.

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

3.1.J: Data for FY 2003 were recalculated and are now more accurate than previously reported. The target for the four-year graduation rate is derived by applying the difference between regression-based predicted values from Title IV institutions and actual grantee values for school year 2002-03, which was 3.54 percent. Annual increases are estimated to be 0.6 percent through 2009 and 0.3 percent beginning in 2010. The HSI program actual four-year graduation rate of 36 percent in FY 2004 was multiplied by 1.0354 (times 5/6) to generate the long-term target (for 2009) of 37 percent.

3.1.K The 2009 target is substantially lower that the 2007 target as many of the states have moved to more rigorous student definitions and measurement approaches for the Perkins IV core indicators. The Secretary used the transition authority in section 4 of Perkins IV to allow states to develop and put into place new measurement approaches for the Perkins IV indicators. As a result, states are not required to report data on this indicator until 2009.

Strategic Goal 3, Objective 2: Deliver student financial aid to students and parents effectively and efficiently

Federal Student Aid, an office of the U.S. Department of Education, ensures that all eligible individuals can benefit from federally funded or federally guaranteed financial assistance for education beyond high school.

The Federal Pell Grant Program helps ensure financial access to postsecondary education by providing grant aid to low- and middle-income undergraduate students. The most need-based of the Department's student aid programs, Pell Grant awards vary according to the financial circumstances of students and their families. For the 2007–2008 award year, the Department disbursed $14.6 billion in Pell Grants averaging approximately $2,643 to 5.5 million students. The maximum Pell Grant award was $4,310 for the 2007–2008 award year. The maximum Pell Grant award increased to $4,731 for the 2008-2009 award year.

In FY 2008, Federal Student Aid directly managed or oversaw almost $556 billion in outstanding loans—representing almost 95 million student loans to more than 30 million borrowers.

The Direct Loan Program lends funds directly to students and parents through participating schools. This program is funded by borrowings from the U.S. Department of the Treasury as well as an appropriation for subsidy costs. In FY 2008, the Department made $21.8 billion[1] in net loans to 2.9 million recipients.

Under the Federal Family Education Loan (FFEL) Program, students and parents can obtain loans through private lenders. Loan guaranty agencies insure these funds, and they are, in turn, reinsured by the federal government. During FY 2008, Federal Student Aid supported the delivery of $52.9 billion[2] in net loans to 6.0 million FFEL recipients.

Measures for Objective 2	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.2.A. Direct administrative unit costs for origination and disbursement of student aid *(total cost per transaction)* (1919)			*	$4.24	$4.25	$4.03	$4.15	$3.65

Source: Federal Student Aid unit costs are derived from the Department's Activity-Based Management program using direct administrative costs.

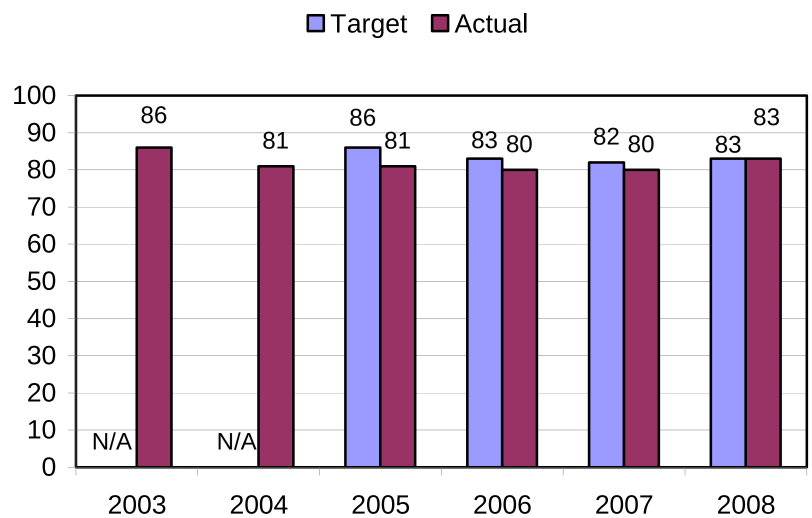
Analysis of Progress. Federal Student Aid has made significant progress in its efforts to reduce the administrative unit costs. The actual unit cost for origination and disbursement is significantly lower than the baseline amount set in FY 2006.

Data Quality and Timeliness. Actuals are the data reported as final in the current fiscal year. Because it takes some time after the closeout of the fiscal year to receive completed data and to validate results, the data lag by one year.

Target Context. Targets for this measure will decline slightly in 2009 from the 2008 target and are expected to remain flat in subsequent years.

[1] Excludes consolidation loans of $5.8 billion.
[2] Excludes consolidation loans of $9.3 billion.

Figure 15. Customer Service Level on the American Customer Satisfaction Index for the Free Application for Federal Student Aid on the Web



Source: Based on annual American Customer Satisfaction Index scores obtained through the Claes Fornell International Group

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.2.B. Customer service level on the American Customer Satisfaction Index for the Free Application for Federal Student Aid (FAFSA) on the Web (2207)	86	81	83	80	82	80	83	83

Source: Annual American Customer Satisfaction Index scores obtained through the Claes Fornell International Group

Analysis of Progress. The target was met for 2008. With an American Customer Satisfaction Index score of 83 (on a 1-100 scale), Free Application for Federal Student Aid on the Web scores in the "Excellent" range in comparison to other entities that appear in the index. This category includes such high-performing companies as UPS, Amazon and Mercedes.

Data Quality and Timeliness. In 2008, the student aid applicants were asked through an electronic surveying capability their opinions about the experience directly after completing the online aid application. This new capability allowed us to obtain opinions directly after the experience rather than a month or more down the road and allowed us to expand the sample universe, yielding more accurate results.

Target Context. Targets are based upon ACSI customer satisfaction scores and we expect to show slight improvement in the out years.

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.2.C. Pell Grant improper payments rate (89a0s2)			*	3.48%	3.48%	4.11%	3.48%	3.69%**

* New measure in 2006. The 2006 actual served as the baseline. **FY 2008 data are draft based upon preliminary results.

Source: Free Application Federal Student Aid/IRS Data Statistical Study 2006-2007 Award Cycle Baseline Analysis Report

Analysis of Progress. We did not make our goal. The improper payment rate that results from the IRS study is based on a randomly selected group of applicants each year. As such, the rate is subject to arbitrary fluctuations that reflect the randomness of the sample for any given year. We continue to make refinements to the application process that, based on the results of the study, will ultimately lead to a lower level of improper payments.

Data Quality and Timeliness. FY 2008 data will be finalized sometime during the early part of FY 2009.

Target Context. Target remains the same from 2006 to 2008. Targets projected between 2009 and 2012 are predicted on a robust data match between IRS and the Department of Education. Currently the improper payment rate is based upon statistical averages.

Related Information. These data for FY 2007 and FY 2008 are estimated from a sampling of records from the Department's aid applicant file compared against statistical averages from the IRS. The improper payment rate has two parts, an over-award and under-award component, which are added together to estimate the overall rate. These over- and under-award components are stated as a proportion of the overall Pell Grant program awards.

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.2.D. Direct Loan recovery rate (89a0s3)			*	19%	19.5%	20.8%	19.75%	21%

* New measure in 2006. The 2006 actual served as the baseline.

Source: Debt Management Collection System

Analysis of Progress. The FY08 target of 19.75% was exceeded by one-and-a-quarter percentage points. Translated into dollars, approximately $2.244 billion or 21% of the $10.688 billion outstanding in the Direct Loan Program default portfolio was collected in the current fiscal year. One of the primary reasons FSA greatly exceeded the target was the economic stimulus payments, which led to a significant increase in Treasury Program Offsets.

Data Quality and Timeliness. Data are through the end of FY08.

Target Context. The recovery rate equals the sum of collections on defaulted loans divided by the outstanding default portfolio at the end of the previous year. Targeted recoveries for the out years are expected to increase slightly.

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.2.E. Federal Family Education Loan recovery rate (89a0s4)			*	19.3%	19.5%	19.6%	19.5%	23.6%

* New measure in 2006. The 2006 actual served as the baseline.

Source: Debt Management Collection System

Analysis of Progress. The FY 2008 target of 19.50% was exceeded by slightly more than four percentage points. Translated into dollars, approximately $6.250 billion or 23.6% of the $26.470 billion in the outstanding Federal Family Education Loan Program default portfolio was collected in the current fiscal year. One of the primary reasons FSA greatly exceeded the target was the economic stimulus payments, which led to a significant increase in Treasury Program Offsets.

Data Quality and Timeliness. Data are through the end of FY08.

Target Context. The recovery rate equals the sum of collections on defaulted loans divided by the outstanding default portfolio at the end of the previous year. Targeted recoveries for the out years are expected to increase slightly.

Strategic Goal 3, Objective 3: Prepare adult learners and individuals with disabilities for higher education, employment, and productive lives

Bureau of Labor Statistics projections indicate that 90 percent of the fastest-growing jobs will require education beyond high school and 40 percent of all new jobs will require at least an associate's degree. As new jobs require increasing levels of proficiency in reading and mathematics, problem solving, teamwork, and communication skills, more adults without a bachelor's degree will need both access to basic education programs and admission to community college certificate and degree programs. The role of adult education as a bridge to further education and training is central to the Department's vision. As part of the Secretary's higher education initiatives, the Department will work to transform adult education programs to include transition services that enable graduates to prepare for, enter, and succeed in postsecondary education. This ongoing process will require new forms of instruction, improved services, and collaborative relationships with other agencies and organizations.

Individuals with disabilities continue to experience high rates of unemployment and underemployment. Vocational rehabilitation plays a key role in helping these individuals prepare for, obtain, and maintain employment and lead productive lives. The Department will continue to support and monitor research leading to the development of interventions that support health and physical function, participation in and integration into the community, and employment of individuals with disabilities. The Department will work with states to identify practices that improve outcomes, to provide resources and technical assistance to enhance service effectiveness, and to increase the economic self-sufficiency of individuals with disabilities. Complementing the work of state vocational rehabilitation agencies, the Department will increase access to new and recycled assistive technology that gives students and employees with disabilities a greater competitive edge in a knowledge-based economy. Furthermore, the Department will work toward increasingly successful transitions of students with disabilities to employment and higher education.

Adult education and vocational rehabilitation programs must provide increasingly effective services to improve the skills and employment prospects of those they serve. The Department's vocational rehabilitation programs help individuals with physical or mental disabilities obtain employment and live more independently by providing grants that support job training and placement, medical and psychological services, and other individualized services. Annually, the Vocational Rehabilitation State Grants program helps more than 200,000 individuals with disabilities obtain employment.

The Department measures the progress of state vocational rehabilitation agencies by monitoring the percentage of individuals receiving services that achieve employment. The Department supports diploma equivalency and college readiness programs, rigorous academic and technical course work leading to an associate's degree and certification programs, and expansion of the quality and timeliness of technical assistance in partnership with employers and other organizations.

Measures for Objective 3	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.3.A. Percentage of state vocational rehabilitation agencies that meet the employment outcome standard for the Vocational Rehabilitation State Grants program (1681)	75	71	70	82	71	82	76	April 2009

Source: State agency data submitted to the Department's Rehabilitation Services Administration (RSA); Case Service Report (RSA-911).

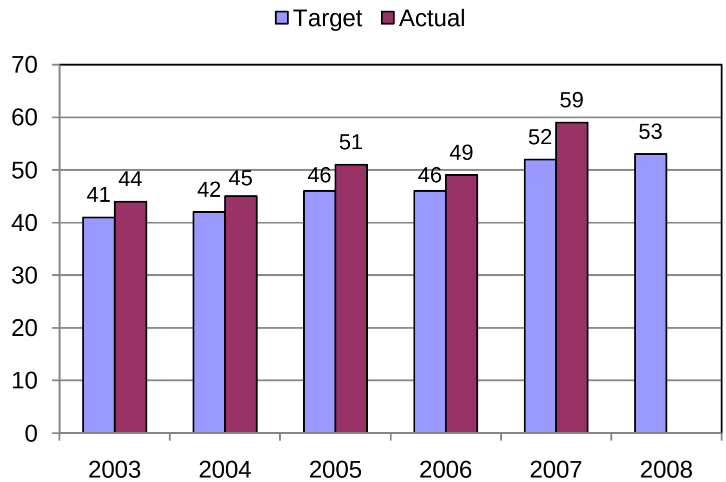
Analysis of Progress. In fiscal year 2006, the percentage of general and combined State Vocational Rehabilitation agencies that met the performance criterion increased significantly as compared to previous years. The percentage of general and combined vocational rehabilitation agencies that met the employment outcome standard in 2007 was the same as it was in 2006 at 82 percent. Of the 46 agencies meeting the standard, three met the standard in 2007 that had not met it in 2006, and three did not meet the standard that had met it in 2006.

Data Quality and Timeliness. State vocational rehabilitation agencies are required to submit their RSA-911 data by November 30 for the previous fiscal year. The data are considered very reliable because of the rigorous RSA editing process to which agency data are submitted. Data quality and timeliness have improved significantly in recent years. The RSA-911 database for fiscal years 2005 and 2006 was complete within 5 months of the close of fiscal year. Completion of the 2007 database was delayed because of late data submissions. However, RSA is working to ensure that the 2008 database is complete by February 2009 and available for timely analysis of performance data.

Target Context. Performance targets for this measure were initially established based on 2001 data. However, a change in program regulations and in labor market conditions led to declines in the percentage of individuals who achieved an employment outcome. As a result, the baseline was recalculated based on 2003 and 2004 data and targets for 2006 and 2007 were adjusted. The decline in employment outcomes stabilized in 2005 with improving economic conditions and performance targets for 2008 and future years were raised to reflect anticipated improvements in performance on this measure.

Report Explanation. This indicator is derived from State Vocational Rehabilitation Services program performance standards and indicators defined in the program regulations. For each Vocational Rehabilitation agency, RSA examines the percentage of individuals who achieve an employment outcome compared to all individuals whose cases were closed after receiving services. To achieve an employment outcome under this program, an individual must be employed in an integrated setting as a result of receiving Vocational Rehabilitation services and have maintained employment for a period of at least 90 days. To pass this indicator, a general or combined agency must achieve a rate of 55.8 percent.

Figure 16. Percentage of Adults Served by the Adult Education State Grants Program With a High School Completion Goal Who Earn a High School Diploma or Recognized Equivalent



Source: U.S. Department of Education, Office of Vocational and Adult Education, *Adult Education Annual Program Performance Report.*

Measures for Objective 3	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.3.B. Percentage of adults served by the Adult Education State Grants program with a high school completion goal who earn a high school diploma or recognized equivalent (1386)	46	51	46	49	52	59	53	Dec. 2008

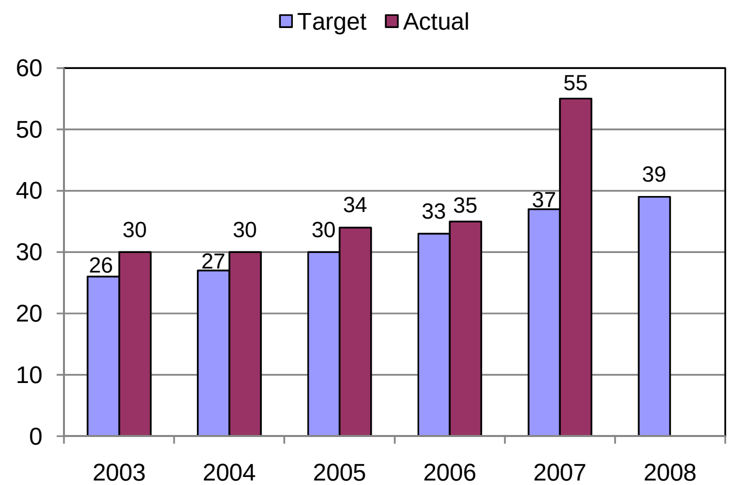
Source: U.S. Department of Education, Office of Vocational and Adult Education, *Adult Education Annual Program Performance Report.*

Analysis of Progress. The 2007 target was exceeded. Part of the explanation for the increase may stem from improved data collection methods used by the states to collect and report on this measure.

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

Target Context. The Department negotiated approved targets with OMB for a 15-year period.

Figure 17. Percentage of Adults Served by the Adult Education State Grants Program With a Goal To Enter Postsecondary Education or Training Who Enroll in a Postsecondary Education or Training Program



Source: U.S. Department of Education, Office of Vocational and Adult Education, *Adult Education Annual Program Performance Report.*

Measures for Objective 3	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.3.C. Percentage of adults served by the Adult Education State Grants program with a goal to enter postsecondary education or training who enroll in a postsecondary education or training program (1387)	30	34	33	35	37	55	39	Dec. 2008

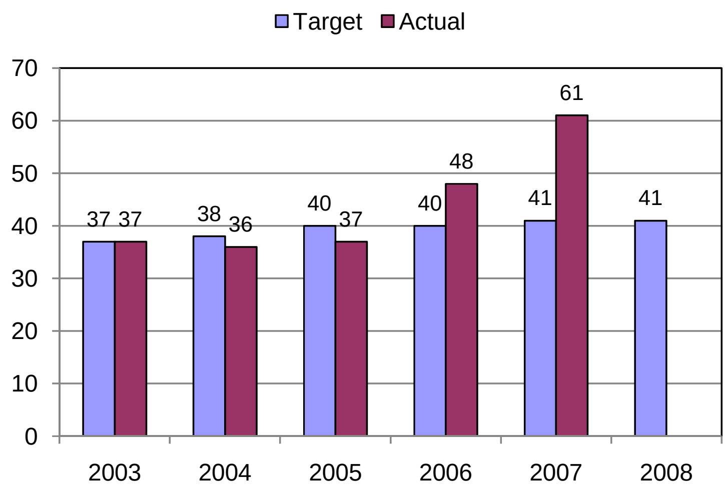
Source: U.S. Department of Education, Office of Vocational and Adult Education, *Adult Education Annual Program Performance Report.*

Analysis of Progress. There was a spike in the 2007 actual data because of improved follow-up methodologies implemented by the states and training and technical assistance, provided by the Office of Vocational and Adult Education in transitioning adult students into postsecondary education and training opportunities.

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

Target Context. The Department negotiated approved targets with OMB for a 15-year period.

Figure 18. Percentage of Adults Served by the Adult Education State Grants Program With an Employment Goal Who Obtain a Job by the End of the First Quarter After Their Program Exit Quarter



Source: U.S. Department of Education, Office of Vocational and Adult Education, *Adult Education Annual Program Performance Report.*

<u>**Measures for Objective 3**</u>	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
3.3.D. Percentage of adults served by the Adult Education State Grants program with an employment goal who obtain a job by the end of the first quarter after their program exit quarter (1388)	40	37	40	48	41	61	41	Dec. 2008

Source: U.S. Department of Education, Office of Vocational and Adult Education, *Adult Education Annual Program Performance Report.*

Analysis of Progress. The program exceeded its 2007 target. Exceeding the performance target for 2007 resulted from improved follow-up methodologies implemented by the states to collect and report employment. Previously, the performance data reflected the percentage of adult learners with an employment goal who, upon exit from an adult education program, obtain a job.

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

Goal 3: Ensure the Accessibility, Affordability, and Accountability of Higher Education

Program Performance Summary

Eighty-four of our programs most directly support Goal 3. These programs are listed below. In the table, an overview is provided for the results of each program on its program performance measures. (See page 46 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at http://www.ed.gov/about/reports/annual/2008report/program.html. Appropriation and expenditure data for FY 2008 are included for each of these programs.

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, * Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/Exc.	FY 2005 % Not Met	FY 2005 % No Data
Adult Basic and Literacy Education State Grants (AEFLA)	E	554	476	0	0	0	100	67	33	0	50	50	0	40	60	0
Adult Education National Leadership Activities (AEFLA)	NA	7	7	0	0	0	100	0	100	0	0	100	0	0	100	0
Assistive Technology Programs (ATA)	NA	30	32					0	100	0	0	100	0			
B.J. Stupak Olympic Scholarships (HEA)	RND	1	1	0	0	0	100	0	100	0	33	67	0			
Byrd Honors Scholarships (HEA)	RND	40	40	0	0	0	100	0	0	100	100	0	0	0	100	0
Child Care Access Means Parents in School (HEA)	A	16	15	17	33	0	50	33	33	34				50	50	0
Client Assistance State Grants (RA)	NA	12	11	0	0	0	100	100	0	0	100	0	0	100	0	0
College Access Challenge Grant Program (HEA)	NA	66	0					Not Funded			Not Funded			Not Funded		
College Assistance Migrant Program (HEA)	RND	15	15	0	0	0	100	50	50	0	100	0	0	100	0	0
Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities (HEA)	NA	7	6	0	0	0	100	0	0	100	100	0	0			
Developing Hispanic-Serving Institutions (HEA)	RND	93	95	0	0	0	100	0	25	75	50	50	0			

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, * Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/Exc.	FY 2005 % Not Met	FY 2005 % No Data
Developing Hispanic-Serving Institutions Science, Technology, Engineering, Mathematics and Articulation Programs (HEA)	NA	100	0					Not Funded			Not Funded			Not Funded		
Elimination of Tuition Sensitivity in AY 2007-2008 (HEA)	NA	11	0					Not Funded			Not Funded			Not Funded		
Federal Direct Student Loans (HEA)	A	5,532	5,689	0	50	0	50	0	50	50						
Federal Family Education Loan Program & Liquidating (HEA)	A	3,918	(4,073)	0	50	0	50	0	50	50						
Federal Pell Grants (HEA)	A	16,245	14,182	0	0	0	100	100	0	0	100	0	0	100	0	0
Federal Perkins Loans (HEA)	I	64	68	0	50	0	50	0	50	50						
Federal Supplemental Educational Opportunity Grants (HEA)	RND	757	760	0	0	0	100	0	50	50						
Federal Work Study (HEA)	RND	980	955	0	0	0	100	0	50	50						
Fund for the Improvement of Postsecondary Education (HEA)	NA	120	45	0	0	0	100	100	0	0	100	0	0	50	50	0
Gaining Early Awareness and Readiness for Undergraduate Programs (HEA)	A	303	371	37	13	13	37	13	75	12	60	40	0	80	20	0
Gallaudet University (EDA)	A	113	113	15	30	10	45	50	50	0	45	55	0	50	50	0
Government Performance and Results Act Data/*Higher Education Act* Program Evaluation (HEA)	NA	1	1													
Graduate Assistance in Areas of National Need (HEA)	A	30	31	0	0	0	100	57	43	0	50	50	0	86	14	0
Helen Keller National Center for Deaf-Blind Youths and Adults (HKNCA)	NA	8	9	0	0	0	100	0	0	100	38	12	50	50	50	0
High School Equivalency Program (HEA)	RND	18	19	0	0	0	100	0	100	0	50	50	0	100	0	0

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, * Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/Exc.	FY 2005 % Not Met	FY 2005 % No Data
Historically Black Colleges and Universities Capital Financing (FCRA)	RND	18	12													
Howard University (USC)	A	233	233	0	0	0	100	0	33	67	100	0	0	0	100	0
Independent Living Services for Older Blind Individuals (RA)	NA	32	33	0	0	0	100	0	0	100	0	0	100	67	0	33
Independent Living State Grants and Centers for Independent Living (RA)	RND	96	95	0	0	0	100	0	0	100	60	0	40	0	0	100
International Education—Domestic (HEA)	RND	94	92	0	0	0	100	0	0	100	5	25	70	33	0	67
International Education—Institute for Public Policy (HEA)	NA	2	2	0	0	0	100	0	0	100	0	0	100			
International Education—Overseas (MECEA)	NA	13	12	0	0	0	100	0	0	100	9	0	91			
Javits Fellowships (HEA)	A	10	9	0	0	0	100	67	33	0	67	33	0	100	0	0
Leveraging Educational Assistance Partnership (HEA)	RND	64	68					0	100	0						
Migrant and Seasonal Farmworkers (RA)	RND	2	2	0	0	0	100	0	0	100	0	0	100	100	0	0
Minority Science and Engineering Improvement (HEA)	NA	9	8	0	0	0	100	0	0	100	0	0	100			
Preparing Tomorrow's Teachers to use Technology	NA	0	1													
National Institute for Literacy (AEFLA)	RND	6	(560)	0	25	0	75	0	67	33	0	100	0			
National Institute on Disability and Rehabilitation Research (RA)	A	106	107	0	25	0	75	78	22	0	50	50	0	50	50	0
National Technical Institute for the Deaf (EDA)	A	60	58	69	6	0	25	67	33	0	67	33	0	43	57	0
Projects With Industry (RA)	A	19	17	0	0	0	100	0	0	100	75	25	0	50	50	0
Protection and Advocacy of Individual Rights (RA)	NA	16	15	0	0	0	100	100	0	0	100	0	0	100	0	0

Program Name	PART Rating	Appro-pria-tions† FY 2008 ($ in mil.)	Expen-ditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, * Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/Exc.	FY 2008 % Not Met But Impro-ved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/ Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/ Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/ Exc.	FY 2005 % Not Met	FY 2005 % No Data
RSA Fld Rdr & Min Outrch Prorate Across Account	NA	0	3													
Strengthening Alaska Native and Native Hawaiian-Serving Institutions (HEA)	NA	27	11	0	0	0	100	0	25	75	67	0	33			
Strengthening Asian American and Native American Pacific Islander-Serving Institutions (HEA)	NA	5	0					Not Funded			Not Funded			Not Funded		
Strengthening Historically Black Colleges and Universities (HEA)	RND	323	248	0	0	0	100	0	33	67	50	50	0			
Strengthening Historically Black Graduate Institutions (HEA)	RND	57	69	0	0	0	100	0	0	100	50	50	0			
Strengthening Institutions (HEA)	RND	78	80	0	0	0	100	0	25	75	0	50	50			
Strengthening Native American-Serving Non-Tribal Institutions (HEA)	NA	5	0					Not Funded			Not Funded			Not Funded		
Strengthening Predominantly Black Institutions (HEA)	NA	15	0					Not Funded			Not Funded			Not Funded		
Strengthening Tribally Controlled Colleges and Universities (HEA)	NA	53	27	0	0	0	100	25	0	75	67	33	0			
Student Aid Administration (HEA)	A	696	711	0	0	0	100	0	100	0	100	0	0			
Supported Employment State Grants (RA)	RND	29	28	0	0	0	100	100	0	0	100	0	0	0	100	0
Teacher Education Assistance for College and Higher Education Grants (CCRAA)	NA	7	1					Not Funded			Not Funded			Not Funded		
Teachers for a Competitive Tomorrow—Baccalaureate (ACA)	NA	1	0					Not Funded			Not Funded			Not Funded		
Teachers for a Competitive Tomorrow—Masters (ACA)	NA	1	0					Not Funded			Not Funded			Not Funded		
Thurgood Marshall Legal Educational Opportunity Program (HEA)	NA	3	3								Not Funded					

Program Name	PART Rating	Appropriations† FY 2008 ($ in mil.)	Expenditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, * Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/Exc.	FY 2008 % Not Met But Improved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/Exc.	FY 2005 % Not Met	FY 2005 % No Data
Tribally Controlled Postsecondary Career and Technical Institutions (CTEA)	RND	8	8	0	0	0	100	0	0	100	100	0	0	0	100	0
TRIO** Educational Opportunity Centers (HEA)	RND	47	47	0	0	0	100	0	0	100	100	0	0	0	100	0
TRIO** McNair Postbaccalaureate Achievement (HEA)	ME	44	42	0	0	0	100	0	0	100	100	0	0	100	0	0
TRIO** Student Support Services (HEA)	ME	281	186	0	0	0	100	0	0	100	67	33	0	50	50	0
TRIO** Talent Search (HEA)	ME	143	144	0	0	0	100	0	0	100	0	100	0	100	0	0
TRIO** Upward Bound (HEA)	I	360	335	0	0	0	100	0	0	100	0	50	50	50	50	0
Underground Railroad Program	NA	2	1	0	0	0	100	0	0	100	100	0	0	0	100	0
Aid for Institutions of Higher Education (HERA)	NA	0	53													
Vocational Rehabilitation Demonstration and Training Programs (RA)	RND	10	10	0	0	0	100	0	0	100	67	33	0	67	33	0
Vocational Rehabilitation Evaluation (RA)	NA	1	2													
Vocational Rehabilitation Grants for Indians (RA)	A	35	35	0	0	0	100	100	0	0	100	0	0	100	0	0
Vocational Rehabilitation Program Improvement (RA)	NA	1	1													
Vocational Rehabilitation Recreational Programs (RA)	NA	2	2	0	0	0	100	100	0	0	0	100	0	100	0	0
Vocational Rehabilitation State Grants (RA)	A	2,839	2,454	0	0	0	100	33	67	0	80	20	0	50	50	0
Vocational Rehabilitation Training (RA)	A	38	37	0	0	0	100	50	50	0	100	0	0	100	0	0
Administrative and Support Programs for Goal 3		(5,766)	(1)													
TOTAL		**29,174**	**^23,609**													

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2008 expenditures may include funds from prior years' appropriations.

* The "Not Met But Improved Over Prior Years" column is new for FY 2008.

** The TRIO name came from Upward Bound, Talent Search and Student Support Services forming a trio of federal programs designed to foster increased educational opportunity and attainment. The number of TRIO programs has since expanded.

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

^ Estimated accruals in the amount of $1,485 million are excluded from the FY 2008 expenditure.

ACA: *America COMPETES Act*
ATA: *Assistive Technology Act of 2004*
AEFLA: *Adult Education and Family Literacy Act*
CCRAA: *College Cost Reduction and Access Act*
CTEA: *Carl D. Perkins Career and Technical Education Act*
EDA: *Education of the Deaf Act*
FCRA: *Fair Credit Reporting Act*
HEA: *Higher Education Act of 1965*
HERA: *Hurricane Education Recovery Act*
HKNCA: *Helen Keller National Center Act*
MECEA: *Mutual Educational and Cultural Exchange Act of 1961*
RA: *Rehabilitation Act of 1973*
USC: United States Code

PART Rating
E = Effective
ME = Moderately Effective
A = Adequate
I = Ineffective
RND = Results Not Demonstrated
NA = Program Has Not Been Assessed

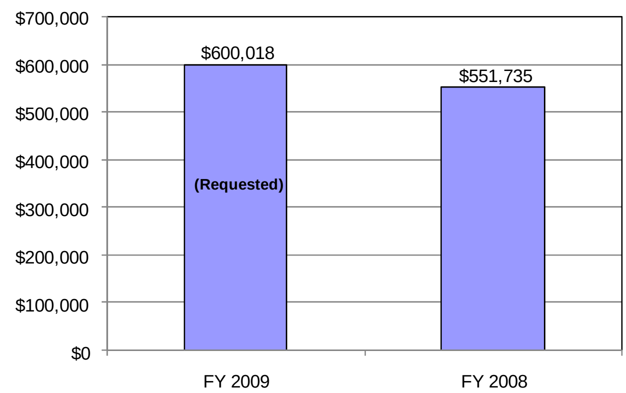
Cross-Goal Strategy on Management

Overview

Strategic Objectives:

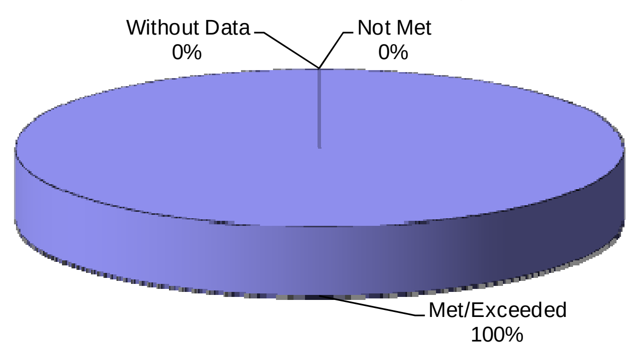
- Maintain and strengthen financial integrity and management and internal controls
- Improve the strategic management of the Department's human capital
- Achieve budget and performance integration to link funding decisions to results

Cross-Goal Resources
($ in thousands)



Note: Each year the Department analyzes the percentage of program performance targets that were met or exceeded, not met but improved over time, not met, or for which data are not yet available. Since the Department has a lag in the time data are received for the established targets, the FY 2007 target results are presented here. For more information on *PART Ratings by Programs* and *Percent of Targets Met and Not Met,* see *Program Performance Summary* at the end of this goal.

Cross-Goal Strategy on Management
FY 2007 Percent of Targets



Key Measures

The Department's *Strategic Plan for Fiscal Years 2007-2012* restructured internal management objectives as functions supporting the achievement of all three new program-related goals. This does not relegate internal management to lesser importance; rather, management's role in ensuring proper accounting of federal funds, developing a talented and motivated Department workforce, and improving program performance forms a strong internal backbone that should eventually lead to successful classroom outcomes. See more detail on pages 36–41 of the Strategic Plan at http://www.ed.gov/about/reports/strat/plan2007-12/2007-plan.pdf.

The new management cross-goal objectives omit previous measures that have attained high levels of sustained success, such as electronic access to grant competitions and participation of faith-based and community organizations in grant applications. Other measures on customer service in federal student aid programs are moved into Strategic Goal 3 to align with postsecondary education objectives. In their place, new measures are included that focus on expediting the grant award process and strengthening critical human capital skills. These challenges must be surmounted to allow deployment of resources for high-quality program monitoring and improvement. Measures on financial accountability and program quality remain in place from the previous *Strategic Plan.*

While the new management cross-goal key measures appear to be less aligned with the components of the *President's Management Agenda* than before, they are also more focused on actual outcomes of government efficiency and performance envisioned in that agenda.

Strategic Cross-Goal, Objective 1: Maintain and strengthen financial integrity and management and internal controls

The Department has maintained the highest (*Green*) status on the financial performance initiative of the *President's Management Agenda* since December 2003, indicating that financial systems consistently produce accurate and timely information to support the Department's operational, budgetary and policy decisions. The Department has also taken significant steps to award thousands of discretionary grants earlier in the fiscal year, enabling grantees to implement their projects in a more timely manner. These actions are accompanied by a commitment to linking financial information and program improvements; an active presence in federal lines-of-business consolidation activities; and the publication of the *Financial and Performance Quarterly Update,* a quarterly analysis of the Department's financial position and accountability for performance results, and *Fast Facts,* the monthly internal business intelligence executive summary for senior Department managers and staff.

Measures for Objective 1	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
4.1.A. Maintain an unqualified (clean) audit opinion (2204)	U	U	U	U	U	U	U	U
4.1.B. Achieve and maintain compliance with the *Federal Information Security Management Act of 2002* (89a0s9)	*	NC	*	NC	NC	NC	C	NC
4.1.C. Percentage of new discretionary grants awarded by June 30 (89a0sa)	*	49	*	40	60	66	70	61

* New measure in 2007.

C = Compliant, NC = Non-compliant, U = Unqualified (clean)

Sources:

4.1.A. Independent Auditors' financial statement and audit reports.

4.1.B. U.S. Department of Education, Office of Inspector General, annual *Federal Information Security Management Act* audit.

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

Analysis of Progress.

4.1.A. The Department earned a seventh consecutive unqualified or "clean" audit opinion from independent auditors, thus meeting the FY 2008 target for this measure.

4.1.B. The Department's Office of Inspector General has determined the Department to be non-compliant in fulfilling the requirements of the *Federal Information Security Management Act of 2002* each year since the first evaluation in FY 2003, and this determination for FY 2008 means that the Department did not meet its target. The Department is making progress in addressing OIG's concerns, having resolved fully more than 70 percent of the audit recommendations from FY 2005 through 2007.

4.1.C. Concerted efforts by Department program managers to award new discretionary grants earlier in the fiscal year resulted in 66 percent of new FY 2007 awards being issued by June 30 of that fiscal year (three-fourths of the year complete). This exceeded the 60 percent FY 2007 target for this measure. In the previous four fiscal years, no more than 49 percent of new discretionary grants had been awarded by June 30. In FY 2008, the ambitious 70 percent target was not achieved by June 30, but the 61 percent award rate far exceeded the rates prior to FY 2007.

Data Quality and Timeliness.

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

4.1.B. Pursuant to 44 U.S.C. § 3545, the Department's Office of Inspector General annually evaluates the effectiveness of the Department's information security program and practices. The evaluation includes testing of the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems, as well as an assessment of compliance with requirements of the *Federal Information Security Management Act of 2002* and related information security policies based upon the testing performed.

4.1.C. The Department's Office of the Chief Financial Officer regularly collects data via the Grant Administration and Payment System from principal offices with responsibilities for directing discretionary grant programs. During the second half of the fiscal year, data are distributed frequently to senior Department officials to ensure that planned award deadlines are met successfully.

Target Context.

4.1.A. An unqualified or "clean" opinion means that the Department's financial statements present fairly, in all material respects, the financial position of the Department in conformity with accounting principles generally accepted in the United States.

4.1.B. The 2006 actual data served as the baseline for this measure. The Department technically met its goal of non-compliance for FY 2007; however, non-compliance is the opposite of the measure's intent, and therefore a "not met" indicator for this measure is included for FY 2007 in the key measures performance results chart that begins on page 26.

4.1.C. The Department has made a concerted effort in the past two years to expedite the processing of new discretionary grant awards. The Department aims to streamline the process further in future years to enable program staff to spend more time on program monitoring and performance improvements. The 2006 actual data served as the baseline for this measure.

Strategic Cross-Goal, Objective 2: Improve the strategic management of the Department's human capital

The Department made significant progress in improving human capital management and human resources services during FY 2008. In support of the *President's Management Agenda* human capital criterion for the four quarters ending June 30, 2008, the Department maintained *Yellow* overall status and was able to achieve *Green* progress for all four scoring cycles.

Human capital activities during FY 2008 sought to improve the Department's performance culture; close leadership competency gaps in performance management, strategic leadership, and planning and accountability; reduce hiring cycle time; and close targeted competency gaps and staffing gaps in mission-critical occupations. These areas of focus helped to address the human capital challenges identified in the Department's Human Capital Management Plan. Also, through the use of the human capital metrics established under the Organizational Assessment, the Department is able to determine the effectiveness of its human capital strategies both overall and at the principal office level. Tracking these metrics is crucial as the Department strategically invests in its employees and work environment.

Measures for Objective 2 Percentage of employees believing that:	2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual
4.2.A. Leaders generate high levels of motivation and commitment (89a0sr)	*	28	31	37	34	Dec. 2008
4.2.B. Managers review and evaluate the organization's progress towards meeting its goals and objectives (89a0ss)	*	53	56	58	59	Dec. 2008
4.2.C. Steps are taken to deal with a poor performer who cannot or will not improve (89a0st)	*	25	28	29	31	Dec. 2008
4.2.D. Department policies and programs promote diversity in the workplace (89a0sv)	*	46	49	48	52	Dec. 2008
4.2.E. They are held accountable for achieving results (89a0sy)	*	81	82	82	83	Dec. 2008
4.2.F. The workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals (89a0sx)	*	67	69	70	71	Dec. 2008

* New measure in 2007.

Source: U.S. Office of Personnel Management, Federal Human Capital Survey (even-numbered years); U.S. Department of Education, Office of Management, Annual Employee Survey (odd-numbered years).

Analysis of Progress. Department employees indicated greater agreement with all six key measure statements in the 2007 Annual Employee Survey than they had in the 2006 Federal Human Capital Survey. Targets for 2007 were exceeded on measures 4.2.A, 4.2.B, 4.2.C and 4.2.F, and the target was met on measure 4.2.E. Progress was made on a narrowly missed target for measure 4.2.D. Department employees indicated greater agreement in 2007 than in 2006 on 89 percent of the items included in both surveys, with an average improvement of four percentage points per question.

Data Quality and Timeliness. The 84-item Federal Human Capital Survey is conducted in even-numbered years by the Office of Personnel Management; in 2006, the Department of Education had an 80 percent response rate. In odd-numbered years, the Department conducts the Annual Employee Survey with 56 items duplicated exactly from the biennial federal survey, plus 25 agency-specific items; in 2007, the Department had a 71 percent response rate. The six survey items included among the key measures are present on both surveys and were selected by the Department in consultation with the Office of Personnel Management as major qualitative indicators of employee satisfaction. Data from the 2008 Federal Human Capital Survey are expected in December 2008.

Target Context. The targets and data above reflect the percentage of favorable response (either "strongly agree" or "agree") to the selected items on the employee surveys. The Department used 2006 Federal Human Capital Survey data to establish baselines for the above measures.

Report Explanation. The Department made multiple requests of employees to complete both the Federal Human Capital Survey and the Annual Employee Survey, which may increase the participation rate compared to the absence of such requests. One small difference in the sampled population is that all Department employees may complete the Annual Employee Survey, but only permanent, full-time employees (91 percent of all Department employees as of May 2008) may complete the Federal Human Capital Survey.

Related Information. See more detail on the 2008 Federal Human Capital Survey at http://www.fhcs2008.opm.gov/What/, and on the 2007 Annual Employee Survey at https://www.opm.gov/surveys/index.asp.

Measures for Objective 2	**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual
4.2.G. Average number of days to hire is at or below the OPM 45-day hiring model for non-SES (89a0sm)	*	NA	A	A	A	A

*New measure in 2007.

NA = Not Achieved; A= Achieved.

Source: U.S. Department of Education, Office of Management.

Analysis of Progress. The Department met the goal of the Office of Personnel Management hiring model in both 2007, with an average hiring time of 27 business days, and 2008, with an average hiring time of 24 business days. The Department restructured its human resources services office in 2007, which enabled additional resources to focus on improving the staffing process. Improved interaction over time between human resources officers and Department managers is also credited with enabling process improvements. Furthermore, human resources officers track hiring cycles for each principal office in the Organizational Assessment and issue monthly progress reports to the principal offices. These actions provide continual incentives to shorten the hiring process.

Data Quality and Timeliness. For this measure, the Department tracks progress against the Office of Personnel Management 45-day hiring model for positions other than the Senior Executive Service. The model tracks the hiring process from the closing date of the vacancy announcement to the date a job offer is extended. It is measured in business days, not calendar days, and is calculated quarterly based on an average process length of all hires completed within that quarter.

Target Context. When the Department's revised strategic plan was being developed, the median of the average hiring time for the four most recent quarters then known (July 2005 through June 2006) was 54 days. This data point was used to establish the 2006 baseline for this measure, which indicated that the Department had not achieved the standard.

Related Information. See more detail on the Office of Personnel Management hiring model at https://www.opm.gov/hiringtoolkit/docs/45_Day_Hiring_Model.pdf.

Measures for Objective 2	**2005**		**2006**		**2007**		**2008**	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
4.2.H. Percentage of employees with performance standards in place within 30 days of start of current rating cycle (89a0sn)	*	79	*	65	85	59	90	93

*New measure in 2007.

Source: U.S. Department of Education, Office of Management, Education Department Performance Appraisal System.

Analysis of Progress. After an unexpected decline in 2007 that fell well short of the target percentage, the Department rebounded to exceed an even higher target in 2008. The inclusion of this measure as a component in the Organizational Assessment rating for each principal office beginning in 2007, which first affected this measure for 2008, likely provided an incentive toward timely completion of performance standards.

Data Quality and Timeliness. To be considered successful on this measure, a Department employee or his or her supervisor must establish performance standards that align with the strategic plan and are approved by the supervisor. These standards must be entered no more than 30 days into the fiscal year covered by the measure. Senior Executive Service employees are not included in this measure. Effective October 1, 2007, the 12-month period on which employee performance is assessed aligns with the federal fiscal year.

Target Context. This measure was a component of measure 6.2.A from the previous Department strategic plan, which comprised an index of Department human capital activities and was measured in FY 2005 through FY 2007. The 2005 actual data served as the baseline for this measure.

Report Explanation. The 2005 and 2006 data for this measure were based on the percentage of employees with performance standards in place prior to the start of that year's EDPAS cycle. This component was changed for 2007 to link its time frame to that of measure 4.2.I, allowing for entry of the previous year's ratings prior to the establishment and entry of a new year's standards.

Measures for Objective 2	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
4.2.I. Percentage of employees who have ratings of record in the system within 30 days of close of rating cycle (89a0so)	*	85	*	54	90	97	95	Dec. 2008

*New measure in 2007.

Source: U.S. Department of the Interior, Federal Payroll/Personnel System, which provides personnel and payroll support to numerous federal agencies, including the Department of Education.

Analysis of Progress. After an unexpected decline in 2006 that fell well short of expectations (see Target Context below), the Department rebounded to exceed the measure's target in 2007. The inclusion of this measure as a component in the Organizational Assessment rating for each principal office beginning in 2007 likely provided an incentive toward timely completion of ratings.

Data Quality and Timeliness. To be considered successful on this measure, an employee rating of the level of success achieved on established performance standards must be entered no more than 30 days after the fiscal year covered by the measure. Senior Executive Service employees are not included in this measure. Effective October 1, 2007, the 12-month period on which employee performance is assessed aligns with the federal fiscal year. Data for 2008 are expected in December 2008.

Target Context. This measure was a component of measure 6.2.A from the previous Department strategic plan, which comprised an index of Department human capital activities and was measured in FY 2005 through FY 2007. The 2005 actual data served as the baseline for this measure.

Strategic Cross-Goal, Objective 3: Achieve budget and performance integration to link funding decisions to results

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

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

Measures for Objective 3	2005		2006		2007		2008	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
4.3.A. Percentage of Department program dollars in programs that demonstrate effectiveness in terms of outcomes, either on performance indicators or through rigorous evaluations (89a0sq)	78	78	79	86	79	86	86	88

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

Analysis of Progress. As of October 2008, 91 currently funded Department programs have undergone a PART review, representing 98 percent of the Department's FY 2008 budget authority for programs subject to the PART. Although 45 currently funded programs constituting 88 percent of this budget authority have been rated *Adequate* or higher in their PART reviews, enabling the Department to exceed its target for FY 2008, four programs were rated *Ineffective* and 42 programs were rated *Results Not Demonstrated.* (Two additional programs that are not currently funded have been assessed and rated *Results Not Demonstrated.*)

The National Institute for Literacy was assessed for the first time in FY 2008 but its results could not be demonstrated. Of the seven programs that were reassessed based on newly available evaluation or performance data in FY 2008, the Transition to Teaching program was rated *Effective;* the IDEA Special Education Grants to States program was found to be *Moderately Effective;* and the Student Aid Administration, Training and Advisory Services, Impact Aid Basic Support Payments and Payments for Children with Disabilities, and Smaller Learning Communities programs were found to be *Adequate.*

Data Quality and Timeliness. Calculation is based on dollars in Department programs with at least an *Adequate* PART rating in the given year divided by dollars in all Department programs rated through that year. The PART assessment cycle occurs during the spring and summer, and OMB makes scores public via http://www.expectmore.gov. OMB allows the Department to report aggregated results from a year's assessments in time for publication in that year's *Performance and Accountability Report*.

Target Context. The Department determines measure effectiveness from the proportion of FY 2008 PART-eligible program budget authority that supports programs with an *Adequate* or higher rating from the PART analysis. This standard is used because such programs produce evidence of effectiveness with data from performance measures and rigorous program evaluations, unlike programs that have insufficient performance or evaluation data or for which data indicate ineffectiveness. The rationale for the target remaining steady for FY 2008 compared with the two previous years is that nearly all program dollars subject to PART have been rated, and subsequent changes will likely be incremental based upon selected program reassessments.

Cross-Goal Strategy on Management

Program Performance Summary

The Department attributes the operations below to the Cross-Goal Strategy on Management. In the table, an overview is provided for the results of these operations on their performance measures. (See page 46 for the methodology of calculating the percentage of targets met, not met, and without data.) Individual program performance reports are available at **http://www.ed.gov/about/reports/annual/2008report/program.html**. Appropriation and expenditure data for FY 2008 are included for each of these programs.

Program Name	PART Rating	Appropria-tions† FY 2008 ($ in mil.)	Expen-ditures‡ FY 2008 ($ in mil.)	Program Performance Results: Percent of Targets Met/Exceeded, *Not Met But Improved Over Prior Years, Not Met, Without Data — FY 2008 % Met/ Exc.	FY 2008 % Not Met But Impro-ved	FY 2008 % Not Met	FY 2008 % No Data	FY 2007 % Met/ Exc.	FY 2007 % Not Met	FY 2007 % No Data	FY 2006 % Met/ Exc.	FY 2006 % Not Met	FY 2006 % No Data	FY 2005 % Met/ Exc.	FY 2005 % Not Met	FY 2005 % No Data
Office for Civil Rights	**	90	91	100	0	0	0	100	0	0	100	0	0	100	0	0
Office of Inspector General	**	51	51	67	0	33	0	100	0	0	100	0	0	0	100	0
Program Administration	**	411	424	#				#			#			#		
TOTAL		**$552**	**$566**													

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2008 expenditures may include funds from prior years' appropriations.

* The "Not Met But Improved Over Prior Years" column is new for FY 2008.

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

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

PART Rating

** Resources devoted to the Cross-Goal Strategy are drawn from the budgets for overhead functions that are not subject to PART review.

Discontinued Strategic Plan Measures From FY 2007

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**	**P = Pending**

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]		NA	NA	NA
1.2 – Increase flexibility and local control				
A. Percentage of eligible school districts utilizing the Rural Education Achievement Program flexibility authority. [1473]		×	×	×
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]		Reported as 1.5.C in FY 2008		
B. Amount of funding program grantees' leverage for the acquisition, construction or renovation of charter school facilities. [1208]		+	+	+
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
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]		+	×	×
C. The percentage of limited English proficient students receiving Title III services who have attained English language proficiency. [1830]		+	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]		×	×	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]		Dec. 2008	+	√
B. Percentage of students with disabilities who drop out of school. [1528]		Dec. 2008	+	+
C. Number of Advanced Placement tests taken by low-income public school students nationally. [1149]		Reported as 2.1.D in FY 2008		
2.4 – Improve teacher and principal quality				
A. Percentage of core academic classes in elementary schools taught by highly-qualified teachers. [1182]		Reported as 1.3.B in FY 2008		
B. Percentage of core academic classes in secondary schools taught by highly-qualified teachers. [1183]		Reported as 1.2.E in FY 2008		

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
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	√	√	√
	05	√	√	**NA**
	06	**NA**	**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	√	√	√
	05	√	√	**NA**
	06	**NA**	**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	√	√	√
	05	√	√	**NA**
	06	**NA**	**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	√	√	√
	05	**P**	**P**	**NA**
	06	**NA**	**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	√	√	√
	05	**P**	**P**	**NA**
	06	**NA**	**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]		**NA**	**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]		**NA**	√	**NA**
Strategic Goal 5 – Enhance the Quality of and Access to Postsecondary and Adult Education				
5.1 – Reduce the gaps in college access and completion among student populations differing by race or ethnicity, socioeconomic status, and disability while increasing the educational attainment of all				
A. Percentage of TRIO Educational Opportunity Centers participants enrolling in college. [1612]		Dec. 2008	**+**	**×**
B. Percentage of TRIO Student Support Services participants persisting at the same institution. [1617]		Dec. 2008	**+**	**+**

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
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]		Reported as 3.1.H in FY 2008		
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	+	×
E. Percentage of TRIO McNair participants enrolling in graduate school. [1614]		Dec. 2008	+	+
F. Percentage of TRIO McNair participants persisting in graduate school. [1615]		Dec. 2008	+	+
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]		Reported as 3.1.E in FY 2008		
B. Percentage of students enrolled at four-year Historically Black Colleges and Universities graduating within six years of enrollment. [1589]		Dec. 2008	+	NA
C. Number of Ph.D., first professional, and master's degrees awarded at Historically Black Graduate Institutions. [1595]		Dec. 2008	+	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]		+	+	NA
E. Percentage of students enrolled at four-year Tribally Controlled Colleges and Universities graduating within six years of enrollment. [1571]		Dec. 2008	+	NA
F. Percentage of students enrolled at two-year Tribally Controlled Colleges and Universities who graduate within three years of enrollment. [1572]		Dec. 2008	×	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]		Reported as 3.1.F in FY 2008		
H. Percentage of students enrolled at four-year Hispanic-Serving Institutions graduating within six years of enrollment. [1603]		Reported as 3.1.J in FY 2008		
I. Percentage of students enrolled at two-year Hispanic-Serving Institutions who graduate within three years of enrollment. [1604]		Dec. 2008	×	NA
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]		Reported as 3.3.A in FY 2008		
B. Percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent. [1386]		Reported as 3.3.B in FY 2008		
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]		×	×	×
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]		NA	NA	NA
B. Percentage of National Resource Center Ph.D. graduates who find employment in higher education, government and national security. [1664]		NA	NA	NA
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]		Feb. 2009	√	√
Strategic Goal 6 – Establish Management Excellence				
6.1 – Develop and maintain financial integrity and management internal controls				
A. Achieve an unqualified opinion. [2204]		Reported as 4.1.A in FY 2008		
6.2 – Improve the strategic management of the Department's human capital				
A. Index of quality human capital performance management activities. [2205]		×	×	√

Performance Results Summary	Cohort	FY 2007	FY 2006	FY 2005
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

Summary of Inspector General Audits and Government Accountability Office Reports by Goal

For all Department of Education Inspector General reports for FY 2008, please visit the Inspector General's Web site at http://www.ed.gov/about/offices/list/oig/reports.html and, for additional Government Accountability Office reports on education for FY 2008, please visit GAO's Web site at http://www.gao.gov/docsearch/app_processform.php.

Summary of Major FY 2008 OIG Audits and Reports

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
Audit of the Department's Process for Disbursing Academic Competitiveness Grants and National Science and Mathematics Access to Retain Talent Grants (ED-OIG/A19H0011) August 2008	**2**	The objectives of this audit were to identify and assess the adequacy of processes and controls established by Federal Student Aid (FSA) to ensure that students eligible for an Academic Competitiveness (ACG) Grant or National Science and Mathematics Access to Retain Talent (SMART) Grant are appropriately identified and notified; that only eligible students received grants under these programs; and that schools required to participate in the ACG or SMART Grant programs are doing so.	The OIG found that FSA needs to improve its oversight of school compliance with the mandatory participation requirement and establish procedures for a rigorous outreach and assessment process. Additionally, FSA needs to establish a program of administrative action to include fines, suspensions, or termination from the Federal Pell Grant program for schools that enroll eligible students but do not participate in the ACG or SMART Grant programs.	Federal Student Aid agreed with both recommendations and has begun a process for ensuring that eligible schools are participating in the two programs and will make referrals for administrative action before the end of the 2008-2009 award year.	http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a19h0011.pdf
Department Controls Over Travel Expenditures: Final Audit Report (ED-OIG/A19H0009) July 2008	**4**	The objective of this audit was to evaluate the effectiveness of Department controls over the appropriateness of travel expenditures. The Department requires that travel be authorized only when necessary, to accomplish the purpose of the Department's mission in the most effective and economical manner.	OIG found that individually billed accounts were not always used appropriately as there were instances where purchase cards were used for purchases that did not relate to official government travel or were used for ATM withdrawals that were excessive or outside the period of approved travel. OIG recommended that the Chief Financial Officer require existing cardholders to take refresher courses; ensure executive offices fulfill their monitoring responsibilities; develop policy to guide principal office staff in maintaining adequate documentation; and develop formal procedures for conducting quarterly travel audits.	The Department concurred with all findings. Steps are in development to implement all recommendations noted in the audit. Additionally, in November 2008, the Department will transition to a new bank card vendor under GSA's Master SmartPay 2 contract. JP Morgan Chase will replace Bank of America.	http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a19h0009.pdf

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
Audit of Selected Portions of the U.S. Department of Education's Oversight of the Consolidated State Performance Reports (ED-OIG/A06H0001) April 2008	**1**	The purpose of this audit was to determine whether the Department provided sufficient oversight to ensure that graduation and dropout rates submitted by states in their *Consolidated State Performance Reports* were supported by reliable data.	OIG found that the Department could have provided better oversight and that more emphasis is needed on data reliability and comparability across states. OIG also found that neither graduation rates nor dropout rates were supported by reliable data. OIG found that less than a quarter of the states surveyed were using a tracking system that complies with the requirements of *No Child Left Behind.*	The Department generally agreed that states need to continue their efforts to improve the reliability of data for computing graduation and dropout rates, but stated that the audit focused on the early years of *No Child Left Behind* and that *No Child Left Behind* does not mandate a definition that is comparable across states. In April, Secretary Spellings announced that the Department will take steps to ensure all states use the same formula to calculate how many students graduate from high school on time and how many drop out. This uniform graduation rate will show how many incoming freshman in a given high school graduate within four years.	http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a06h0001.pdf
Inspection to Evaluate the Adequacy of the Department's Procedures in Response to Section 306 of the Fiscal Year 2008 Appropriations Act – Maintenance of Integrity and Ethical Values Within the Department (ED-OIG/I13I0004) April 2008	**4**	The purpose of this inspection report was to evaluate the adequacy of the procedures developed by the Department to comply with the requirements of Section 306 of the *Fiscal Year 2008 Appropriations Act* which requires the Department to implement procedures to assess and disclose whether an individual or entity has a potential financial interest in, or impaired objectivity towards, a product or service involving Department funds.	OIG found that the Department's procedures, if fully implemented, are adequate to comply with the requirements of Section 306. However, the Department's procedures requiring the certification from peer reviewers on impartiality could be misinterpreted as applying only to financial conflicts of interest.	The Department agreed with the findings but expressed concern that using the terms "teaching methodologies" and "significant identification with pedagogical or philosophical viewpoints" would cause confusion and concern among peer reviewers.	http://www.ed.gov/about/offices/list/oig/aireports/i13i0004.pdf

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
Monitoring of the Title I, Part A Comparability of Services Requirement (ED-OIG/X05H0017) October 2007	**1**	The purpose of this review was to determine whether the Department could improve its monitoring of state educational agencies (SEAs) receiving ESEA Tiitle I, Part A Comparability of Services funding and enhance its non-regulatory guidance to provide additional clarity to the SEAs.	OIG recommended that the Department revise its non-regulatory guidance to include monitoring suggestions for the SEA to complete with the local educational agency (LEA); language that prohibits LEAs from using inflated resources in its comparability calculations; a statement that LEAs maintain source documentation that supports data used in comparability calculations; and language that requires SEAs to establish deadlines for when LEAs must determine their comparability calculations.	The Department will ensure that its current monitoring protocol for ESEA Title I, Part A be revised to include expanded procedures that require SEAs to demonstrate how comparability data are validated for all LEAs in the state. Guidance on comparability is already addressed in the current Non-Regulatory Guidance, Title I Fiscal Issues but will be improved through enhanced monitoring protocols.	http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/x05h0017.pdf
Federal Student Aid's Estimation of Improper Payments in the Federal Family Education Loan Program: Final Report (ED-OIG/A09H0015) September 2008	**3**	*The Improper Payments Information Act of 2002* requires federal agencies to annually review improper payments in their programs and activities. The Act specifies the agencies must first identify those programs that are susceptible to improper payments. Then for each identified risk-susceptible program, the agencies must estimate the amount of improper payments exceeding a specified threshold and report on actions taken to reduce improper payments.	Several factors affected the reliability of FSA's estimated improper payment rates. OIG recommended, among others, that Federal Student Aid ensure that the design of improper payment estimating methodologies take into account improper payments identified in reviews other than audits and that Federal Student Aid implement a revised policy for identifying and reporting program outlays in the Performance and Accountability Report that provide consistent and comparable information on outlays and dollars.	Federal Student Aid will design and implement, in consultation with OMB, a methodology for estimating improper payments that meets the requirements of Circular A-123, Appendix C. Federal Student Aid is updating operational policy and procedures to include the Federal Family Education Loan Program payment universe definition, steps used to extract the payment universe for outlay reporting, and queries to use for improper payment reporting to ensure consistency in the Performance and Accountability Report.	http://oigmis3.ed.gov/auditreports/a09h0015.pdf

Summary of Major FY 2008 GAO Reports

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
Higher Education: Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes (GAO-08-717T) May 2008	**3**	While both Title IV of the *Higher Education Act* and tax preferences help students meet expenses, tax preferences also assist students and families with saving for and repaying postsecondary costs. Some forms of Title IV aid provide assistance to those whose incomes are lower, on average, than is the case with tax preferences. However, tax preferences require more responsibility on the part of students and families as they must identify applicable tax preferences and correctly calculate and claim credits or deductions.	GAO recommended in 2002 that the Department sponsor research into key aspects of effectiveness of the Title IV programs. Multiyear projects funded beginning in July 2007 do not appear to directly evaluate the role and effectiveness of Title IV programs and tax preferences on improving access, persistence, or completion. Congress should consider whether the federal government should consolidate postsecondary education tax provisions to make them easier for the public to use; how best to evaluate the effectiveness of postsecondary aid provided through the tax code; and whether tax preferences and Title IV programs be better coordinated to maximize their effectiveness.	In 2002, the Department issued a Request for Applications to conduct research on evaluating the efficacy of programs, practices, or policies that are intended to improve access to, persistence in, or completion of postsecondary education. The Department is implementing a number of activities to make the financial aid programs more understandable and accessible to students and their families.	http://www.gao.gov/new.items/d08717t.pdf
Native Hawaiian Education Act: Greater Oversight Would Increase Accountability and Enable Targeting of Funds to Areas with Greatest Need (GAO-08-422) March 2008	**1**	The *Native Hawaiian Education Act* (NHEA) seeks to develop innovative educational programs to assist Native Hawaiians. To inform reauthorization of this Act, GAO analyzed what is known about NHEA's impact on Native Hawaiian education; the Department's efforts to oversee NHEA grants; and the extent to which the Department and the Native Hawaiian councils have fulfilled their roles and responsibilities.	GAO found that the Department has established three performance measures that are not applicable to most of the educational outcomes that result from the program's many authorized activities. Additionally, the Department has not established a method to track grantee activities, such as how the funds have been distributed across activities or islands, and grantees have received little direction or guidance from the Department. The Department has not reported to Congress on NHEA as required by law. GAO recommendations included establishing additional or broader performance measures; developing a method to track how grant funds are allocated across islands and activities; working with the local Education Council to identify and coordinate services for each of the islands; and fulfilling the statutory responsibility to report to Congress.	The Department concurred with most recommendations but questioned the feasibility of developing performance measures that would cover each allowable activity. The Department will work to help refine the performance measures and data collection practices. However, the Department disagreed with the recommendation to track how funds are allocated, stating that it would be burdensome to the grantee and require a tracking system that other programs do not require.	http://www.gao.gov/new.items/d08422.pdf

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
No Child Left Behind Act: Education Actions Could Improve the Targeting of School Improvement Funds to Schools Most in Need of Assistance (GAO-08-380) February 2008	**1**	*No Child Left Behind* requires states to set aside 4 percent of their ESEA Title I funds to pay for school improvement efforts. GAO was asked to determine the extent to which states have set aside these funds and used other resources for school improvement; which schools received improvement funds and the extent to which funds are tracked; the activities states and schools have undertaken and how activities are assessed; and how the Department supports states' improvement efforts.	GAO recommended that the Department improve its monitoring processes to ensure that states comply with *No Child Left Behind* requirements for allocating school improvement funds for district-level activities and prioritizing funds to the lowest achieving schools, provide guidance on when and how states are to make information available about which schools receive improvement funds, and analyze the effects of removing a hold-harmless provision on those districts protected by it.	The Department agreed with GAO's recommendations. The Department supports states with school improvement through written guidance, staff assistance, policy letters, and information provided at national conferences. In addition to direct support, the Department provides technical assistance and research- related resources to assist in school improvement efforts. These include the Comprehensive Centers Program, Regional Education Laboratories, the Center for Comprehensive School Reform and Improvement, the What Works Clearinghouse, and a new Doing What Works Web site. The Doing What Works Web site was developed to improve the states' ability to translate the research on the What Works Clearinghouse Web site into practical application at the classroom level.	http://www.gao.gov/new.items/d08380.pdf
District of Columbia Opportunity Scholarship Program: Additional Policies and Procedures Would Improve Internal Controls and Program Operations (GAO-08-9) November 2007	**1**	The *D.C. School Choice Incentive Act* established the first K-12 school choice program supported by federal funds. GAO assessed the accountability mechanisms governing the use of funds supporting the Opportunity Scholarship Program; results of the grantee's efforts to meet recruiting priorities; and eligibility requirements and information provided to parents regarding their choices.	GAO recommended that the Department direct the Opportunity Scholarship Program grantee to improve internal controls, continue to improve its financial systems, improve monitoring, and provide accurate information to parents.	The Department responded that the report does not present a complete and balanced picture in a number of key areas and does not accurately reflect what occurred with the program during the period audited, especially regarding students who previously attended schools in need of improvement.	http://www.gao.gov/new.items/d089.pdf

Summary of Performance Evaluations by Goal

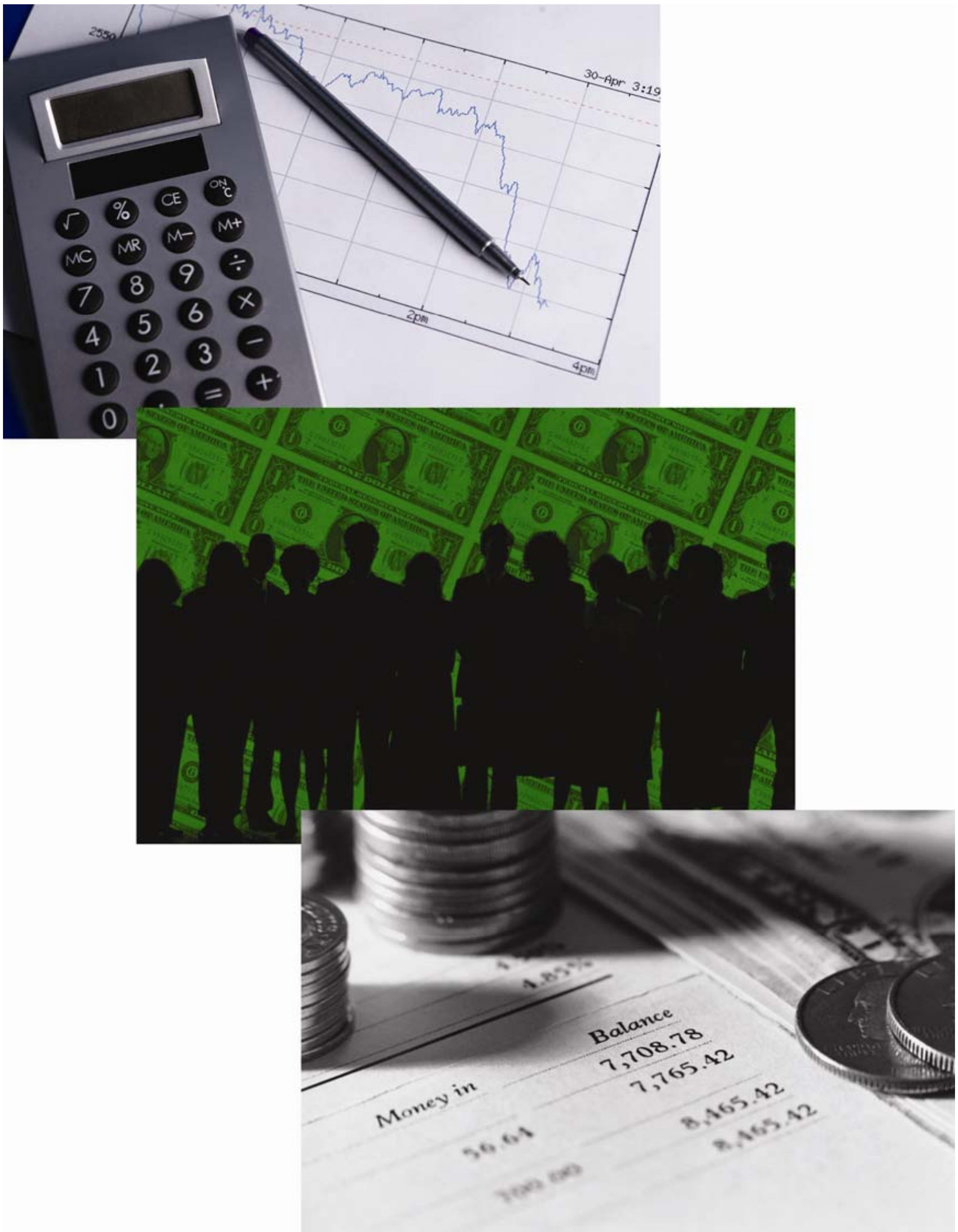
Summary of Major FY 2008 Program Evaluations and Studies

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
Evaluation of the DC Opportunity Scholarship Program: Impacts After Two Years (Institute of Education Sciences NCEE 2008-4024) June 2008	**1**	The purpose of the Opportunity Scholarship Program (OSP) is to provide low-income students, particularly those attending schools in need of improvement or corrective action under *No Child Left Behind,* with opportunities to attend higher-performing schools. The study evaluated the differences in test scores between students who received an OSP scholarship and those that did not.	After two years, there were no statistically significant differences in test scores between students who were offered an OSP scholarship and students who were not. Both performed at comparable levels on reading and mathematics. While the program had a positive impact on overall parent satisfaction and parent perceptions of school safety, it did not have a similar impact on students' perceptions of satisfaction and safety.	The report submitted to Congress in June of 2008. The report is also available on the Department's Web site.	http://ies.ed.gov/ncee/pubs/20084023.asp
Implementation Study of Smaller Learning Communities: Final Report (OPEPD/PPSS) May 2008	**1**	The purpose of this study was to evaluate the implementation of the federal education law that authorizes funding for the Smaller Learning Communities Program by describing the strategies and practices used by local educational agencies in implementing Smaller Learning Communities.	Changes in schoolwide academic outcomes were neutral overall, with a good deal of variation between schools. Trend data appear to suggest increases in the percentage of graduating students planning to attend either two- or four-year colleges. There was a statistically significant positive trend in the percentage of 9th grade students being promoted to 10th grade.	The report has been published.	http://www.ed.gov/rschstat/eval/other/small-communities/final-report.pdf
Implementation of the Credit Enhancement for Charter School Facilities Program: Final Report (OPEPD/PPSS) April 2008	**1**	The purposes of this study were to describe how grantees under the Credit Enhancement for Charter School Facilities Program implemented their activities and how the Program achieved its legislative purpose.	According to commercial lenders, investment banks, and rating agency representatives, many of the assisted schools would otherwise not have received facility loans because lenders believed that they reflected a high level of risk. More than 23,000 students were enrolled in the 84 charter schools assisted under the Program during FY 2003 and FY 2005. These students were more likely to be low-income and minority. Through FY 2006, the grant recipients assisted a total of 138 schools and leveraged over $407 million worth of financing for charter schools facilities improvement.	The report is under review by the Department.	http://www.ed.gov/rschstat/eval/choice/charter-school-facilities/final-report.doc

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
Reading First Impact Study: Interim Report (Institute of Education Sciences NCEE 2008-4019) April 2008	**1**	This report presents findings from the interim Reading First Impact Study, a congressionally mandated evaluation of the *No Child Left Behind* initiative (Title I, Part B, Subpart 1) to help all children read at or above grade level by the end of the third grade. The report is the first of two and examines the impact of Reading First funding in 2004-2005 and 2005-2006 in 17 school districts across 12 states and one statewide program.	Across the 18 participating sites, impacts on student reading comprehension test scores were not statistically significant as compared to non-Reading First schools in Reading First school districts. The Program increased instructional time spent on the five components of reading instruction. The study sites that received their Reading First grants later in the federal funding process experienced positive and statistically significant impacts both on the time teachers spent on the five essential components of reading instruction and on first and second grade reading comprehension.	Additional *Consolidated State Performance Report* data provided by state educational agencies indicate that the Reading First Program has increased reading scores. The study in question reflected schools in the same district, some of which were Reading First schools and some of which were not. Reading First materials and curricula may have been shared across schools within the district. The study's final report, to be released in 2009, will provide an additional year of follow-up data, and will examine whether the magnitude of impacts on the use of scientifically based reading instruction is associated with improvements in reading comprehension.	http://ies.ed.gov/ncee/pdf/20084016.pdf
State and Local Implementation of the No Child Left Behind Act: Volume IV—Title I School Choice and Supplemental Educational Services: Interim Report (OPEPD/PPSS) April 2008	**1**	This report presents findings on the implementation of parental choice options from the first year of the National Longitudinal Study of *No Child Left Behind* (NLS-*NCLB*) and the Study of State Implementation of Accountability and Teacher Quality Under *No Child Left Behind* (SSI-*NCLB*) through school year 2004–05.	In 2004–05, nearly 6.2 million students were eligible for Title I school choice and as many as 1.8 million were eligible for Title I supplemental educational services. Low participation rates in Title I school choice and supplemental educational services may be related to problems communicating with parents. Parents who took advantage of Title I school choice were very satisfied with the new schools, which had substantially higher average student achievement than did the previous schools.	The report is under review by the Department.	http://www.ed.gov/rschstat/eval/choice/nclb-choice-ses/nclb-choice-ses.doc

Name of Report	Goal	Issue	Findings and Recommendations	Department's Response	Link to the Report
The Enhanced Reading Opportunities Study: Early Impact and Implementation Findings (Institute of Education Sciences NCEE 2008-4017) January 2008	**1**	This first of three reports focuses on the first of two cohorts of ninth-grade students and describes the impact that two interventions had on their reading comprehension skills through the end of their ninth-grade year.	On average, across the 34 participating high schools, there was a statistically significant improvement in participating students' reading comprehension test scores. The magnitudes of the impact estimates for each literacy intervention are the same as those for the full study sample. Impacts on reading comprehension are larger for the 15 schools where the intervention began within six weeks of the start of the school year and implementation was classified as well aligned with the program model.	The Department will respond after the final report.	http://ies.ed.gov/ncee/pubs/20084015.asp
National Assessment of Title I: Final Report (Institute of Education Sciences NCEE 2007-4014) October 2007	**1**	In *No Child Left Behind,* Congress mandated a national assessment of Title I to evaluate the implementation and impact of the program. This mandate requires a scientifically based longitudinal study of Title I schools and includes studies of program implementation and of the effectiveness of specific interventions.	The number of Title I participants has tripled over the past decade. The percentage of students achieving at or above the state's Proficient level rose for most student subgroups. Three-quarters of all schools and districts met applicable adequate yearly progress targets. Student participation in school choice options and supplemental educational services has increased since the first year of the implementation of the choice provisions. The majority of teachers across the country have been designated as "highly qualified" under *No Child Left Behind.*	The study is under review by the Department.	http://ies.ed.gov/ncee/pubs/20084012/
Early Outcomes of the GEAR UP Program: Final Report (OPEPD/PPSS) August 2008	**3**	The GEAR UP program fosters increased preparation for postsecondary education among low-income students and their families. This report provides descriptive information on the implementation of the program and the association between program participation and student and parent outcomes.	Attending a GEAR UP school was positively associated with both students' and parents' knowledge of the opportunities and benefits of postsecondary education. For African-American students, attendance at a GEAR UP school was positively associated with the number of rigorous or above-grade-level courses taken during middle school.	The study is under review by the Department.	http://www.ed.gov/rschstat/eval/highered/gearup/early-outcomes.pdf

Financial Details



Message From the Chief Financial Officer

The Department of Education continued its high standard of financial management and reporting during fiscal year 2008. The Department's excellence in financial management has been a joint effort of its managers, employees, and business partners. Highlights this year include:

- Successfully implemented new loan access initiatives to ensure credit market disruptions do not deny eligible students and parents access to federal student loans;
- Completed the implementation of the payment processing phase of an upgraded grants management system;
- Received an unqualified opinion on the principal financial statements for the seventh consecutive year, demonstrating a clear pattern of financial accountability;
- Continued to have no material weaknesses identified as part of our Report on Internal Control for the sixth consecutive year;
- Received a "green" status in Financial Management on the *President's Management Scorecard* for the fifth consecutive year; and
- Continued to provide reasonable assurance of its internal controls over financial reporting.

In FY 2008, the Department took steps to address three significant deficiencies identified in the FY 2007 "Report on Internal Controls." Regarding credit reform, the Department improved student loan reporting and analysis, with a particular focus on expanding the use of cohort-level data to assess program balances and on-going activity.

In the area of program monitoring, the Department encouraged offices to use a risk-based approach to identify grantees in need of heightened monitoring. Corrective actions for audits of guaranty agencies, lenders and servicers, and schools were implemented, and efforts to monitor Title I, Reading First, and Migrant Education were continued.

On information system controls, the Department updated technical security configuration standards and required data centers to verify the security of configuration management procedures. A single vendor currently supports most Department applications and related infrastructure, facilitating the consistent implementation of Office of Management and Budget, National Institute for Standards and Technology and Department guidelines, processes and practices.

During FY 2008, the Department assessed the effectiveness of its internal controls over financial reporting. This review was based upon the requirements of OMB Circular A-123 (Appendix A), *Management's Responsibility for Internal Control*. We are pleased to report that the Department can give an unqualified statement of assurance on its internal control over financial reporting. This examination provided a valuable opportunity to review and improve internal controls and ensure integrity in financial management and reporting.

We are very grateful to Larry Warder, who served as both Chief Financial Officer and Acting Chief Operating Officer of FSA through October 11, 2008. His dedicated service made many of these accomplishments possible.

//s//

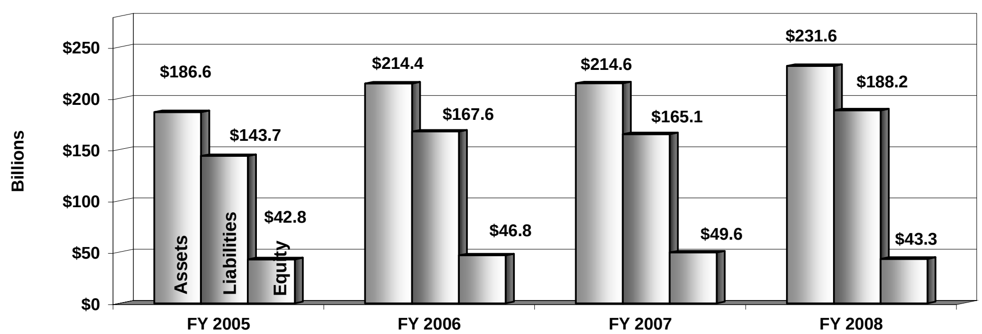
Thomas P. Skelly
Delegated to Perform Functions of Chief Financial Officer
November 14, 2008

Financial Summary

Dollars in Millions

Balance Sheet

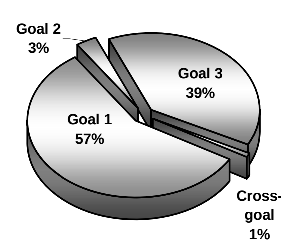
	% Change 2008/2007	FY 2008	FY 2007	FY 2006	FY 2005
Fund Balance with Treasury	-3%	$ 94,899	$ 97,532	$ 107,053	$ 77,569
Credit Program Receivables	+16%	134,725	115,904	106,728	107,937
Other	+62%	1,949	1,202	640	1,061
Total Assets		**231,573**	**214,638**	**214,421**	**186,567**
Debt	+23%	128,668	104,287	105,677	104,597
Liabilities for Loan Guarantees	-15%	43,322	50,874	52,453	30,611
Other	+64%	16,247	9,896	9,481	8,517
Total Liabilities		**188,237**	**165,057**	**167,611**	**143,725**
Unexpended Appropriations	-5%	49,506	52,047	51,812	47,288
Cumulative Results of Operations	+150%	(6,170)	(2,466)	(5,002)	(4,446)
Total Net Position		**43,336**	**49,581**	**46,810**	**42,842**
Total Liabilities and Net Position		**$ 231,573**	**$ 214,638**	**$ 214,421**	**$ 186,567**



Statement of Net Cost

	% Change 2008/2007	FY 2008	FY 2007	FY 2006	FY 2005
Gross Cost	+2%	$ 74,034	$ 72,316	$ 104,699	$ 82,204
Earned Revenue	+15%	(9,217)	(8,032)	(7,870)	(6,965)
Total Net Cost of Operations		**$ 64,817**	**$ 64,284**	**$ 96,829**	**$ 75,239**

Net Cost Based on the *Department's Strategic Plan 2007-2012*		FY 2008
Goal 1	Improve student achievement, with a focus on bringing all students to grade level in reading and mathematics by 2014	$ 37,045
Goal 2	Increase the academic achievement of all high school students	2,112
Goal 3	Ensure the accessibility, affordability, and accountability of higher education, and better prepare students and adults for employment and future learning	25,094
Cross-goal	Strategy on Management	566
Total Net Cost of Operations		**$ 64,817**



Net Cost Based on the *Department's Strategic Plan 2002-2007*		FY 2007	FY 2006	FY 2005
Goal 2	Improve Student Achievement	$ 36,838	$ 37,700	$ 36,415
Goal 3	Develop Safe and Drug-Free Schools	740	849	877
Goal 4	Transform Education into Evidence-Based Field	367	422	442
Goal 5	Enhance Quality of and Access to Postsecondary and Adult Education	25,799	57,303	36,940
Goal 6	Management Excellence	540	555	565
Total Net Cost of Operations		**$ 64,284**	**$ 96,829**	**$ 75,239**

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2008 and 2007

(Dollars in Millions)

	Fiscal Year 2008	Fiscal Year 2007
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 94,899	$ 97,532
Accounts Receivable (Note 4)	2	4
Other Intragovernmental Assets	95	
Total Intragovernmental	94,996	97,536
Cash and Other Monetary Assets (Note 5)	1,663	1,103
Accounts Receivable, Net (Note 4)	100	49
Credit Program Receivables, Net (Note 6)	134,725	115,904
General Property, Plant and Equipment, Net (Note 7)	52	46
Other Assets	37	
Total Assets (Note 2)	**$ 231,573**	**$ 214,638**
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 8	
Debt (Note 8)	128,668	$ 104,287
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 5)	1,663	1,103
Payable to Treasury (Note 6)	3,766	5,351
Other Intragovernmental Liabilities (Note 9)	7,124	292
Total Intragovernmental	141,229	111,033
Accounts Payable	1,296	913
Accrued Grant Liability (Note 10)	2,245	2,094
Liabilities for Loan Guarantees (Note 6)	43,322	50,874
Other Liabilities (Note 9)	145	143
Total Liabilities	**$ 188,237**	**$ 165,057**
Commitments and Contingencies (Note 18)		
Net Position:		
Unexpended Appropriations - Earmarked Funds (Note 17)		
Unexpended Appropriations - Other Funds	$ 49,506	$ 52,047
Cumulative Results of Operations - Earmarked Funds (Note 17)	17	39
Cumulative Results of Operations - Other Funds	(6,187)	(2,505)
Total Net Position (Note 11)	**$ 43,336**	**$ 49,581**
Total Liabilities and Net Position	**$ 231,573**	**$ 214,638**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2008 and 2007
(Dollars in Millions)

		Fiscal Year 2008		Fiscal Year 2007
Program Costs				
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement				
Gross Costs	$	33,090	$	31,924
Less: Earned Revenue		9,082		7,933
Net Program Costs		24,008		23,991
Total Program Costs	**$**	**24,008**	**$**	**23,991**
Promote Academic Achievement in Elementary and Secondary Schools				
Gross Costs	$	23,490	$	23,368
Less: Earned Revenue		86		78
Net Program Costs		23,404		23,290
Total Program Costs	**$**	**23,404**	**$**	**23,290**
Transformation of Education				
Gross Costs	$	1,569	$	1,468
Less: Earned Revenue		32		18
Net Program Costs		1,537		1,450
Total Program Costs	**$**	**1,537**	**$**	**1,450**
Special Education				
Gross Costs	$	15,885	$	15,556
Less: Earned Revenue		17		3
Net Program Costs		15,868		15,553
Total Program Costs	**$**	**15,868**	**$**	**15,553**
Grand Total Program Costs	**$**	**64,817**	**$**	**64,284**
Net Cost of Operations (Notes 12 & 15)	**$**	**64,817**	**$**	**64,284**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2008 and 2007
(Dollars in Millions)

	Fiscal Year 2008 Cumulative Results of Operations	Fiscal Year 2008 Unexpended Appropriations	Fiscal Year 2007 Cumulative Results of Operations	Fiscal Year 2007 Unexpended Appropriations
Beginning Balances				
Beginning Balances - Earmarked Funds	$ 39		$ 61	
Beginning Balances - All Other Funds	$ (2,505)	$ 52,047	$ (5,063)	$ 51,812
Budgetary Financing Sources:				
Appropriations Received				
Appropriations Received - Earmarked Funds				
Appropriations Received - All Other Funds		$ 72,991		$ 73,921
Other Adjustments (rescissions, etc)				
Other Adjustments (rescissions, etc) - Earmarked Funds				
Other Adjustments (rescissions, etc) - All Other Funds	$ (6)	(2,202)		(1,090)
Appropriations Used				
Appropriations Used - Earmarked Funds				
Appropriations Used - All Other Funds	73,330	(73,330)	$ 72,596	(72,596)
Nonexpenditure Financing Sources - Transfers-Out				
Nonexpenditure Financing Sources - Transfers-Out - Earmarked Funds				
Nonexpenditure Financing Sources - Transfers-Out - All Other Funds	(208)		(27)	
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others				
Imputed Financing from Costs Absorbed by Others - Earmarked Funds				
Imputed Financing from Costs Absorbed by Others - All Other Funds	$ 29		$ 32	
Others				
Others - Earmarked Funds				
Others - All Other Funds	(12,032)		(5,781)	
Total Financing Sources				
Total Financing Sources - Earmarked Funds				
Total Financing Sources - All Other Funds	**$ 61,113**	**$ (2,541)**	**$ 66,820**	**$ 235**
Net Cost of Operations				
Net Cost of Operations - Earmarked Funds	**$ (22)**		**$ (22)**	
Net Cost of Operations - All Other Funds	**$ (64,795)**		**$ (64,262)**	
Net Change				
Net Change - Earmarked Funds	**$ (22)**		**$ (22)**	
Net Change - All Other Funds	**$ (3,682)**	**$ (2,541)**	**$ 2,558**	**$ 235**
Ending Balances - Earmarked Funds (Note 11)	**$ 17**		**$ 39**	
Ending Balances - All Other Funds (Note 11)	**$ (6,187)**	**$ 49,506**	**$ (2,505)**	**$ 52,047**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2008 and 2007

(Dollars in Millions)

	Fiscal Year 2008 Budgetary	Fiscal Year 2008 Non-Budgetary Credit Reform Financing Accounts	Fiscal Year 2007 Budgetary	Fiscal Year 2007 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 5,272	$ 37,111	$ 5,221	$ 46,490
Recoveries of prior year Unpaid Obligations	2,097	3,115	1,968	3,043
Budgetary Authority:				
Appropriations	73,002	153	73,919	2
Borrowing Authority (Note 14)		57,743		20,037
Spending authority from offsetting collections (gross):				
Earned				
Collected	1,751	33,570	1,816	37,373
Change in Receivables from Federal Sources	(1)		3	
Change in unfilled customer orders				
Advance Received	4		(5)	
Without advance from Federal Sources			(3)	(30)
Subtotal	$ 74,756	$ 91,466	$ 75,730	$ 57,382
Permanently not available	(2,980)	(16,844)	(2,119)	(19,451)
Total Budgetary Resources(Note 14)	**$ 79,145**	**$ 114,848**	**$ 80,800**	**$ 87,464**
Status of Budgetary Resources:				
Obligations incurred: (Note 14)				
Direct	$ 74,742	$ 88,001	$ 75,435	$ 50,353
Reimbursable	96		93	
Subtotal	$ 74,838	$ 88,001	$ 75,528	$ 50,353
Unobligated Balances:				
Apportioned	$ 1,540	$ 396	$ 3,093	$ 321
Subtotal	$ 1,540	$ 396	$ 3,093	$ 321
Unobligated Balance not available	2,767	26,451	2,179	36,790
Total Status of Budgetary Resources	**$ 79,145**	**$ 114,848**	**$ 80,800**	**$ 87,464**
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 50,712	$ 14,734	$ 50,210	$ 12,953
Uncollected customer payments from Federal Sources, brought forward, October 1	(3)		(3)	(30)
Total, unpaid obligated balance, brought forward, net	$ 50,709	$ 14,734	$ 50,207	$ 12,923
Obligation Incurred net (+/-)	74,838	88,001	75,528	50,353
Gross Outlays	(73,578)	(58,180)	(73,058)	(45,529)
Recoveries of prior year unpaid obligations, actual	(2,097)	(3,115)	(1,968)	(3,043)
Change in uncollected customer payments from Federal Sources (+/-)	1			30
Obligated Balance, net, end of period				
Unpaid Obligations	$ 49,875	$ 41,440	$ 50,712	$ 14,734
Uncollected customer payments from Federal Sources	(2)		(3)	
Total, unpaid obligated balance, net, end of period	**$ 49,873**	**$ 41,440**	**$ 50,709**	**$ 14,734**
Net Outlays				
Net Outlays:				
Gross Outlays	$ 73,578	$ 58,180	$ 73,058	$ 45,529
Offsetting collections	(1,755)	(33,570)	(1,811)	(37,373)
Distributed Offsetting receipts	(103)	(5,750)	(173)	(4,700)
Net Outlays (Note 14)	**$ 71,720**	**$ 18,860**	**$ 71,074**	**$ 3,456**

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements For the Years Ended September 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) amended the FFEL Program to authorize the Secretary to buy FFEL loans for the 2008-2009 academic year. Within the existing FFEL Program, the Department has implemented two activities under this temporary loan purchase authority to purchase FFEL loans generally originated between July 1, 2008 and June 30, 2009. These two activities include: loan purchase commitments where the Department purchases loans directly from FFEL lenders, and loan participation purchases where the Department purchases participation interests in FFEL loans.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program was implemented beginning July 1, 2008. This program, added to the HEA by the *College Cost Reduction and Access Act* (CCRAA), awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Additionally, the Department administers numerous other grant programs and facilities loan programs. Grant programs include grants to state and local entities for elementary and secondary education; special education and rehabilitative services; educational research and improvement; and grants for needs of the disadvantaged. Through the facilities loan programs, the Department administers low-interest loans to institutions of higher education for the construction and renovation of facilities.

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

Reporting Organizations

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

Major Reporting Groups

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

The major reporting group "Other" includes the OVAE, OPE, IES, OELA, OSDFS, OII, and OM reporting organizations and Hurricane Education Recovery (HR) activities. (See Notes 10, 12, and 17)

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the U.S. Department of Education, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted in the United States of America for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised June 2008. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the Department's use of budgetary resources.

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

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

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

Use of Estimates

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

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

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

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

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

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

Estimates reflected in these statements were prepared using assumptions developed for the FY 2009 Mid-Session Review, a government-wide exercise required annually by OMB. These estimates are based on the most current information available to the Department at the time the financial statements were prepared. Assumptions and their impact are updated after the Mid-Session Review to account for significant subsequent changes in activity. Department management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of changes, as appropriate.

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

Budget Authority

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

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

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

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

Assets

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

Fund Balance with Treasury

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

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

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

Accounts Receivable

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

Cash and Other Monetary Assets

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

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

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

Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

Credit program receivables for the Loan Purchase Commitment Authority and Loan Participation Purchase Authority include the present value of future cash flows related to the participation agreements or purchased loans. Subsidy is transferred, which may be prior to purchasing loans, and is recognized as subsidy expense in the Statement of Net Cost. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities including any positive or negative subsidy transfers.

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

General Property, Plant and Equipment

The Department capitalizes single items of property and equipment with a cost of $50,000 or more that have an estimated useful life greater than two years. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of $500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project or the purchase of like items occurring within the same fiscal year that have an estimated useful life greater than two years. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. Internal Use Software meeting the above cost and useful life criteria is also capitalized. Internal Use Software is either purchased off the shelf, internally developed, or contractor developed solely to meet the Department's needs. (See Note 7)

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

Depreciable Property and Equipment
(In Years)

Major Class	Useful Life
Information Technology, Internal Use Software and Telecommunications Equipment	3
Furniture and Fixtures	5

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty the appropriation will be enacted. The government acting in its sovereign capacity can abrogate liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 9)

Debt

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

Accrued Grant Liability

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

Net Position

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

Earmarked Funds

Earmarked funds are recorded as specially identified resources, often supplemented by other financing sources, which remain available over time. These funds are required by statute to be used for designated recipients. The Department's earmarked funds are primarily related to the 2005 Hurricane Relief efforts. (See Note 17)

Personnel Compensation and Other Employee Benefits

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

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

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

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

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

The FECA liability consists of two components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events such as death, disability, medical and miscellaneous costs. DOL determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using OMB economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost-of-living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments and to adjust future benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

The estimated projections are evaluated by DOL to ensure that the resulting projections are reliable. The analysis is based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in charge-back year 2008 to the average pattern observed during the most recent three charge-back years, and (4) a comparison of the estimated liability per case in the 2008 projection to the average pattern for the projections of the most recent three years.

Intragovernmental Transactions

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

Allocation Transfers

The Department is a party to allocation transfers with the Appalachian Regional Commission as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Treasury provides a separate fund account as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child are charged to this allocation account as the child executes the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers is reported in the financial statements of the Appalachian Regional Commission, from which the underlying legislative authority, appropriations, and budget apportionments are derived. During FY 2008, the Department returned all unused funds to the Appalachian Regional Commission.

Note 2. Non-Entity Assets

As of September 30, 2008 and 2007, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2008	2007
Non-Entity Assets		
Intragovernmental		
Fund Balance with Treasury	$ 28	$ 33
Total Intragovernmental	**28**	**33**
With the Public		
Cash and Other Monetary Assets	1,663	1,103
Accounts Receivable, Net	20	12
Credit Program Receivables, Net	186	188
Total With the Public	**1,869**	**1,303**
Total Non-Entity Assets	**1,897**	**1,336**
Entity Assets	229,676	213,302
Total Assets	$ 231,573	$ 214,638

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

Note 3. Fund Balance with Treasury

The Fund Balance with Treasury, by fund type, as of September 30, 2008 and 2007, consisted of the following:

Fund Balances
(Dollars in Millions)

	2008	2007
General Funds	$ 52,487	$ 54,836
Revolving Funds	42,357	42,625
Trust Funds	18	40
Special Funds	9	-
Other Funds	28	31
Fund Balance with Treasury	**$ 94,899**	**$ 97,532**

The Status of Fund Balance with Treasury, as of September 30, 2008 and 2007, consisted of the following:

Status of Fund Balance with Treasury
(Dollars in Millions)

	2008	2007
Unobligated Balance		
Available	$ 1,936	$ 3,414
Unavailable	27,555	37,866
Obligated Balance, Not Yet Disbursed	65,380	56,221
Non-Budgetary Fund Balance with Treasury	28	31
Fund Balance with Treasury	**$ 94,899**	**$ 97,532**

Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2008 and 2007, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2008		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 2	$ -	$ 2
With the Public	278	(178)	100
Accounts Receivable	**$ 280**	**$ (178)**	**$ 102**

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

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL Guaranty Agency Federal Funds. Changes in the valuation of the Federal Fund increase or decrease the Department's Cash and Other Monetary Assets with a corresponding change in the Payable to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2008 and 2007.

Cash and Other Monetary Assets
(Dollars in Millions)

	2008	2007
Beginning Balance, Cash and Other Monetary Assets	**$ 1,103**	**$ 566**
Valuation Increase in Guaranty Agency Federal Funds	722	793
Less: Collections from Guaranty Agency Federal Funds		
Statutory Recall Amounts Collected from GAs	-	82
Excess Collections	162	174
Collections Remitted to Treasury	162	256
Ending Balance, Cash and Other Monetary Assets	**$ 1,663**	**$ 1,103**

The $560 million net increase in the Federal Fund from FY 2007 to FY 2008 reflects the impact of guaranty agencies' ongoing operations. During FY 2008, $162 million was remitted to the Department by a guaranty agency whose agreement with the Department requires the agency to remit funds in excess of agreed-upon working capital levels. Remitted funds were returned to Treasury.

Note 6. Credit Programs for Higher Education

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the William D. Ford Federal Direct Loan program, referred to as the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors.

The Department disbursed approximately $21.1 billion in Direct Loans to eligible borrowers in FY 2008 and approximately $15.7 billion in FY 2007. Loans typically are disbursed in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Half of all loan volume is obligated in the fourth quarter of a fiscal year. Loan cohorts disburse over two years. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

Approximately 10 percent of Direct Loan obligations made in an individual fiscal year are never disbursed. Loan obligations are established at a summary level based on estimates of schools' receipt of aid applications. The loan obligation may occur before a student has been accepted by a school or begins classes. For Direct Loans obligated in the 2008 cohort, an estimated $3.2 billion will never be disbursed. Eligible schools may originate direct loans through a cash advance from the Department or by advancing their own funds in anticipation of reimbursement from the Department.

The Department accrues interest receivable and records interest revenue on performing Direct Loans and, given the Department's substantial collection rates, on defaulted Direct Loans.

Federal Family Education Loan Program. Prior to FY 2008, the FFEL Program included only private lender loans to students and parents insured against default by the federal government. Nonprofit guaranty agencies act as intermediaries in administering the guarantees. In FY 2008, the FFEL Program also includes approximately $5.1 billion in direct federal assets.

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

The temporary loan purchase authority was added to the FFEL Program by ECASLA, effective July 1, 2008 through September 30, 2009. The Department has implemented two activities under this authority for loans originated in academic year 2008-2009: loan purchase commitments where the Department purchases loans directly from FFEL lenders, and loan participations where the Department purchases participation interests in FFEL loans. A credit program receivable is established for loans purchased directly or through a participation interest.

In loan participation transactions, lenders transfer to a custodian title of FFEL loans on which at least one disbursement has been made. The custodian sells financial certificates to the Department at the par value of these loans and remits the proceeds to lenders. Certificates bear an interest rate of the 91-day commercial paper rate plus 50 basis points, reset quarterly, and must be redeemed by September 30, 2009. Funds to redeem certificates may be obtained by selling the underlying loans to the Department.

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

As of September 30, 2008 and 2007, total principal balances outstanding of guaranteed loans held by lenders were approximately $415 billion and $363 billion, respectively. As of September 30, 2008 and 2007, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $405 billion and $359 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the guaranty agencies from their Federal Fund. Payments by guaranty agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies but owned by the federal government.

Approximately 13 percent of guaranteed loan commitments made in an individual fiscal year are never disbursed due to the nature of the loan commitment process. For guaranteed loans committed in the 2008 cohort, an estimated $9.5 billion will never be disbursed.

Guaranteed loans that default are initially turned over to guaranty agencies for collection, and interest receivable is accrued and recorded on the loans as the collection rate is substantial. After approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection. Accrued interest on the subrogated loan is calculated, but only realized upon collection.

Federal Perkins Loan Program. The Federal Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In some statutorily defined cases, funds are provided to reimburse schools for loan cancellations. For defaulted loans assigned to the Department, collections of principal, interest, and fees, net of amounts paid by the Department to cover contract collection costs, are transferred to Treasury annually.

TEACH Grant Program. Beginning July 1, 2008, the TEACH Grant Program awards annual grants up to $4,000 to eligible undergraduate and graduate students agreeing to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. For students failing to fulfill the service requirement, grants are converted to Direct Unsubsidized Stafford Loans. Because grants could be converted to loans, for budget and accounting purposes the program is operated under the requirements of the Credit Reform Act.

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

The Department also administers the Historically Black Colleges and Universities (HBCU) Capital Financing Program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and, in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make the loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with statute, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

In FY 2006, Congress passed the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery* (P.L. 109-234). Section 2601 of this Act created a new sub-program within the HBCU Capital Financing Program under the HEA that would provide loans on advantageous terms to HBCUs affected by Hurricanes Rita and Katrina. Under this sub-program, the interest rate charged on loans is capped at 1 percent, fees associated with the program are less than those associated with the rest of the program, and institutions are not required to participate in the program's pooled escrow account. In addition, principal and interest payments on loans already made to affected HBCUs can be deferred for up to 3 years, with the Department making any payments that come due during this period. The statute gives the Department authority to make loans under the new sub-program in excess of the overall program loan caps. The Department has made four loans under the new sub-program and has assumed one default and no recoveries in making initial subsidy estimates. In light of these forecast assumptions and the expected cash flows for the new sub-program, OMB's Credit Subsidy Calculator estimates the subsidy rate for the sub-program to be 76 percent. The current subsidy estimate for the sub-program is $304 million on a loan volume of $400 million.

Loan Consolidations

Borrowers may prepay existing loans without penalty through a new consolidation loan. Under the Credit Reform Act and requirements provided by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the retirement of Direct Loans being consolidated is considered a receipt of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the activity occurs. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort costs. The loan liability and net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect costs associated with anticipated future consolidation loans.

Student loan consolidation disbursements for FY 2008 were $15 billion ($9 billion in FFEL and $6 billion in Direct Loans), a 70% reduction from FY 2007. This lower rate of consolidations is a continuation of the trend identified in FY 2007, which was 45% lower than FY 2006. This trend exists due to a number of technical, legislative and economic factors. In the student loan programs a borrower is generally limited to a one-time consolidation; the high level of consolidations between FY 2002 and FY 2006, $280 billion, significantly reduced the existing pool of loans eligible for consolidation to generally those students currently in school. Recent legislative changes, particularly the establishment of fixed interest rates on new loans and the reduction of guaranteed lender returns, have significantly reduced both borrowers' financial benefits from consolidations and lenders' willingness to market consolidations through lower interest rates or other financial incentives. In FY 2008, economic conditions restricted the availability of capital, further reducing consolidation activity.

FY 2008 Modification

The recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between current discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue. Separate amounts are calculated for modification costs and modification adjustment transfers.

The CCRAA included a number of provisions affecting the cost of existing loans. New income-based repayment and public service loan forgiveness programs were created; income-based repayment is available to existing borrowers in both FFEL and Direct Loans, while public service loan forgiveness is available to existing Direct Loan borrowers. (Existing FFEL borrowers may consolidate into Direct Loans to obtain the benefit.) The Act also made retroactive changes to loan deferment provisions for certain military personnel.

The Act also eliminated the provision under which FFEL lenders designated as "exceptional performers" received a higher insurance rate on defaulted loans, reduced FFEL guaranty agencies' account maintenance fees, and lowered the percentage guaranty agencies may retain on collections of certain defaulted loans.

Loan modification savings of $2.5 billion were recorded in the FFEL Program and $4.1 billion in modification costs were recorded in the Direct Loan Program. The FFEL Program also recognized a net modification adjustment transfer saving of $30 million and the Direct Loan Program recognized a net savings of $9 million.

Credit Program Receivables

Credit Program Receivables as of September 30, 2008 and 2007, consisted of the following:

Credit Program Receivables
(Dollars in Millions)

	2008	2007
Direct Loan Program Loan Receivables, Net	$ 109,850	$ 99,002
FFEL Program		
FFEL Guaranteed Loan Program, Net (Pre-1992)	3,591	4,036
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	15,624	12,526
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	64	-
Loan Participation Purchase, Net	5,230	-
Federal Perkins Program Loan Receivables, Net	186	188
TEACH Grant Program Receivables, Net	1	-
Facilities Loan Programs Loan Receivables, Net	179	152
Credit Program Receivables, Net	**$ 134,725**	**$ 115,904**

William D. Ford Federal Direct Loan Program. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy.

Direct Loan Program Loan Receivables, Net
(Dollars in Millions)

	2008	2007
Principal Receivable	$ 117,610	$ 102,440
Interest Receivable	5,983	4,807
Receivables	**123,593**	**107,247**
Less: Allowance for Subsidy	13,743	8,245
Direct Loan Program Loan Receivables, Net	**$ 109,850**	**$ 99,002**

Of the $123.6 billion in receivables as of September 30, 2008, $10.3 billion in loan principal were in default, compared to $9.3 billion a year earlier. Defaulted Direct Loans are held in the Department's Borrower Services Collections Group.

Federal Family Education Loan Program. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy.

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2008	2007
FFEL Guaranteed Loan Program (Pre-1992)		
Principal Receivable	$ 7,587	$ 8,208
Interest Receivable	182	224
Receivables	**7,769**	**8,432**
Less: Allowance for Subsidy	4,178	4,396
FFEL Guaranteed Loan Program Receivables, Net (Pre-1992)	**$ 3,591**	**$ 4,036**
FFEL Program (Post-1991)		
Principal Receivable		
FFEL Guaranteed Loan Program	$ 17,641	$ 13,324
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	59	-
Loan Participation Purchase	5,036	-
Interest Receivable		
FFEL Guaranteed Loan Program	2,143	1,957
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	-	-
Loan Participation Purchase	11	-
Receivables	**24,890**	**15,281**
Less: Allowance for Subsidy		
FFEL Guaranteed Loan Program	4,160	2,755
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	(5)	-
Loan Participation Purchase	(183)	-
FFEL Guaranteed Loan Program, Net	15,624	12,526
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	64	-
Loan Participation Purchase, Net	5,230	-
FFEL Program Loan Receivables, Net	**$ 24,509**	**$ 16,562**

All loans under the temporary loan purchase authority are federal assets; the loan receivable represents all outstanding loans. Loan participation interests were first purchased by the Department in August 2008. No participation interests were redeemed in FY 2008.

Federal Perkins Loan Program. At September 30, 2008 and 2007, loans receivable, net of an allowance for loss, were $186 million and $188 million, respectively. These loans are valued at historical cost.

TEACH Grant Program. At September 30, 2008, loans receivable, net of an allowance for loss, was $1 million. The TEACH Grant Program was established in FY 2008.

Facilities Loan Programs

Facilities Loan Programs Loan Receivables

(Dollars in Millions)

	2008	2007
Principal Receivable	$ 553	$ 553
Interest Receivable	6	6
Receivables	**559**	**559**
Less: Allowance for Subsidy	380	407
Facilities Loan Programs Loan Receivables, Net	**$ 179**	**$ 152**

Reconciliation of Allowance for Subsidy and Liability for Loan Guarantees

William D. Ford Federal Direct Loan Program. The following schedule provides a reconciliation between the beginning and ending balances of the allowance for subsidy for the Direct Loan Program:

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2008	2007
Beginning Balance, Allowance for Subsidy	**$ 8,245**	**$ 8,405**
Components of Subsidy Transfers		
Interest Rate Differential	(1,540)	(846)
Defaults, Net of Recoveries	454	422
Fees	(487)	(398)
Other	1,498	1,117
Current Year Subsidy Transfers	**(75)**	**295**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	222	(311)
Technical and Default Re-estimates	946	(483)
Subsidy Re-estimates	**1,168**	**(794)**
Components of Loan Modifications		
Loan Modification Costs	4,143	-
Modification Adjustment Transfers	(9)	-
Loan Modifications	**4,134**	**-**
Activity		
Fee Collections	482	448
Loan Cancellations[2]	(240)	(154)
Subsidy Allowance Amortization	456	435
Other	(427)	(390)
Total Activity	**271**	**339**
Ending Balance, Allowance for Subsidy	**$ 13,743**	**$ 8,245**

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

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

Federal Family Education Loan Program. The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantee for the insurance portion of the FFEL Program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2008	2007
Beginning Balance, FFEL Financing Accounts Liability for Loan Guarantees	**$ 50,731**	**$ 52,350**
Components of Subsidy Transfers		
Interest Supplement Costs	1,212	7,580
Defaults, Net of Recoveries	43	885
Fees	(449)	(5,052)
Other[1]	436	2,967
Current Year Subsidy Transfers	**1,242**	**6,380**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(700)	1,286
Technical and Default Re-estimates	(760)	(2,782)
Subsidy Re-estimates	**(1,460)**	**(1,496)**
Components of Loan Modifications		
Loan Modification Costs	(2,464)	-
Modification Adjustment Transfers	(30)	-
Loan Modifications	**(2,494)**	**-**
Activity		
Interest Supplement Payments	(8,744)	(10,991)
Claim Payments	(8,029)	(5,924)
Fee Collections	4,107	4,036
Interest on Liability Balance	1,372	1,616
Other[2]	6,460	4,760
Total Activity	**(4,834)**	**(6,503)**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 43,185**	**$ 50,731**
FFEL Liquidating Account Liability for Loan Guarantees	137	143
Liabilities for Loan Guarantees	**$ 43,322**	**$ 50,874**

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

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

Financing Account Interest Expense and Interest Revenue

Financing accounts borrow from Treasury to fund the unsubsidized portion of lending activities. The Department calculates and pays Treasury interest at the end of each year. During the year, interest is earned on outstanding direct loans, outstanding FFEL loans purchased by the Department, participation interests, and the Fund Balance with Treasury.

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

William D. Ford Federal Direct Loan Program. The following schedule summarize the Direct Loan financing account interest expense and interest revenue:

Direct Loan Program
(Dollars in Millions)

	2008		2007	
Interest Expense on Treasury Borrowing	$	6,190	$	5,675
Interest Expense	**$**	**6,190**	**$**	**5,675**
Interest Revenue from the Public	$	5,277	$	4,859
Amortization of Subsidy		(456)		(435)
Interest Revenue on Uninvested Funds		1,369		1,251
Interest Revenue	**$**	**6,190**	**$**	**5,675**

Payable to Treasury

Payable to Treasury for the years ended September 30, 2008 and 2007, consisted of the following:

Payable to Treasury
(Dollars in Millions)

	2008		2007	
Future Liquidating Account Collections, Beginning Balance	**$**	**4,108**	**$**	**4,555**
Valuation of Pre-1992 Loan Liability and Allowance		250		288
Capital Transfers to Treasury		(592)		(735)
Future Liquidating Account Collections, Ending Balance	**$**	**3,766**	**$**	**4,108**
Collections on Guaranty Agency Federal Funds		-		2
Direct Loan Program Downward Subsidy Re-estimate		-		498
FFEL Program Downward Subsidy Re-estimate		-		743
Payable to Treasury	**$**	**3,766**	**$**	**5,351**

The liquidating account, based on available fund balance, periodically transfers Fund Balance to Treasury's account. The FFEL and Direct Loan financing accounts pay the liability related to downward subsidy re-estimates upon budget execution. Effective FY 2008, Treasury guidance requires that the liability resulting from downward subsidy re-estimates be included in Other Intragovernmental Liabilities on the Balance Sheet (see Note 9).

Subsidy Expense

William D. Ford Federal Direct Loan Program

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2008	2007
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ (1,540)	$ (846)
Defaults, Net of Recoveries	454	422
Fees	(487)	(398)
Other	1,498	1,117
Current Year Subsidy Transfers	**(75)**	**295**
Subsidy Re-estimates	1,168	(794)
Loan Modification Costs	4,143	-
Direct Loan Subsidy Expense	**$ 5,236**	**$ (499)**

In the 2008 re-estimates, Direct Loan subsidy expense was increased by $1.2 billion. Changes in interest rates increased subsidy expense by $859 million, updated data on teacher loan forgiveness led to an additional increase of $481 million, and rising default rates increased subsidy expense by $194 million. These increases were partially offset by decreases due to reduced prepayments of $(606) million and changes in the rate at which loans enter repayment of $(261) million. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy expense by $465 million.

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

Federal Family Education Loan Program

FFEL Program Subsidy Expense

(Dollars in Millions)

	2008	2007
FFEL Guaranteed Loan Program		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ 1,212	$ 7,580
Defaults, Net of Recoveries	43	885
Fees	(449)	(5,052)
Other	436	2,967
Current Year Subsidy Transfers	**1,242**	**6,380**
Subsidy Re-estimates	(1,460)	(1,496)
Loan Modification Costs	(2,464)	-
FFEL Guaranteed Loan Program Subsidy Expense	**$ (2,682)**	**$ 4,884**
Temporary Loan Purchase Authority		
Loan Purchase Commitment		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ (9)	$ -
Defaults, Net of Recoveries	-	-
Fees	2	-
Other	5	-
Loan Purchase Commitment Subsidy Expense	**$ (2)**	**$ -**
Loan Participation Purchase		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ (292)	$ -
Defaults, Net of Recoveries	5	-
Fees	(476)	-
Other	595	-
Loan Participation Purchase Subsidy Expense	**$ (168)**	$ -
FFEL Program Subsidy Expense	**$ (2,852)**	**$ 4,884**

In the 2008 re-estimates, FFEL subsidy expense was decreased by $1.5 billion. Changes in interest rate forecasts decreased subsidy expense by $8.7 billion. This decrease was partially offset by increases of $4.4 billion due to reduced prepayments, $2.5 billion due to changes in projected guaranty agency retention of collections on defaulted loans, and $1.3 billion due to greater use of teacher loan forgiveness benefits. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $16.3 billion.

In the 2007 re-estimates, FFEL subsidy expense was decreased by $1.5 billion. Changes in the federal cost of loan deferments and forbearance increased subsidy expense by $2.3 billion. This increase was more than offset by changes in subsidy cost related to statutory loan discharges of $(1.4) billion, loan maturity and repayment rates of $(1.5) billion, loan volume of $(890) million and other factors. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $11.1 billion.

In FY 2007 the Department restated the eligibility requirements specified by the HEA for lenders to receive special allowance payments at the 9.5 percent minimum return rate on loans made or purchased with funds derived from tax-exempt obligations issued before October 1993, and implemented certain processes to validate eligibility. As a result of lenders' business decisions and audits performed in FYs 2007 and 2008, nearly two-thirds of lenders previously requesting this special allowance payment have ceased requesting the payment in 2008. The Department decreased the FFEL subsidy by $269 million as a result.

Subsidy Rates

The subsidy rates applicable to the 2008 loan cohort year follow:

Subsidy Rates—Cohort 2008

	Interest Differential/ Supplements	Defaults	Fees	Other	Total
Direct Loan Program	(7.28%)	1.58%	(1.95%)	5.68%	(1.97%)
FFEL Program (Post-1991):					
FFEL Guaranteed Loan Program	0.88%	0.53%	(3.57%)	2.15%	(0.01%)
Temporary Loan Purchase Authority:					
Loan Purchase Commitment	(14.78%)	0.07%	2.66%	8.19%	(3.86%)
Loan Participation Purchase	(3.53%)	0.06%	(5.80%)	7.26%	(2.01%)

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year. The subsidy expense for new direct or guaranteed loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans or third-party lenders disburse guaranteed loans. The subsidy expense reported in the current year also includes modifications and re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2008 cohort, cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

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

Administrative Expenses

Administrative Expense for the years ended September 30, 2008 and 2007, consisted of the following:

Administrative Expense
(Dollars in Millions)

	2008		2007	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 343	$ 222	$ 397	$ 232
Other Expense	14	9	16	9
Administrative Expenses	**$ 357**	**$ 231**	**$ 413**	**$ 241**

Note 7. General Property, Plant and Equipment

General Property, Plant and Equipment, as of September 30, 2008 and 2007, consisted of the following:

General Property, Plant and Equipment
(Dollars in Millions)

	2008		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 152	$ (100)	$ 52
Furniture and Fixtures	3	(3)	-
General Property, Plant and Equipment	**$ 155**	**$ (103)**	**$ 52**

	2007		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 129	$ (84)	$ 45
Furniture and Fixtures	3	(2)	1
General Property, Plant and Equipment	**$ 132**	**$ (86)**	**$ 46**

The majority of the asset costs relate to financial management systems and other information technology and communications improvements.

Leases

The Department leases information technology and telecommunications equipment as part of a contractor-owned contractor-operated services contract. Lease payments associated with the equipment are classified as operating leases and as such are expensed as incurred. The non-cancelable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options.

The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, but expensed as incurred. Estimated future minimum lease payments for the privately owned buildings are presented below.

Leases

(Dollars in Millions)

2008			2007		
Fiscal Year	**Lease Payment**		**Fiscal Year**	**Lease Payment**	
2009	$	47	2008	$	47
2010		50	2009		48
2011		54	2010		52
2012		61	2011		56
2013		70	2012		63
After 2013		72	After 2012		65
Total	**$**	**354**	**Total**	**$**	**331**

Note 8. Debt

Debt as of September 30, 2008 and 2007, consisted of the following:

Debt
(Dollars in Millions)

	2008			
	Beginning Balance	New Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 103,893	$ 28,172	$ (14,646)	$ 117,419
FFEL Program				
Loan Purchase Commitment	-	69	-	69
Loan Participation Purchase	-	10,754	-	10,754
TEACH Grant Program	-	26	(12)	14
Facilities Loan Program	81	-	(6)	75
Total Treasury Debt	**$ 103,974**	**$ 39,021**	**$ (14,664)**	**$ 128,331**
Other Debt				
FFB	313	28	(4)	337
Total	**$ 104,287**	**$ 39,049**	**$ (14,668)**	**$ 128,668**

	2007			
	Beginning Balance	New Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 105,430	$ 17,892	$ (19,429)	$ 103,893
FFEL Program				
Loan Purchase Commitment	-	-	-	-
Loan Participation Purchase	-	-	-	-
TEACH Grant Program	-	-	-	-
Facilities Loan Program	93	-	(12)	81
Total Treasury Debt	**$ 105,523**	**$ 17,892**	**$ (19,441)**	**$ 103,974**
Other Debt				
FFB	154	170	(11)	313
Total	**$ 105,677**	**$ 18,062**	**$ (19,452)**	**$ 104,287**

The level of repayments on borrowings to Treasury is derived from many factors. For instance, beginning of the year cash balances, collections, and new borrowings have an impact on the cash available to repay Treasury. Cash is also held to cover future liabilities, such as contract collection costs and disbursements in transit.

Note 9. Other Liabilities

Other liabilities include current and non-current liabilities. The non-current liabilities primarily relate to the student loan receivables of the Federal Perkins Loan Program, which when collected will be returned to the General Fund of Treasury.

The current liabilities covered by budgetary resources primarily consist of downward subsidy re-estimates, which when executed will be paid to Treasury. Effective FY 2008, Treasury guidance requires that the liability resulting from downward subsidy re-estimates be included in Other Intragovernmental Liabilities. In FY 2007 and prior, these amounts were included in Payable to Treasury. (See Note 6)

Other Liabilities as of September 30, 2008 and 2007 consisted of the following:

Other Liabilities
(Dollars in Millions)

	2008		2007	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 91	$ -	$ 87	$ -
Employer Contributions and Payroll Taxes	4	-	3	-
Liability for Deposit Funds	(7)	35	(1)	35
Accrued Payroll and Benefits	-	19	-	15
Deferred Revenue	-	42	-	-
Liabilities in Miscellaneous Receipt Accounts	6,847	-	-	-
Contractual Services	-	-	-	46
Total Other Liabilities Covered by Budgetary Resources	**$ 6,935**	**$ 96**	**$ 89**	**$ 96**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	$ -	$ 33	$ -	$ 31
Non-current				
Accrued Unfunded FECA Liability	3	-	3	-
Liabilities in Miscellaneous Receipt Accounts	186	-	200	-
Accrued FECA Actuarial Liability	-	16	-	16
Total Other Liabilities Not Covered by Budgetary Resources	**$ 189**	**$ 49**	**$ 203**	**$ 47**
Other Liabilities	**$ 7,124**	**$ 145**	**$ 292**	**$ 143**

Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled $238 million and $250 million as of September 30, 2008 and 2007, respectively.

As of September 30, 2008 and 2007, liabilities on the Balance Sheet totaled $188.2 billion and $165.1 billion respectively. Of this amount, liabilities covered by budgetary resources totaled $188.0 billion as of September 30, 2008, and $164.8 billion as of September 30, 2007.

Note 10. Accrued Grant Liability

The accrued grant liability by major reporting groups as of September 30, 2008 and 2007, consisted of the following:

Accrued Grant Liability

(Dollars in Millions)

	2008	2007
FSA	$ 862	$ 1,030
OESE	557	348
OSERS	512	478
Other	314	238
Accrued Grant Liability	$ **2,245**	**$ 2,094**

Note 11. Net Position

Unexpended appropriations as of September 30, 2008 and 2007, consisted of the following:

Unexpended Appropriations

(Dollars in Millions)

	2008	2007
Unobligated Balances		
Available	$ 1,526	$ 3,084
Not Available	815	892
Undelivered Orders, end of period	47,165	48,071
Unexpended Appropriations	**$ 49,506**	**$ 52,047**

The Cumulative Results of Operations - Earmarked Funds of $17 million as of September 30, 2008, and $39 million as of September 30, 2007, represent donations from foreign governments, international entities and individuals to support Hurricane Katrina relief and recovery efforts that have not yet been used. (See Note 17)

The Cumulative Results of Operations - Other Funds of $(6,187) million as of September 30, 2008, and $(2,505) million as of September 30, 2007, consists mostly of unfunded upward subsidy re-estimates, other unfunded expenses, and net investments of capitalized assets.

Note 12. Intragovernmental Cost and Exchange Revenue by Program

As required by the *Government Performance and Results Act of 1993*, each of the Department's Reporting Organizations has been aligned with the major goals presented in the Department's *Strategic Plan 2007—2012*.

Net Cost Program	Reporting Organizations	Strategic Goal
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement	FSA OPE OVAE	3. Ensure the accessibility, affordability, and accountability of higher education, and better prepare students and adults for employment and future learning
Promote Academic Achievement in Elementary and Secondary Schools	OESE OELA OSDFS	1. Improve Student Achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014 2. Increase the academic achievement of all high school students
Transformation of Education	IES OII	1. Improve Student Achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014
Special Education	OSERS	Cuts across Strategic Goals 1, 2, and 3

In FY 2007, the Department streamlined its strategic goals to better serve its mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. The Department has a Cross-Goal Strategy on Management, which is considered a high-level premise on which the Department establishes its foundation for the three goals. As a result, we do not assign specific programs to the Cross-Goal Strategy for presentation in the Statement of Net Cost. Strategic Goals 1, 2, and 3 are sharply defined directives that guide the Department's reporting organizations to carry out the vision and programmatic mission, and the Net Cost programs can be specifically associated with these three strategic goals.

The following table presents the gross cost and exchange revenue by program for the Department for FYs 2008 and 2007. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between the Department and other entities within the federal government) or with the public (exchange transactions between the Department and non-federal entities).

Gross Cost and Exchange Revenue by Program

Gross Cost and Exchange Revenue by Program, as of September 30, 2008 and 2007, consisted of the following:

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2008				
	FSA	**OESE**	**OSERS**	**Other**	**Total**
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement					
Intragovernmental Gross Cost	$ 6,903	$ -	$ -	$ 82	$ 6,985
Gross Costs with the Public	21,885	-	-	4,220	26,105
Total Program Costs	28,788	-	-	4,302	33,090
Less: Intragovernmental Earned Revenue	4,128	-	-	19	4,147
Earned Revenue from the Public	4,901	-	-	34	4,935
Total Program Revenue	9,029	-	-	53	9,082
Promote Academic Achievement in Elementary and Secondary Schools					
Intragovernmental Gross Cost	-	135	-	16	151
Gross Costs with the Public	-	21,659	-	1,680	23,339
Total Program Costs	-	21,794	-	1,696	23,490
Less: Intragovernmental Earned Revenue	-	-	-	70	70
Earned Revenue from the Public	-	12	-	4	16
Total Program Revenue	-	12	-	74	86
Transformation of Education					
Intragovernmental Gross Cost	-	-	-	80	80
Gross Costs with the Public	-	-	-	1,489	1,489
Total Program Costs	-	-	-	1,569	1,569
Less: Intragovernmental Earned Revenue	-	-	-	2	2
Earned Revenue from the Public	-	-	-	30	30
Total Program Revenue	-	-	-	32	32
Special Education					
Intragovernmental Gross Cost	-	-	42	-	42
Gross Costs with the Public	-	-	15,843	-	15,843
Total Program Costs	-	-	15,885	-	15,885
Less: Intragovernmental Earned Revenue	-	-	2	-	2
Earned Revenue from the Public	-	-	15	-	15
Total Program Revenue	-	-	17	-	17
Net Cost of Operations	**$19,759**	**$21,782**	**$15,868**	**$7,408**	**$64,817**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2007				
	FSA	**OESE**	**OSERS**	**Other**	**Total**
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement					
Intragovernmental Gross Cost	$ 5,561	$ -	$ -	$ 82	$ 5,643
Gross Costs with the Public	21,858	-	-	4,423	26,281
Total Program Costs	27,419	-	-	4,505	31,924
Less: Intragovernmental Earned Revenue	3,452	-	-	-	3,452
Earned Revenue from the Public	4,459	-	-	22	4,481
Total Program Revenue	7,911	-	-	22	7,933
Promote Academic Achievement in Elementary and Secondary Schools					
Intragovernmental Gross Cost	-	142	-	17	159
Gross Costs with the Public	-	21,279	-	1,930	23,209
Total Program Costs	-	21,421	-	1,947	23,368
Less: Intragovernmental Earned Revenue	-	-	-	78	78
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	-	78	78
Transformation of Education					
Intragovernmental Gross Cost	-	-	-	76	76
Gross Costs with the Public	-	-	-	1,392	1,392
Total Program Costs	-	-	-	1,468	1,468
Less: Intragovernmental Earned Revenue	-	-	-	4	4
Earned Revenue from the Public	-	-	-	14	14
Total Program Revenue	-	-	-	18	18
Special Education					
Intragovernmental Gross Cost	-	-	82	-	82
Gross Costs with the Public	-	-	15,474	-	15,474
Total Program Costs	-	-	15,556	-	15,556
Less: Intragovernmental Earned Revenue	-	-	3	-	3
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	3	-	3
Net Cost of Operations	**$19,508**	**$21,421**	**$15,553**	**$7,802**	**$64,284**

Note 13. Interest Expense and Interest Revenue

For FY 2008 and FY 2007, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2008					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 6,190	$ -	$ 6,190	$ 1,369	$ 4,821	$ 6,190
FFEL Program						
FFEL Guaranteed Loan Program	-	1,372	1,372	1,372	-	1,372
Loan Purchase Commitment	3	-	3	3	-	3
Loan Participation Purchase	492	-	492	465	27	492
TEACH Grant Program	1	-	1	1	-	1
Other Programs	23	-	23	17	57	74
Total	**$ 6,709**	**$ 1,372**	**$ 8,081**	**$ 3,227**	**$ 4,905**	**$ 8,132**

	2007					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 5,675	$ -	$ 5,675	$ 1,251	$ 4,424	$ 5,675
FFEL Program						
FFEL Guaranteed Loan Program	-	1,616	1,616	1,616	-	1,616
Loan Purchase Commitment	-	-	-	-	-	-
Loan Participation Purchase	-	-	-	-	-	-
TEACH Grant Program	-	-	-	-	-	-
Other Programs	15	-	15	-	24	24
Total	**$ 5,690**	**$ 1,616**	**$ 7,306**	**$ 2,867**	**$ 4,448**	**$ 7,315**

Federal interest expense is recognized on the Department's outstanding debt. Non-federal interest revenue is earned on the individual loans and participation interests in FFEL loans. Federal interest revenue is earned on the uninvested fund balance with Treasury.

Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2008, budgetary resources were $193,993 million and net outlays were $90,580 million. As of September 30, 2007, budgetary resources were $168,264 million and net outlays were $74,530 million.

Permanent Indefinite Budget Authority

The Direct Loan, FFEL, and TEACH Grant Programs have permanent indefinite budget authority through legislation. Part D of the William D. Ford Federal Direct Loan Program and Part B of the Federal Family Education Loan Program, pursuant to the HEA, pertain to the existence, purpose, and availability of this permanent indefinite budget authority.

Reauthorization of Legislation

Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue per congressional budgeting rules.

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2008 and 2007, consisted of the following:

Obligations Incurred by Apportionment Type and Category
(Dollars in Millions)

	2008		2007	
Direct:				
Category A	$	1,285	$	1,303
Category B		161,452		124,472
Exempt from Apportionment		6		13
	$	162,743	$	125,788
Reimbursable:				
Category A	$	-	$	-
Category B		-		-
Exempt from Apportionment		96		93
	$	96	$	93
Obligations Incurred	**$**	**162,839**	**$**	**125,881**

Obligations incurred can be either direct or reimbursable. Reimbursable obligations are those financed by offsetting collections received in return for goods and services provided, while all other obligations are direct. Category A apportionments are those resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

Unused Borrowing Authority

Unused borrowing authority, as of September 30, 2008 and 2007, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2008		2007	
Beginning Balance, Unused Borrowing Authority	**$**	**9,223**	**$**	**7,248**
Current Year Borrowing Authority		57,743		20,037
Funds Drawn From Treasury		(39,049)		(18,062)
Borrowing Authority Withdrawn		(1,987)		-
Ending Balance, Unused Borrowing Authority	**$**	**25,930**	**$**	**9,223**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, Loan Purchase Commitment Authority, Loan Participation Purchase Authority, and TEACH Grant Program. Unused Borrowing Authority is a budgetary resource and is available to support obligations. The Department periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2008 and 2007, consisted of the following:

Undelivered Orders

(Dollars in Millions)

	2008	2007
Budgetary	$ 47,211	$ 48,235
Non-Budgetary	40,621	14,217
Undelivered Orders (Unpaid)	**$ 87,832**	**$ 62,452**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in the Net Position, Unexpended Appropriations. Undelivered orders for trust funds, reimbursable agreements, and federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 11)

Explanation of Differences Between the Statement of Budgetary Resources and the *Budget of the United States Government*

The *FY 2010 Budget of the United States Government* (President's Budget) presenting the actual amounts for the year ended September 30, 2008, has not been published as of the issue date of these financial statements. The FY 2010 President's Budget is scheduled for release in February 2009. A reconciliation of the FY 2007 SBR to FY 2009 President's Budget (FY 2007 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays is presented below.

SBR to Budget of the United States Government

(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 168,264	$ 125,881	$ 4,873	$ 74,530
Expired Funds	(732)	(354)	-	-
Amounts included in the President's Budget	7,967	7,967	-	-
Funds excluded from President's Budget and Rounding	(4)	(3)	(2)	(2)
Distributed Offsetting Receipts	-	-	-	4,873
Budget of the United States Government	**$ 175,495**	**$ 133,491**	**$ 4,871**	**$ 79,401**

The President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Funds of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the FY 2007 SBR for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.

Note 15. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations (proprietary) to Budget provides information on how budgetary resources obligated during the period relate to the net cost of operations. The schedule presented in this footnote reconciles budgetary resources with the net cost of operations by (1) removing resources that do not fund net cost of operations and (2) including components of net cost of operations that did not generate or use resources during the year.

Components Requiring or Generating Resources in Future Periods primarily result from subsidy re-estimates that will be executed in future periods. The Reconciliation of Net Cost of Operations to Budget as of September 30, 2008 and 2007, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

Resources Used to Finance Activities	2008	2007
Obligations Incurred	$ (162,839)	$ (125,881)
Spending Authority from Offsetting Collections and Recoveries	40,536	44,165
Offsetting Receipts	5,853	4,873
Imputed Financing from Costs Absorbed by Others	(29)	(32)
Total Resources Used to Finance Activities	**(116,479)**	**(76,875)**
Resources Used to Finance Items Not Part of Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided (+/-)	(25,553)	(2,343)
Resources that Fund Expenses Recognized in Prior Period	(1,111)	(3,345)
Credit Program Collections which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	29,763	34,261
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in the Current or Prior Period	(51,742)	(39,979)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(48,643)**	**(11,406)**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	(456)	(445)
Other (+/-)	290	907
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	**(166)**	**462**
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	(6)	(31)
Upward/Downward Re-estimates of Credit Subsidy Expense	513	(1,354)
Increase in Exchange Revenue Receivable from the Public	2,607	2,302
Other (+/-)	71	(194)
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	**3,185**	**723**
Net Cost of Operations	**$ (64,817)**	**$ (64,284)**

Note 16. Incidental Custodial Collections

The Department administers certain activities associated with the collection of non-exchange revenues. The Department collects these amounts in a custodial capacity and transfers the amounts collected to the General Fund of the Treasury at the end of each fiscal year. These collections primarily consist of interest and penalties on accounts receivable and are considered incidental to the primary mission of the Department. During FYs 2008 and 2007, the Department collected $1.4 million and $5.4 million, respectively, in custodial revenues.

Note 17. 2005 Hurricane Relief

The *Hurricane Education Recovery Act* (P.L. 109-148, Division B, Title IV), enacted on December 30, 2005, and the *U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007,* appropriated funds to the Department to provide needed assistance to reopen schools and help educate the 370,000 students affected by Hurricanes Katrina and Rita. As of September 30, 2008, $1,945 million has been appropriated to the Department, of which $1,942 million has been obligated to assist local educational agencies and non-public schools, and $1,748 million has been expended. As of September 30, 2007, $1,945 million has been appropriated to the Department, of which $1,943 million has been obligated to assist local educational agencies and non-public schools, and $1,557 million has been expended.

Earmarked Funds Donated for Hurricane Relief

In the aftermath of Hurricane Katrina, a number of foreign governments, international entities and individuals made donations of financial assistance to the U.S. Government to support Katrina relief and recovery efforts. These donations were received by the U.S. Department of State as an intermediary. Subsequently, $61 million was transferred to the Department to finance educational initiatives in Louisiana and Mississippi under a Memorandum of Understanding issued in March 2006. As of September 30, 2008, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts and $44 million has been expended. As of September 30, 2007, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts and $22 million has been expended.

Note 18. Contingencies

Guaranty Agencies

The Department can assist guaranty agencies experiencing financial difficulties by various means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of guaranty agencies because the likelihood of such occurrences cannot be estimated with sufficient reliability.

Federal Perkins Loan Program Reserve Funds

The Federal Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In fiscal year 2008, the Department provided funding of 83.01 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 16.99 percent of program funding. For the latest academic year ended June 30, 2008, approximately 648 thousand loans were made, totaling approximately $1.4 billion at 1,625 institutions, averaging $2,121 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.5 billion as of June 30, 2008.

In FY 2007, the Department provided funding of 84.3 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 15.7 percent of program funding. For the academic year ended June 30, 2007, approximately 722 thousand loans were made, totaling approximately $1.6 billion at 1,636 institutions, averaging $2,230 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.5 billion as of June 30, 2007.

Federal Perkins Loan Program borrowers who meet statutory eligibility requirements—such as service as a teacher in low-income areas, as a Peace Corps or VISTA volunteer, in the military or in law enforcement, in nursing, or in family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances, a contingency is deemed to exist. The Department may be required to compensate Federal Perkins Loan Program institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Other Matters

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

Note 19. Subsequent Events

On October 7, 2008, President Bush signed P.L. 110-350, which extended the Secretary of Education's authority to purchase FFEL loans. This authority, originally enacted in the ECASLA, would have otherwise expired on September 30, 2009; P.L. 110-350 extended the authority through September 30, 2010. The Administration recently announced plans to replicate the 2008-2009 loan purchase and participation options for the 2009-2010 award year. Other approaches to purchase outstanding FFEL loans are also under consideration, but specific terms and conditions have yet to be determined.

United States Department of Education
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2008
(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services		OTHER	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:										
Unobligated balance, brought forward, October 1:	$ 5,272	$ 37,111	$ 4,449	$ 36,792	$ 445		$ 109		$ 269	$ 319
Recoveries of prior year Unpaid Obligations	2,097	3,115	1,447	3,115	535		44		71	
Budgetary Authority:										
Appropriations	73,002	153	28,562	151	21,986		14,231		8,223	2
Borrowing Authority		57,743		57,743						
Spending authority from offsetting collections (gross):										
Earned										
Collected	1,751	33,570	1,638	33,510			4		109	60
Change in Receivables from Federal Sources	(1)						(2)		1	
Change in unfilled customer orders										
Advance Received	4								4	
Subtotal	$ 74,756	$ 91,466	$ 30,200	$ 91,404	$ 21,986	$ 0	$ 14,233	$ 0	$ 8,337	$ 62
Permanently not available	(2,980)	(16,844)	(2,058)	(16,835)	(498)		(226)		(198)	(9)
Total Budgetary Resources	**$ 79,145**	**$ 114,848**	**$ 34,038**	**$ 114,476**	**$ 22,468**	**$ 0**	**$ 14,160**	**$ 0**	**$ 8,479**	**$ 372**
Status of Budgetary Resources:										
Obligations incurred:										
Direct	$ 74,742	$ 88,001	$ 30,418	$ 87,959	$ 22,102		$ 14,102		$ 8,120	$ 42
Reimbursable	96						2		94	
Subtotal	$ 74,838	$ 88,001	$ 30,418	$ 87,959	$ 22,102	$ (0)	$ 14,104	$ (0)	$ 8,214	$ 42
Unobligated Balances:										
Apportioned	$ 1,540	$ 396	$ 1,166	$ 396	$ 223		$ 12		$ 139	$
Subtotal	$ 1,540	$ 396	$ 1,166	$ 396	$ 223	$ (0)	$ 12	$ (0)	$ 139	$ (0)
Unobligated Balance not available	2,767	26,451	2,454	26,121	143		44		126	330
Total Status of Budgetary Resources	**$ 79,145**	**$ 114,848**	**$ 34,038**	**$ 114,476**	**$ 22,468**	**$ (0)**	**$ 14,160**	**$ (0)**	**$ 8,479**	**$ 372**
Change in Obligated Balance:										
Obligated balance, net										
Unpaid obligations, brought forward, October 1	$ 50,712	$ 14,734	$ 12,485	$ 14,425	$ 17,813		$ 10,753		$ 9,661	$ 309
Uncollected customer payments from Federal Sources, brought forward, October 1	(3)						(3)			
Total, unpaid obligated balance, brought forward, net	$ 50,709	$ 14,734	$ 12,485	$ 14,425	$ 17,813	$ (0)	$ 10,750	$ (0)	$ 9,661	$ 309
Obligation Incurred net (+/-)	74,838	88,001	30,418	87,959	22,102		14,104		8,214	42
Gross Outlays	(73,578)	(58,180)	(28,529)	(58,112)	(21,601)		(15,718)		(7,730)	(68)
Recoveries of prior year unpaid obligations, actual	(2,097)	(3,115)	(1,447)	(3,115)	(535)		(44)		(71)	
Change in uncollected customer payments from Federal Sourc	1						2		(1)	
Obligated Balance, net, end of period										
Unpaid Obligations	$ 49,875	$ 41,440	$ 12,927	$ 41,157	$ 17,779	$	$ 9,095		$ 10,074	$ 283
Uncollected customer payments from Federal Sources	(2)						(1)		(1)	
Total, unpaid obligated balance, net, end of period	**$ 49,873**	**$ 41,440**	**$ 12,927**	**$ 41,157**	**$ 17,779**	**$ (0)**	**$ 9,094**	**$ (0)**	**$ 10,073**	**$ 283**
Net Outlays										
Net Outlays:										
Gross Outlays	$ 73,578	$ 58,180	$ 28,529	$ 58,112	$ 21,601	$	$ 15,718		$ 7,730	$ 68
Offsetting collections	(1,755)	(33,570)	(1,638)	(33,510)			(4)		(113)	(60)
Distributed Offsetting receipts	(103)	(5,750)	(28)	(5,750)					(75)	
Net Outlays	**$ 71,720**	**$ 18,860**	**$ 26,863**	**$ 18,852**	**$ 21,601**	**$ (0)**	**$ 15,714**	**$ (0)**	**$ 7,542**	**$ 8**

The accompanying notes are an integral part of these statements.

Required Supplementary Stewardship Information

Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 86 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitative services. Although spending for entitlement programs is usually a function of the authorizing statutes creating the programs and is not generally affected by appropriations laws, spending for discretionary programs is decided in the annual appropriations process. Most Department programs are discretionary.

Education in the United States is primarily a state and local responsibility. States, communities, and public and private organizations establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominantly state and local role. It is estimated that roughly $1.1 trillion will be spent nationwide on education at all levels for the school year 2008-2009, with Department of Education expenditures, as well as loans and other aid made available as a result of the Department's student financial aid programs. The Department's FY 2008 appropriations of more than $68.6 billion represents about 2.3 percent of the federal government's $2.9 trillion FY 2008 budget.

Investment in Human Capital

Office of Federal Student Aid. The Office of Federal Student Aid administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, guaranteed loans, and work-study funding to eligible undergraduate and graduate students. See more detail at: http://www.ed.gov/about/offices/list/fsa/index.html?src=oc

Office of Elementary and Secondary Education. The Office of Elementary and Secondary Education provides leadership, technical assistance, and financial support to state and local educational agencies for the maintenance and improvement of preschool, elementary, and secondary education. Financial assistance programs support services for children in high-poverty schools, institutions for neglected and delinquent children, homeless children, certain Native American children, children of migrant families, and children who live on or whose parents work on federal property. Funding is also provided to increase the academic achievement of students by ensuring that all teachers are highly qualified to teach. See more detail at: http://www.ed.gov/about/offices/list/oese/index.html?src=oc

Office of Special Education and Rehabilitative Services. The Office of Special Education and Rehabilitative Services supports state and local programs that assist in educating children, youth, and adults with special needs to increase their level of employment, productivity, independence, and integration into the community. Funding is also provided for research to improve the quality of their lives. See more detail at: http://www.ed.gov/about/offices/list/osers/index.html?src=oc

Office of Safe and Drug-Free Schools. The Office of Safe and Drug-Free Schools supports efforts to create safe and violence-free schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well-being of students, and teach students good citizenship and character. Grants emphasize coordinated, collaborative responses to develop and maintain safe, disciplined, and drug-free learning environments. See more detail at: http://www.ed.gov/about/offices/list/osdfs/index.html?src=oc

Office of Innovation and Improvement. The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools, and community and nonprofit organizations. The office leads the movement for greater parental options such as charter schools. The office also supports special grants designed to raise student achievement by improving teachers' knowledge and understanding of and appreciation for traditional U.S. history. See more detail at: http://www.ed.gov/about/offices/list/oii/index.html?src=oc

Institute of Education Sciences. Established by the Education Sciences Reform Act of 2002, the Institute of Education Sciences is the research arm of the Department of Education. Its mission is to expand knowledge and provide information on the condition of education, practices that improve academic achievement, and the effectiveness of federal and other education programs. Its goal is the transformation of education into an evidence-based field in which decision makers routinely seek out the best available research and data before adopting programs or practices that will affect significant numbers of students. See more detail at: http://www.ed.gov/about/offices/list/ies/index.html?src=oc

Office of English Language Acquisition. The Office of English Language Acquisition directs programs designed to enable students with limited English proficiency to become proficient in English and meet state academic content and student achievement standards. Enhanced instructional opportunities are provided to children and youths of Native American, Alaska Native, Native Hawaiian, Pacific Islander, and immigrant backgrounds who are limited English proficient. Grants pay the federal share of the cost of model programs for the establishment, improvement, or expansion of foreign language study in elementary and secondary schools. See more detail at: http://www.ed.gov/about/offices/list/oela/index.html?src=oc

Office of Vocational and Adult Education. The Office of Vocational and Adult Education provides leadership, technical assistance, and funding for adult education and career and technical education to state and local agencies to help students improve their literacy skills and prepare them for postsecondary education and careers through strong high school programs and career and technical education. The office ensures the equal access of minorities, women, individuals with disabilities, and disadvantaged persons to career and technical education and adult education and ensures that career and technical education students are held to the same challenging academic content and academic achievement standards established by the state under the *No Child Left Behind Act of 2001*. Funding is also provided to promote identification and dissemination of effective practices in raising student achievement in high schools, community colleges and adult education programs, and support targeted research investments. See more detail at: http://www.ed.gov/about/offices/list/ovae/index.html?src=oc

Office of Postsecondary Education. The Office of Postsecondary Education provides grants to colleges and universities to: promote reform, innovation, and improvement in postsecondary education; increase access to and completion of postsecondary education by disadvantaged students; strengthen the capacity of colleges and universities that serve a high percentage of minority and disadvantaged students; and improve teacher and student development resources. The international programs promote international education and foreign language studies and research. The office administers the accrediting agency recognition process and coordinates activities with states that affect institutional participation in federal financial assistance programs. See more detail at: http://www.ed.gov/about/offices/list/ope/index.html?src=oc

Program Inputs

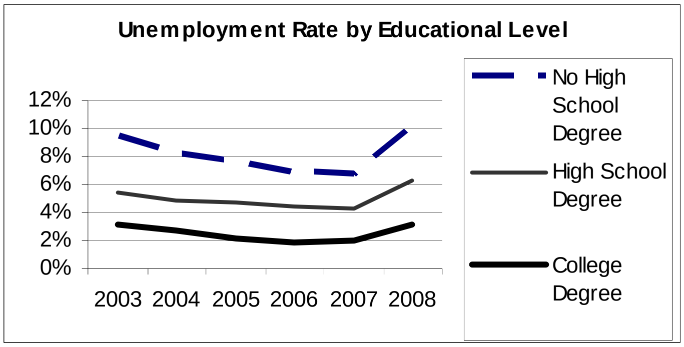
The Department currently administers programs affecting every area and level of education. While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. Since the *No Child Left Behind Act* was signed into law in 2002, the Department's current staff of approximately 4,400 has decreased 4 percent below the 4,566 employees who administered federal education programs in 2001. At the same time, the Department manages 40 percent more in funds in 2007 than it did in 2001 when its human capital investment was only $38.7 billion. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to 2 percent of the Department's budget, ensuring that the Department delivers about 98 cents on the dollar in education assistance to states, school districts, postsecondary institutions, and students.

Summary of Human Capital Expenses

(Dollars in Millions)	2008	2007	2006	2005	2004
Federal Student Aid Expense					
Direct Loan Subsidy	$ 5,236	$ (499)	$ 6,655	$ 5,211	$ (543)
FFEL Program Subsidy	(2,852)	4,884	28,062	9,863	8,516
Grant Programs	17,464	15,092	15,447	15,070	14,943
Salaries and Administrative	189	173	172	164	186
Subtotal	**20,037**	**19,650**	**50,336**	**30,308**	**23,102**
Other Departmental					
Elementary and Secondary Education	21,583	21,199	21,710	22,940	21,188
Special Education and Rehabilitative Services	15,730	15,402	15,215	13,995	12,687
Other Departmental Programs	4,911	5,109	5,353	6,067	5,160
Salaries and Administrative	491	467	467	486	448
Subtotal	**42,715**	**42,177**	**42,745**	**43,488**	**39,483**
Grand Total	**$ 62,752**	**$ 61,827**	**$ 93,081**	**$ 73,796**	**$ 62,585**

Program Outcomes

Education is the stepping stone to higher living standards for American citizens, and it is vital to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.



Economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Both individuals and society as a whole have placed increased emphasis on educational attainment as the workplace has become increasingly technological, and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of completing high school and investing in postsecondary education.

Unemployment Rate. Individuals with lower levels of educational attainment are more likely to be unemployed than those who had higher levels of educational attainment. The October 2008 unemployment rate for adults (25 years old and over) who had not completed high school was 10.3 percent, compared with 6.3 percent for those with four years of high school and 3.1 percent for those with a bachelor's degree or higher. Younger people with only high school diplomas tended to have higher unemployment rates than adults 25 and over with similar levels of education.

Annual Income. As of July 2008, the annualized median income for adults (25 years and over) varied considerably by education level. Men with a high school diploma earned $37,180, compared with $66,404 for men with a college degree. Women with a high school diploma earned $27,092, compared with $48,984 for women with a college degree. Men and women with college degrees earned 77 percent more than men and women with high school diplomas. Earnings for workers with college degrees have increased in the past year by 15.79 percent for women and 13.14 percent for men. These returns of investing in education directly translate into the advancement of the American economy as a whole.

Report of the Independent Auditors

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 14, 2008

Honorable Margaret Spellings
Secretary of Education
Washington, D.C. 20202

Dear Madam Secretary:

The enclosed reports present the results of the annual audits of the U.S. Department of Education's financial statements for fiscal years 2008 and 2007, to comply with the Government Management Reform Act of 1994 (GMRA). The reports should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of Ernst & Young, LLP (Ernst & Young) to audit the financial statements of the Department as of September 30, 2008 and 2007, and for the years then ended. The contract required that the audits be performed in accordance with U.S. generally accepted government auditing standards and OMB's bulletin, *Audit Requirements for Federal Financial Statements.*

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or on compliance with laws and regulations.

Ernst & Young is responsible for the attached auditor's report and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,

/s/

Jerry G. Bridges (Acting)

Enclosures

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Tel: 703 747-1000
www.ey.com

Report of Independent Auditors

To the Inspector General
U.S. Department of Education

We have audited the accompanying consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Department's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in the Management's Discussion and Analysis, required supplementary stewardship information, required supplementary information, and other accompanying information is not a required part of the basic financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. The other accompanying information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it. For the remaining information, we have applied certain limited procedures, which

ERNST & YOUNG

consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 13, 2008, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Ernst & Young LLP

November 13, 2008

ERNST & YOUNG

Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Tel: 703 747–1000
www.ey.com

Report on Internal Control

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheet of the U.S. Department of Education (the Department) as of September 30, 2008, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the Department's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

ERNST & YOUNG

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described below is a material weakness.

SIGNIFICANT DEFICIENCIES

1. Continued Focus on Credit Reform Estimation and Financial Reporting Processes is Warranted (Modified Repeat Condition)

The Federal Credit Reform Act of 1990, as amended, was enacted to require agencies to more accurately measure and budget for the cost of federal loan programs. In implementing the requirements of the Credit Reform Act, and in complying with Federal accounting standards, agencies are required to estimate the net cost of extending credit over the life of a direct loan or guaranteed loan based on the present value of estimated net cash flows, excluding certain administrative costs. Such costs are also re-estimated on a periodic basis. While improvements have been made over the last several years, we noted that internal controls and processes surrounding the calculation and reporting of the loan liability activity and subsidy estimates should be further refined to ensure that appropriate estimates are prepared.

During FY 2008, the Department continued the monthly integrated loans program meetings that were initiated in FY 2007. These meetings, which consolidated and streamlined activities previously performed by subgroups of the Credit Reform Workgroup (CRW), include representatives from the Office of the Chief Financial Officer (OCFO), Federal Student Aid (FSA), Budget Service, Office of Postsecondary Education (OPE), and OMB. During these meetings, representatives actively reviewed reports developed to enhance credit reform discussions and to discuss key internal issues and trends related to the portfolios.

During FY 2008, new legislation, the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), was enacted, which provided the Secretary of Education with the authority to purchase student loans from private lenders. The Department assembled a team with representatives from throughout the organization to develop, document, and implement the necessary processes. Representatives included individuals from the Office of the Under Secretary, OCFO, Office of General Counsel, Budget Service and FSA. We noted that the Department implemented and accounted for these challenging programs, which became effective during the last quarter of the year.

ERNST & YOUNG

However, after identifying the challenges, considerable expertise and key improvements in communication made or currently being made by the Department, we noted the following items that indicate management controls and analysis can be strengthened:

- The long-term cost for the credit programs is reflected in the financial statements through periodic charges for subsidy costs, adjustments or re-estimates to those subsidy costs, and loan activity, which is all recognized in the allowance for the direct loan (DL) receivable and liability for the guaranteed loan (FFEL) program. The Department uses a computer-based cash flow projection model (i.e., Student Loan Model, or SLM) and OMB calculator to calculate subsidy estimates related to the loan programs that are then recorded in the allowance for subsidy or liability account. The model uses multiple sources of loan data and hundreds of complex assumptions. In order to perform a check of estimates resulting from the SLM and OMB calculator, the Department prepares a backcast, which compares the model's estimates to actual activity for the current and prior fiscal years. The SLM also produces a forecast of the expected cash flows in the current year for the outstanding loans which, when discounted, can be used to compare to the recorded activity in the general ledger. Additionally, the new data analysis tools prepared by the Department support more disaggregated reviews of data by cohort. The Department's financial systems are not configured to account for cash flows on a precise cohort level. Rigorous examinations using the new cohort data as well as comparisons using the backcast and forecast tools, and to the extent practical, recomputation of expected amounts based on loan volumes, interest rates and simplified cash flow assumptions, can serve as a key detection control for potential undetected errors that may exist in the development of the assumption data and credit reform estimates.

- Consistent with credit reform implementation guidance, the Department relies significantly on prior patterns to estimate future cash flow activity. However, the Department should be more proactive in identifying situations in which a refinement of such estimates should be made when circumstances suggest that fundamental patterns will change. For example, to the extent that lender or borrower behavior appears likely to have changed, or be changing, deviations from the use of historical data, or consideration of additional information to capture the impact of such changes, may be warranted in developing credit reform estimates. The current overall reductions in credit availability for lenders and borrowers, declines in home prices, increases in unemployment and deterioration in economic conditions may have a significant impact on student loan borrowers and consequently on the Department's credit reform results. Many of these impacts have not been explicitly reflected in the Department's estimates.

  Since the Department's approach to estimating deferment, forbearance, and default rates includes unemployment and inflation rates for selected loan products, and since forecasts of these external factors are used in arriving at the projected deferment, forbearance, and default amounts, the Department's estimates would be expected to capture some of the

ERNST & YOUNG

indirect impact of the credit environment. However, since the models are estimated using data that largely do not reflect recessionary conditions and for a significant period reflect what in hindsight has been assessed to be a credit bubble, the Department could gain additional insights by performing stress-testing around its estimates and, as necessary, postulating borrower and lender behavior that may occur under the current credit conditions and/or if recessions of varying severity unfold. This could be achieved by, for example:

- *Cohort Analysis.* Since differences may exist in how the events in the credit crisis and broader economy impact borrowers at various points in their career, examining deferment, forbearance, and default rates by cohort may be beneficial. This could be achieved by comparing the rates at the same point in repayment for newer loans to those of older loans. This exercise would provide information regarding the extent to which there may be differences in performance across cohorts. Obtaining credit rating data for a subset of borrowers may also be useful in furthering analysis and tracking borrowers' ability to pay over time.
- *Refinement of Tools to Reveal Trends in the Department's Loan Level Data.* We noted that the Department had made efforts to develop additional analytical tools utilizing the considerable data available to it, and is continuing the process to refine these tools and reports to aid in detecting trends. We also noted that the Department has made efforts to capture the impact of current credit conditions through the inclusion of an ad hoc variable in its model, which allows defaults for certain years to be at a different level than what would otherwise be predicted. Considering additional forms of stress-testing estimates, such as alternative unemployment and inflation scenarios, could also aid the Department in its analysis.
- *Examining Behavior During Previous Periods of Economic Stress.* Though the data used in the Department's estimation generally reflects good economic conditions, they also cover at least two periods of economic changes from which information may be gathered to assess the potential impact of the current situation. For example, examining data and performing simulation exercises using recession-era unemployment rate paths from the early 1980s could provide additional information regarding default projections should the current economic environment result in similar increases in unemployment over the next few years. Such analysis may provide useful information for stress-testing the Department's deferment, forbearance, and default estimates, and aid in policy making to mitigate the impact of the current credit conditions on participants in the Department's programs and/or the costs of the programs.

ERNST & YOUNG

Recommendations:

We recommend that the Department of Education perform the following:

1. Continue to improve the analytical tools used for the loan estimation process, working to develop formats and content that synthesizes and captures loan level data available in the Department's systems. Specifically:
   - Examine deferment, forbearance, and default rates by cohort to determine the extent to which there may be differences in performance across cohorts.
   - For a subset of borrowers, obtain credit rating data and track the borrower's ability to pay over time. Utilize the results to further analysis.
   - Perform additional forms of stress-testing estimates, such as alternative unemployment and inflation scenarios.
2. Ensure that all analytical tools reconcile with one another to allow for their use as detect controls for loan program cost estimates.
3. Continue efforts to more fully implement cohort reporting with specific research on whether balances in the Department's financial records are supported by estimates, by cohort, from the SLM and the cohort analysis tool and that remaining credit reform estimates for each cohort are appropriate in relation to the remaining outstanding loans for such cohorts.
4. Document in detail the consideration and ultimate resolution of scenarios under which early warnings from patterns in Department data and other indicators of stress on program participants would be expected to lead to model adjustments in anticipation of likely changes in cash flows and result in changes in credit reform estimates.

2. Controls Surrounding Information Systems Need Enhancement (Modified Repeat Condition)

In connection with the annual audit of the Department's FY 2008 financial statements, we conducted a controls review of the information technology processes related to the significant accounting and financial reporting systems. OMB Circular A-130, *Management of Federal Information Resources*, requires: (1) standard documentation and procedures for certification and accreditation of systems; (2) records management programs that provide adequate and proper documentation of agency activities; (3) agencies to develop internal information policies and procedures and oversee, evaluate, and otherwise periodically review agency information resource management activities; and (4) agency plans to assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system.

ERNST & YOUNG

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* identifies five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring. With respect to the Control Environment and Monitoring components, the GAO publication states that:

- "management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management," and
- "internal control monitoring should assess the quality of performance over time and ensure that the findings of audit and other reviews are promptly resolved."

While the Department has worked towards strengthening and improving controls over information technology processes during FY 2008, our audit work and audit reports prepared by the Office of Inspector General (OIG) continue to identify certain control weaknesses, including repeat conditions, within information technology security and systems, that need to be addressed. During our review of IT general controls at the Department and FSA, we identified the following deficiencies: (1) lack of monitoring of the activities of administrator accounts at the application, operating system and/or database layers; (2) access for terminated users was not removed in a timely manner or not removed at all; (3) revalidation of users' rights is not consistently performed for all applications and users and for those revalidations that are performed, we noted instances in which there was no validation of the appropriateness of user access; (4) configurations for operating systems, databases and related security software did not conform to leading practices and, in some instances, to the relevant Department or FSA policy; and (5) separation of duties was not consistently enforced through systems access.

The OIG has identified deficiencies for the Department in its 2008 Federal Information Security Management Act (FISMA) reports related to the Debt Management and Collection System (DMCS). Areas of concern noted in the FISMA reports include: (1) lack of comprehensive incident response and handling capabilities; (2) lack of a configuration management program to reasonably maintain security over FSA systems in a consistent manner; (3) limited oversight of contractors supporting certain systems; and (4) incomplete certification and accreditation procedures.

In addition, several of the above deficiencies are repeat conditions (albeit for different platforms or systems) that were noted in our work and in the OIG's audit reports, an indication that the control environment and monitoring components of internal controls at the Department require additional focus.

ERNST & YOUNG

Report on Internal Control
Page 7

Recommendation:

Applications and related infrastructure are supported by a number of separate groups within the Department and FSA. While these groups have attempted to implement controls promulgated by Department, FSA, OMB, and NIST guidelines, control processes and practices have been implemented in a disparate manner across these groups. In addition, audit resolution activities have traditionally been handled by each separate group and have largely focused around addressing the immediate security and control weaknesses identified by audit reports.

We recommend that the Department continue its efforts to address security and control weaknesses disclosed in audit reports or identified in internal self-assessments with an emphasis on addressing the root cause of the security or control weakness uniformly across the organization, which should decrease the likelihood of a similar weaknesses being identified in future audit assessments and internal self-assessments. Examples of addressing root causes may include, but are not limited to, additional training for the information technology professionals within the organization, updates to procedures to ensure proper configuration of servers against documented hardening standards at the time of deployment, and reviewing performance-based contracts of vendors providing system support services to the Department. As appropriate, the specific security setting and government standards that are to be applied, and approaches to achieving and monitoring such compliance, may merit additional focus in contracts the Department executes with service providers.

More specifically the Department should: (1) implement standards around the logging of privileged user access and activities and establish controls over the monitoring of that access; (2) strengthen access controls to protect mission critical systems (e.g., periodic access revalidation, timely removal of user access, physical data center access controls); (3) improve the configuration management process to ensure consistent security configuration of servers and mainframe security packages across the organization and improve configuration settings to comply with best practices; (4) improve governance over the changes to technical security configurations; (5) strengthen incident handling and response procedures; (6) comprehensively review technical security weaknesses identified in prior audits in order to determine whether security controls have been fully implemented or adequately address the security weaknesses across the organization; (7) enhance monitoring of its security training and awareness program, specifically around completion of such training by all employees and contractors, including the sharing of sensitive information; (8) consistently perform risk assessments and Certification and Accreditation to include new systems and new environments; (9) improve controls over the protection of personally identifiable information (PII); and (10) update its contingency planning and disaster recovery planning documentation.

ERNST & YOUNG

Report on Internal Control
Page 8

STATUS OF PRIOR YEAR FINDINGS

In the reports on the results of the FY 2007 audit of the Department of Education's financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:

Summary of FY 2007 Significant Deficiencies

Issue Area	Summary Control Issue	FY 2008 Status
Continued Focus on Credit Reform Estimation and Financial Reporting Processes is Warranted (Significant Deficiency)	Management controls and analysis need to be strengthened over credit reform estimation and financial reporting processes.	Improvements noted – Modified Repeat Condition classified as a Significant Deficiency
Additional Focus on Program Monitoring Activities is Needed (Significant Deficiency)	Renewed focus is warranted regarding monitoring activities for various Departmental loan and grant programs.	Improvements noted in updating policies and risk assessment processes. Continued focus on implementation and resources is warranted – Not classified as a Significant Deficiency at September 30, 2008
Controls Surrounding Information Systems Need Enhancement (Significant Deficiency)	Improvements are needed in overall information technology security management.	Improvements noted – Modified Repeat Condition classified as a Significant Deficiency

We have reviewed our findings and recommendations with Department management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to the OIG in accordance with applicable Department directives.

This report is intended solely for the information and use of the management of the Department, OMB, Congress, and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 13, 2008

ERNST & YOUNG

Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Tel: 703 747–1000
www.ey.com

Report on Compliance with Laws and Regulations

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheet of the U.S. Department of Education (the Department) as of September 30, 2008, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the Department is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Department.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with certain requirements discussed in the preceding paragraph. We have identified the following instance of noncompliance:

While the Department has worked towards strengthening and improving controls over information technology processes during FY 2008, our audit work and audit reports prepared by the Office of Inspector General (OIG) continue to identify certain control weaknesses, including

ERNST & YOUNG

repeat conditions, within information technology security and systems that need to be addressed. During our review of IT general controls at the Department and Federal Student Aid (FSA), we identified the following deficiencies: (1) lack of monitoring over the activities of administrator accounts at the application, operating system and/or database layers; (2) access for terminated users was not removed timely or not removed at all; (3) revalidation of users' rights is not consistently performed for all applications and users and for those revalidations that are performed, there is no validation of the appropriateness of user access; (4) configurations for operating systems, databases and related security software did not conform to leading practices and, in some instances, to the relevant Department or FSA policy; and (5) separation of duties was not consistently enforced through systems access. The OIG has identified deficiencies for the Department in its 2008 Federal Information Security Management Act (FISMA) reports related to the Debt Management and Collection System (DMCS). Areas of concern noted in the FISMA reports include: (1) lack of comprehensive incident response and handling capabilities, (2) lack of a configuration management program to reasonably maintain security over FSA systems in a consistent manner, (3) limited oversight of contractors supporting certain systems, and (4) incomplete certification and accreditation procedures.

Our Report on Internal Control dated November 13, 2008 includes additional information related to the financial management systems that were found not to comply with the requirements of FFMIA relating to information technology security and controls. It also provides information on the responsible parties, relevant facts pertaining to the noncompliance with FFMIA, and our recommendations related to the specific issues. We have reviewed our findings and recommendations with management of the Department. Management concurs with our recommendations and, to the extent findings and recommendations were noted in prior years, has provided a proposed action plan to the OIG in accordance with applicable Department directives. We did not audit management's proposed action plan and accordingly, we express no opinion on it.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department, OMB, Congress, and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 13, 2008

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-

NOV 10 2008

MEMORANDUM

To: Jerry G. Bridges
Acting Inspector General

FROM: Thomas P. Skelly Thomas P. Skelly
Delegated to perform functions of Chief Financial Officer

Danny Harris
Chief Information Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2008 and 2007 Financial Statement Audit
U.S. Department of Education
ED-OIG/A17I0001

Please convey our sincere thanks and appreciation to everyone on your staff for their hard work and dedication on this financial statement audit. The Department reviewed the draft Fiscal Years 2008 and 2007 Financial Statement Audit Reports. Without exception, we concur and agree with the Report of Independent Auditors and the Report on Internal Control. We also concur and agree with the Report on Compliance with Laws and Regulations.

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

Again, please convey my appreciation to everyone on your staff whose efforts permitted the Department to complete the audit within the established timeframe. Please contact Gary Wood at (202) 401-0862 with questions or comments.

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Other Accompanying Information

Improper Payments Information Act Reporting Details

The *Improper Payments Information Act of 2002* (IPIA) (Public Law 107-300) and the Office of Management and Budget's (OMB) Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, define requirements to reduce improper/erroneous payments made by the federal government. OMB also has established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recovery auditing activities. Agencies are required to annually review and assess all programs and activities to identify those susceptible to significant improper payments. The guidance in OMB Circular A-123, Appendix C, defines a significant improper payment as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually. For each program identified as susceptible and determined to be at risk, agencies are required to report to the President and the Congress the annual amount of estimated improper payments, along with steps taken and actions planned to reduce them.

The Department reviews controls and systems under the *Federal Managers' Financial Integrity Act of 1982* to ensure that the agency has controls that can be relied on.

To facilitate agency efforts to meet the reporting requirements of the IPIA, OMB announced a new *President's Management Agenda* program initiative beginning in the first quarter of FY 2005 entitled Eliminating Improper Payments. Previously, OMB tracked the Department's IPIA activities with other financial management activities through the Improving Financial Performance initiative. The establishment of a dedicated *President's Management Agenda* initiative focused the Department's improper payments elimination efforts. Under the new initiative, the Department's status and progress are tracked and reported to OMB in quarterly scorecards.

The Department has divided its improper payment activities into the following segments: Student Financial Assistance Programs, ESEA, Title I Program, Other Grant Programs, and Recovery Auditing.

Student Financial Assistance Programs

Risk Assessment

As required by the IPIA, Federal Student Aid inventoried its programs during FY 2008 and reviewed program payments made during FY 2007 (the most recent complete fiscal year available) to assess the risk of improper payments. The review identified and then focused on the following key programs: Federal Family Education Loan Program, Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant and Federal Work-Study Programs, and Federal Direct Loan Program. For more data on these programs, please refer to the Federal Student Aid Annual Report.

In addition to the A-123 guidance, the criteria for determining susceptible risk within the programs were defined as follows:

Programs with annual outlays that exceed $200 million or programs that were previously required to report improper payment information under OMB Circular A-11, *Budget Submission,* former Section 57.2[1].

Risk-Susceptible Programs

The following Title IV programs were deemed to be potentially susceptible to the risk of significant improper payments based on OMB criteria described above.

- Federal Family Education Loan Program
- Federal Pell Grant Program
- Federal Supplemental Educational Opportunity Grant and Federal Work-Study Programs
- William D. Ford Federal Direct Loan Program (Direct Loans)

As data become available, two new programs will be assessed, the Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (SMART) Grant.

In FY 2008, the lack of liquidity in financial markets impacted the ability of FFEL lenders and secondary markets to find cost-effective financing. As a result, Congress passed the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), which was signed by the President on May 8, 2008. This gave the Department authority to purchase FFEL loans from lenders to ensure liquidity in the FFEL Program. In addition, the Secretary required guaranty agencies to update lender-of-last-resort (LLR) rules and operating procedures and provided further guidance to ensure consistent borrower access to FFEL Program loans through the efficient and effective implementation of the LLR program. During the first quarter of FY 2009, FSA will do an assessment of the risk of the loan purchase process and the LLR program to determine the risk of improper payments and how best to estimate improper payments.

A risk assessment was completed for the Direct Loan program in FY 2008. The overall improper payment rate, based on this risk analysis, was 0.022%. Since this rate is below the threshold for reporting on improper payments, no further information on Direct Loans is included herein.

Statistical Sampling

The size and complexity of the student aid programs make it difficult to consistently define "improper" payments. The legislation and OMB guidance use the broad definition: "Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement." Federal Student Aid has a wide array of programs, each with unique objectives, eligibility

[1] The four original programs identified in OMB Circular A–11, Section 57, were Student Financial Assistance (now Federal Student Aid), ESEA, Title I, Special Education Grants to States, and Vocational Rehabilitation Grants to States. Subsequently, after further review of the program risk, OMB removed Special Education Grants to States and Vocational Rehabilitation Grants to States from the list. OMB considers Section 57 programs susceptible to significant improper payments regardless of the established thresholds. OMB Circular A-136 also applies.

requirements, and payment methods. Consequently, each program has its own universe (or multiple universes) of payments that must be identified, assessed for risk, and, if appropriate, statistically sampled to determine the extent of improper payments.

Federal Family Education Loan Program. In FY 2008, Federal Student Aid contracted with Oak Ridge National Laboratory to develop a statistically valid methodology for estimating FFEL improper payments. Oak Ridge held data exploration sessions with Department staff and delivered a methodology that derived erroneous payments from the Schedule of Findings and Questioned Costs in the compliance audits of all guaranty agencies and loan servicers and a dollar-weighted sample of lender compliance audits. They then calculated an erroneous payment rate using the 2007 payments to lenders and guarantors in the Financial Partners Data Mart. Payments both to and from the Department were included, and total payments is the sum of the absolute values of the payments.

Federal Pell Grant Program. Section 484(q) of the HEA authorizes the Department to confirm directly with the IRS the Adjusted Gross Income (AGI), taxes paid, filing status, and number of exemptions reported by students and parents on the Free Application for Federal Student Aid (FAFSA). Under the Internal Revenue Code of 1986, Federal Student Aid is not authorized to view the complete data without consent of the taxpayer, but the IRS does provide summary data.

The Department began conducting studies with the IRS using FAFSA data for the 2000–01 award year. Data provided by the IRS study were used to estimate improper payments for the Pell Grant Program for the 2006–07 award year. Federal Student Aid is working with the IRS to match FAFSA data collected for the 2007–08 award year with IRS data for the 2006 income tax year.

In the most recent completed study, which compared 2006–07 FAFSA data with 2005 IRS data, a sample file of 310,316 FAFSA applicant records was provided to the IRS along with a sampling program designed to allow the IRS to select the desired analysis sample from the larger file. This was done to preserve IRS confidentiality requirements. The final sample, generated by the IRS, contained 48,090 independent undergraduates and 51,649 dependent undergraduates (for whom parental data were matched).

The IRS matched the final sample to its main database, and when a match occurred, it extracted the fields for AGI, taxes paid, type of return filed, and earned income tax credit information for the tax filer and compared this information with similar information reported to the Department on the FAFSA. Using a computer program supplied by Federal Student Aid, the IRS calculated revised Expected Family Contribution and Pell Grant awards for matching records by substituting the IRS income information for the FAFSA income information. The improper payment rate listed in the table reflects the improper payment rate that has resulted from recalculating an applicant's need based on the substitution of IRS information. The IRS provided aggregated statistical tables to the Department that presented the results of these comparisons. The results allowed the Department to estimate the following Pell Grant improper payment information:

- Improper payment rate and amount—The average amount of over- and underreporting of FAFSA income data compared with the IRS income data and potential dollar amount of improper Pell Grant awards.

- Assessment of measurement accuracy—the volume of applicants for whom a mismatch between FAFSA and IRS data may be legitimate.

- Identification of further potential risks—Types of applicants who are more likely to misreport income on the FAFSA.
- Analysis of existing edits—Validity of the current verification selection edits and information to further refine them.

Corrective Actions

Federal Family Education Loan Program. Federal Student Aid is working closely with OMB and other Department offices in the development of an action plan designed to (1) improve the accuracy of the FFEL improper payment estimate and (2) reduce the level of risk and amount of known improper payments in the FFEL Program.

Federal Student Aid has a number of existing internal controls integrated into its systems and activities. Program reviews, independent audits and Inspector General audits of guaranty agencies, lenders, and servicers are some of its key management oversight controls. Other control mechanisms include the following:

- System Edits—the system used by guaranty agencies, lenders, and servicers to submit bills and remit payments includes “hard” and “soft” edits to prevent erroneous information from being entered into the system and prevent potential erroneous payments. The hard edits require correction before proceeding with payment processing. The soft edits alert the user and Federal Student Aid to potential errors. Federal Student Aid reviews these warnings prior to approval of payment.
- Reasonability Analysis—Data reported by guaranty agencies to the National Student Loan Data System are used to determine payment amounts for account maintenance and loan issuance processing fees. Federal Student Aid also performs trend analysis of previous payments to guaranty agencies and lenders as a means of evaluating reasonableness of changes in payment activity and payment levels.
- Focused Monitoring and Analysis—Federal Student Aid targets specific areas of FFEL payment processing that are at an increased risk for improper payments as areas of focus for increased monitoring and oversight.

These existing controls are re-evaluated on a regular basis to determine their effectiveness and allow Federal Student Aid to make necessary corrections. Federal Student Aid’s action plan also incorporates the development of additional internal controls designed to improve the accuracy of future FFEL payments to guaranty agencies and lenders. These internal controls include the following:

- Special Allowance Payments—increased focus on and review of payments of fees to lenders and servicers associated with loans eligible for tax-exempt special allowance payments.
- Guaranty Agencies—Enhanced review of the Guaranty Agency Financial Report (Form 2000) to report collection activities, claims reimbursement, and loan portfolio status; under- and over-billings for account maintenance; and loan processing and issuance fees associated with incorrect National Student Loan Data System reporting.

Additional controls are continually considered for both cost efficiency and effectiveness in reducing FFEL payment errors. Updates to the corrective action plan are reported to OMB in the quarterly scorecard for Eliminating Improper Payments.

Federal Pell Grant Program. Federal Student Aid has several initiatives under way designed to improve its ability to detect and reduce improper payments made through the Federal Pell Grant Program, including the statistical study described above. Working with OMB on quarterly action plan objectives designed to facilitate full implementation of the IPIA, Federal Student Aid has identified additional methods to determine the error rate and estimate the annual amount of improper payments.

Preliminary Analysis. Eligibility for Title IV student aid is determined through applicant self-reported income, family size, number of dependents in college, and assets. These data are reported through the FAFSA, which applicants typically complete prior to the April 15 IRS income tax filing deadline. The FAFSA data are key drivers in the determination of student aid program eligibility and eligible amounts. Federal Student Aid performs routine analyses of the accuracy of income and other financial data submitted via the FAFSA. These analyses include a variety of methods and techniques designed to ensure payment accuracy, including the following:

- Annual Analysis of System Data—Analysis of central processing system data for anomalies.
- Focus Groups—Meetings with educational institutions to discuss improving the integrity of Federal Student Aid programs.
- Quality Assurance—Enhanced program integrity processes.
- Verification—A process by which institutions compare applicant data with IRS data for the same period.

Federal Student Aid is also using the IRS statistical study in which financial data from a random sample of FAFSA submissions are compared with financial data reported to the IRS in annual income tax filings to identify new solutions for preventing improper payments.

The analysis of the IRS statistical study indicates that failure to accurately report income, family size, number of dependents in college, and assets may be the primary cause of improper payments within the Pell Grant Program. It is expected that a decrease in financial reporting errors would have the greatest impact on the reduction of estimated improper payments. In an effort to achieve this reduction, Federal Student Aid is exploring with the IRS the possibility of developing a pilot program in which taxpayer consent is obtained for the matching of information reported on the annual student financial aid application with financial data reported to the IRS in annual income tax returns. The results of this pilot will be analyzed to determine the possibility of performing a 100 percent consent-based data match.

Alternatives to Verifying Self-Reported AGI. In addition to the aforementioned pilot program, Federal Student Aid has been exploring alternatives to the 100 percent IRS match for verifying self-reported financial information reported on the FAFSA and assessing the strengths and weaknesses of those alternatives. Listed below are some of the alternative approaches that are being considered:

- Require actual tax returns prior to disbursement.
- Require update to income data at tax filing deadline.
- Expand verification beyond 30 percent.

Federal Student Aid Summary

The following table presents the improper payments outlook for the primary Federal Student Aid programs. Data for FY 2007 are included to present the revised numbers resulting from the improper payment methodology implemented in the fourth quarter of FY 2008.

Federal Student Aid Improper Payment Reduction Outlook Fiscal Years 2007-2012 ($ in millions)									
Description	FY 2007 Updated			FY 2008 Estimated			2009-2012 Estimated Per FY Year		
Program	Actual Outlays	CY IP %	IP $	Actual Outlays	CY IP %	IP $	Estimated Outlays	CY IP %	IP $
FFEL Program	22,835 (1)	1.68 (6) (7)	384	24,071(1)	1.68 (6)	404	18,427 (3)	1.68	310
Pell Grant Program	14,927 (2)	4.11 (8)	613	17,081(2)	3.69 (4)	630	16,908 (5)	3.50(4)	592

The methodology for identifying FFEL outlays for this purpose was revised in FY 2008 in response to the OIG Audit Report on Federal Student Aid's estimation of improper payments in the FFEL program (http://oigmis3.ed.gov/auditreports/a09h0015.pdf) and a continuing effort to improve the improper payment process. The revised outlay methodology is currently being analyzed and additional refinements may be implemented during FY 2009 as the definition of "outlay" is further explored. Following are refinements made for the improper payment outlay methodology for FFEL and/or Pell.

(1) Source of FFEL actual outlays for FY 2007 and 2008 reflects total expenditures from the Financial Management Support System (FMSS) as of September 30. For FY 2008, an alternative approach was used that accurately reflects FY 2008 actual outlays for both guarantors and lenders. A query from the Financial Management System (FMS) was developed that specifically requested outlays for guarantor and lender limitations within FY 2008. This methodology was used to derive revised data for FY 2007 to present in this year's report as comparable data. The criteria used in prior year's analyses were inconsistently applied due to differences in interpretation. The data source (FMS) is the same as in FY 2007; however, the approach in retrieving the data has been improved. Instead of looking at fiscal year activity, the approach is now focused on fiscal year outlays. The FMS query provides the detailed support by guarantor and lender. The FY 2008 improper payment amount is considered an estimate because the FY 2007 FFEL improper payment rate is imputed onto FY 2008.

Note that the annual Guaranty Agency Financial Report provides information on transfers from Federal Fund to Operating Fund for default aversion fees that are received in the winter of the current fiscal year for prior fiscal year activity. The amount of FY 2007 default aversion fees transferred from the Federal Fund was $148 million (non-cash transaction) and is not included in either the FY 2007 or the FY 2008 outlay number. The FY 2008 default aversion fee will not be available until approximately the second quarter of the next fiscal year (FY 2009) and is not included in the FY 2008 outlays.

(2) The source of FY 2008 Pell outlays reflects total expenditures from FMSS. In prior year Reduction Charts, the source of Pell Actual Outlays was the July COD Project Briefing data. Pell FY 2007 outlays have been updated using FMSS for this year's comparison. These numbers are considered estimates because (1) the Pell rate is preliminary and (2) we are imputing the 2007 FFEL rate onto 2008.

(3) The source of FFEL estimated outlays FY 2009–2012 is the FY 2009 Budget Appendix, pages 368, Line 87.00 and 370, line 86.97. Outlays were assumed to remain at the FY 2009 estimate for FY 2010-2012. Current year Actual and Estimated Outlays represent the sum of FFEL Financing and Liquidating Account Gross Outlays.

(4) The chart above uses a preliminary Pell IP% for FY 2008. The FY 2008 IP % is scheduled to be finalized after issuance of the Department's PAR. The 3.5 IP% used for 2009-2012 is based on discussions held with OMB during FY 2007 and FY 2008. The 3.5% rate is being used since it is a more current target than the targets previously identified in the Federal Student Aid 2006 – 2010 Five-Year Plan.

(5) The source of Pell outlays above for FY 2009–12 is the FY 2009 Budget Appendix, page 356, line 87.00, with detail support from Budget Service in file "Breakout of Student Financial Assistance Outlays by Program." Outlays were assumed to remain at the FY 2009 estimate for FY 2010–12.

(6) The FY 2008 FFEL IP error rate of 1.68% is the result of revised methodology prepared by Oak Ridge National Laboratory in late FY 2008. The revised methodology used in FY 2008 is different from FY 2007 and is not comparable. Also, the methodology for FY 2009 is expected to be revised from prior years' methodologies in a continuing effort to improve the process. Discussions are under way with senior management and OMB on an improved alternative.

(7) For FY 2007, the FFEL IP error rate was originally reported as 0.032%. The 0.032% was updated to 0.218% when the review/audit work was completed after issuance of the FY 2007 PAR. The 0.032% FFEL error rate should have been footnoted as "preliminary" in the FY 2007 PAR.

(8) The final Pell error rate for FY 2007 was 4.11%, up from the projected 3.54%.

ESEA, Title I Program

The Department performed a risk assessment of the *Elementary and Secondary Education Act of 1965* Title I Program, Grants to Local Educational and Agencies, during FY 2008. The improper payments estimate for the most recent year measurable, FY 2006, is 0.32% or $40 million. This confirms previously reported data indicating that the risk of improper payments under current statutory requirements is very low. To validate the assessment data, the Department conducts on-site monitoring reviews on a three-year review cycle that encompass all states and territories receiving Title I funds. There were no findings in the monitoring reviews with questioned costs that contradicted the data in the risk assessment.

The Department is continuing to review and monitor for data quality. A key element of the monitoring process involves the wide use of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation by local educational agencies. The Title I statute authorizes local educational agencies to use these data, provided under the U.S. Department of Agriculture's national School Lunch Program, for this purpose. In many districts these data are the only indicator of poverty available at the individual school level.

The U.S. Department of Agriculture is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. The U.S. Department of Agriculture is also working with the Department and other federal agencies that have programs that make use of these data to explore long-term policy options.

Risk Assessment for Other Grant Programs

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

In FY 2007, the Department worked with the Department of Energy's Oak Ridge National Laboratory to perform data mining on information available in the Federal Audit Clearinghouse's Single Audit Database, the Department's Grant Administration and Payment System, and the Department's Audit Accountability and Resolution Tracking System to assess the risk of improper payments in its remaining grant programs. To conduct the risk assessment screening, Oak Ridge National Laboratory augmented the Audit Accountability and Resolution Tracking System database with imputed values for the likely questioned costs for grants that were not audited. The imputed and real questioned costs could then be tabulated to provide a reasonable upper-bound estimate of the rate of erroneous payments for each of the functional programs of interest.

If the computed upper-bound percentage was below 2.5 percent, then the actual value would be lower than 2.5 percent. If the computed upper-bound percentage was greater than 2.5 percent, then the actual value may be greater or less than 2.5 percent, but the Department would need additional information to determine the appropriate estimate.

The most striking result of the analysis was the generally low rate of questioned costs. The key finding of this analysis was that for the most recent year for which data were available (FY 2005), none of the functional programs exceed the threshold value of 2.5 percent. Consequently, none of the programs would be labeled as susceptible to significant erroneous payments.

In accordance with OMB Circular A-123, Appendix C, programs deemed low risk only require a risk assessment every three years. Since the Oak Ridge National Laboratory risk assessments have not indicated any significant risk of improper payments, the Department did not task Oak Ridge National Laboratory to perform the risk assessment for FY 2008. However, the Department is taking the following actions to further improve its monitoring efforts.

Migrant Education Grants To States. Migrant Education Program (MEP) Formula Grants to States, authorized by Part C of Title I of the *Elementary and Secondary Education Act of 1965,* support high-quality education programs for migratory children and help ensure that migratory children who move between school districts within a state or among the states are not penalized in any manner by disparities among states in curricula, graduation requirements, or state academic content and student academic achievement standards. Program funds also ensure that migratory children are provided with appropriate education services that address their special needs and receive full and appropriate opportunities to meet the same challenging state academic content and student academic achievement standards that all children are expected to meet.

Questions about student eligibility for the program in several states were raised a few years ago based on a combination of state self-reporting, program monitoring by the Office of Migrant Education (OME), and audits by the Office of Inspector General (OIG). In response, OME took significant steps to improve eligibility verification of participating students, beginning with a voluntary re-interview initiative in which 46 of 48 states now receiving MEP grants reviewed eligibility determinations and calculated defect rates. OME hired a technical contractor to review state-reported defect rates in terms of their accuracy based on the underlying processes used by the states to derive the rates.

During FY 2008, the Department also published a regulation establishing new, clearer definitions of eligibility; minimum quality control procedures, including annual prospective re-interviewing; mandatory retrospective re-interviewing by states that had technical errors in the voluntary effort or did not participate therein; and program authority to adjust FY 2006 and subsequent-year state allocations based on accepted defect rates. Additionally, program staff resolved numerous findings from the OIG audits and worked with Department attorneys and the U.S. Department of Justice to recover millions of dollars from states that improperly received previous awards based upon false determinations of eligibility.

These management activities have strengthened oversight in the program and improved the accuracy of program grant distributions across the participating states. Based upon the Oak Ridge methodology, the program remains well below the IPIA thresholds that would require more significant intervention.

Risk Management Service. The Risk Management Service in the Office of the Secretary has been established to identify and take effective action to manage and mitigate risks in the area of grants management that may adversely affect the advancement of the Department's mission. To achieve this objective, the Risk Management Service develops and coordinates a Departmentwide risk management strategy and coordinates and supports consistent, high-quality management of formula and discretionary grants Departmentwide.

The office focuses on identifying potential high-risk grantees before problems begin to occur and providing assistance to those grantees regarding their financial management practices through the program offices and Risk Management Service staff members. In the case of grantees identified as high risk, resources are directed toward solving and managing issues of misuse, abuse, or waste of federal funds. The office also provides customer service in the form of training and responses to inquiries on policy interpretations to grantees, grant applicants, and program offices awarding and monitoring grants.

Managing Risk in Discretionary Grants. In FY 2008, the Department managed more than 10,000 discretionary grant awards. Due to the vast legislative differentiation and the complexity of the Department's grant award programs, ensuring that program staff are fully aware of potentially detrimental issues relating to individual grantees is a significant challenge. Program offices designate specific grants as high risk in accordance with Departmental regulations.

In an effort to reduce risk and promote efficiency, the Department has established the Grants High-Risk Module. This module is housed within the Department's Grant Administration and Payment System, and program office staff are required to review and certify their awareness of the high-risk status of applicable grantees before making awards.

Policies and procedures were developed to support the implementation of the module. System input to the module's database is limited to specific grants policy staff who are fully trained in policy and system use. In addition to the module's certification requirement, various reports are provided so that continual monitoring of grantee risk is made available to Department program administrators.

Implementation of the module provides greater accountability and significantly reduces risk within the Department's grant award process by ensuring program office awareness of potentially detrimental grantee issues prior to award determination. The Department anticipates that increased accessibility and communication across program offices will promote further monitoring of high-risk grantees, resulting in a reduction of the number of grantees so designated.

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

Planned Corrective Actions. In addition to the actions previously outlined under the Student Financial Assistance Programs and ESEA, Title I Program sections, the Department will periodically update any corrective action plans based on the results of the initiatives outlined above. The Department will record and maintain corrective action plans as required, which will include due dates, process owners, and task completion dates.

Information Systems and Infrastructure. The Department has submitted budget requests of $250,000 for FY 2009 and FY 2010 for information system infrastructure improvements. A portion of the funds will be used to continue the refinement of the Oak Ridge National Laboratory data mining effort. It is also anticipated that the Department will incur costs related to mitigation activities.

Recovery Auditing Progress

To effectively address the risk of improper administrative payments, the Department continued a recovery auditing initiative to review contract payments. The Department performed a review of payments based on a statistical sample of FY 2007 payment transactions. No improper payments were indicated in the review. 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 is focused on identifying and managing the risk of improper payments and mitigating the risk with adequate control activities. In FY 2009, we will continue to work with OMB and the Inspector General to explore additional opportunities for identifying and reducing potential improper payments and to ensure compliance with the IPIA.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details the auditor's report can be found on pages 175–190 and the Department's Management assurances on pages 41–44.

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting - Federal Managers' Financial Integrity Act (FMFIA) 2					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**
The Department had no material weaknesses in the design or operation of the internal control over financial reporting.					

Effectiveness of Internal Control over Operations - FMFIA 2					
Statement of Assurance	Qualified				
Material Weaknesses	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Information Technology Security	1				1
Monitoring and Oversight of Guaranty Agencies, Lenders and Servicers	1		1		
Total Material Weaknesses	**2**	**0**	**1**	**0**	**1**

Conformance with Financial Management System Requirements - FMFIA 4					
Statement of Assurance	The Department systems conform to financial management system requirements.				
Non-Conformance	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Total Non-Conformance	**0**	**0**	**0**	**0**	**0**

Compliance with Federal Financial Management Improvement Act		
	Agency	Auditor
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes	No
2. Federal Accounting Standards	Yes	Yes
3. United States Standard General Ledger at Transaction Level	Yes	Yes

Glossary of Acronyms and Abbreviations

ACG	Academic Competitiveness Grant
ACT	formerly American College Test, now ACT
ACSI	American Customer Satisfaction Index
AEFLA	*Adult Education and Family Literacy Act*
AGI	Adjusted Gross Income
APEB	*Act to Promote the Education of the Blind*
AP	Advanced Placement
ATA	*Assistive Technology Act of 2004*
CAROI	Cooperative Audit Resolution and Oversight Initiative
CCRAA	*College Cost Reduction and Access Act*
CFAAA	*Compact of Free Association Amendments Act of 2003*
CFDA	*Catalog of Federal Domestic Assistance*
CRA	*Civil Rights Act of 1964*
CSPR	*Consolidated State Performance Report*
CSRS	Civil Service Retirement System
CTEA	*Carl D. Perkins Career and Technical Education Act of 2006*
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDA	*Education of the Deaf Act of 1986*
EDEN	Education Data Exchange Network
EFC	Expected Family Contribution
ESEA	*Elementary and Secondary Education Act of 1965*
ESRA	*Education Sciences Reform Act of 2002*
FAFSA	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FECA	*Federal Employees' Compensation Act*
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank

FFEL	Federal Family Education Loan
FFMIA	*Federal Financial Management Improvement Act of 1996*
FISMA	*Federal Information Security Management Act of 2002*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FSA	Federal Student Aid
FY	Fiscal Year
GAPS	Grant Administration and Payment System
GA	Guaranty Agency
GEAR UP	Gaining Early Awareness and Readiness for Undergraduate Programs
GPRA	*Government Performance and Results Act of 1993*
GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities
HEA	*Higher Education Act of 1965*
HKNCA	*Helen Keller National Center Act*
HR	Human Resources
IB	International Baccalaureate Program
IDEA	*Individuals with Disabilities Education Act*
IES	Institute of Education Sciences
IP	Improper Payments
IPIA	*Improper Payments Information Act of 2002*
IRS	Internal Revenue Service
IT	Information Technology
IUS	Internal Use Software
IV&V	Independent Verification and Validation
LLR	Lender of Last Resort
MD&A	Management's Discussion and Analysis
MECEA	*Mutual Educational and Cultural Exchange Act of 1961*
MVHAA	*McKinney-Vento Homeless Assistance Act*

NAEP	National Assessment of Educational Progress
NCLB	*No Child Left Behind Act of 2001*
NLA	*National Literacy Act of 1991*
OCR	Office for Civil Rights
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OM	Office of Management
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSDFS	Office of Safe and Drug-Free Schools
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PAR	*Performance and Accountability Report*
PART	Program Assessment Rating Tool
PII	Personally Identifiable Information
PMA	*President's Management Agenda*
PLUS	Parent Loans for Undergraduate Students
RA	*Rehabilitation Act of 1973*
RMS	Risk Management Service
RMCC	Risk Management Coordinating Council
SAP	Special Allowance Payments
SOF	Statement of Financing
SY	School Year
TASSIE	Title I Accountability Systems and School Improvement Efforts
TEACH	Teacher Education Assistance for College and Higher Education

TRIO	Grant programs under HEA, originally three programs; not an acronym
USC	United States Code
VPS	Visual Performance Suite
WWC	What Works Clearinghouse
YRBSS	Youth Risk Behavior Surveillance System

Selected Department Web Links

Mapping America's Educational Progress 2008

Data on how states are doing in student achievement in reading and math, high school graduation rates, schools making adequate yearly progress, highly qualified teachers, parents taking advantage of tutoring and choice options, state participation in flexibility options, and more.

http://www.ed.gov/nclb/accountability/results/progress/index.html

Data on how the U.S. is doing in student achievement in reading and math, high school graduation rates, schools making adequate yearly progress, highly qualified teachers, parents taking advantage of tutoring and choice options, state participation in flexibility options, and more.

http://www.ed.gov/nclb/accountability/results/progress/nation.html

Assessing Program Performance PART

The Program Assessment Rating Tool (PART) was developed to assess and improve program performance so that the federal government can achieve better results. Because the PART includes a consistent series of analytical questions, it allows programs to show improvements over time, and allows comparisons between similar programs.

http://www.whitehouse.gov/omb/part/index.html#2008

Discretionary Grant Programs for FY 2008

This site lists Department grant competitions previously announced, as well as those planned for later announcement, for new awards organized according to the Department's principal program offices.

http://www.ed.gov/fund/grant/find/edlite-forecast.html

Information Policy, E-Gov and Information Technology

The Office of Management and Budget (OMB) assists the President in overseeing the federal budget, evaluates the effectiveness of agency programs, policies, and procedures, assesses competing funding demands among agencies, and sets funding priorities. OMB ensures that agency reports, rules, testimony, procurement, financial management, information, regulatory policies and proposed legislation are consistent with the President's Budget and with Administration policies.

http://www.whitehouse.gov/omb/inforeg/infopoltech.html

National Mathematics Advisory Panel

The National Mathematics Advisory Panel was created in April 2006 to advance the teaching and learning of mathematics. Expert panelists, including leading mathematicians, cognitive psychologists, and educators, reviewed numerous research studies. The panel's final report, issued in March 2008, contains 45 findings and recommendations on topics including instructional practices, materials, professional development, and assessments.

http://www.ed.gov/about/bdscomm/list/mathpanel/index.html

Research and Statistics

The *Education Sciences Reform Act of 2002* established the Institute of Education Sciences (IES) within the Department to provide research, evaluation and statistics to our nation's education system.

http://ies.ed.gov/

National Assessment Governing Board

The Governing Board is an independent, bipartisan group whose members include governors, state legislators, local and state school officials, educators, business representatives, and members of the general public. Congress created the 26-member Governing Board in 1988 to set policy for the National Assessment of Educational Progress (NAEP)—commonly known as the "The Nation's Report Card."

http://www.nagb.org/

National Assessment of Educational Progress

The National Assessment of Educational Progress assesses samples of students in grades 4, 8, and 12 in various academic subjects. Results of the assessments are reported for the nation and states in terms of achievement levels—basic, proficient, and advanced.

http://nationsreportcard.gov/

Office of Inspector General

The OIG has four primary business functions: audit, investigation, cyber security, and evaluation and inspection.

http://www.ed.gov/about/offices/list/oig/index.html

For a list of recent reports, go to:

http://www.ed.gov/about/offices/list/oig/areports.html

The *Citizens' Report* (previously called the *Highlights Report*) and a CD of the

Department of Education

Fiscal Year 2008 Performance and Accountability Report

will be available in January 2009. For copies, contact ED Pubs, the Department's Publication Center.

ED Pubs
U.S. Department of Education
P.O. Box 1398
Jessup, MD 20794-1398

Telephone:	(877) 4EDPUBS [(877)-433-7827]
or:	(800) USALEARN [(800)-872-5327]
Fax:	(301) 570-1244
Web:	http://www.edpubs.org/webstore/Content/search.asp
TDD/TYY:	(877) 576-7734
Web:	http://www.ed.gov/about/reports/annual/2008report/index.html

The Department's *Strategic Plan* is available on the Web at:

http://www.ed.gov/about/reports/strat/index.html

Department annual plans and annual reports are available on the Web at:

http://www.ed.gov/about/reports/annual/index.html

The Department welcomes all comments and suggestions on both the content and presentation of this report. Please forward them to:

Office of the Chief Financial Officer
U.S. Department of Education
Washington, D.C. 20202-0600
E-mail: PARcomments@ed.gov

The following companies were contracted to assist in the preparation of the U.S. Department of Education *Fiscal Year 2008 Performance and Accountability Report*:

For general layout and Web design:	Macro International Inc.
For database design:	Plexus Corporation
For accounting services:	IBM Business Consulting Services
	Cotton & Company, LLP
	FMR Consulting, Inc.

OUR MISSION IS TO PROMOTE STUDENT ACHIEVEMENT AND PREPARATION FOR GLOBAL COMPETITIVENESS BY FOSTERING EDUCATIONAL EXCELLENCE AND ENSURING EQUAL ACCESS.

WWW.ED.GOV