U. S. Department of Education

Fiscal Year 2005 Performance and Accountability Report

U.S. Department of Education
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November 15, 2005

About the Department of Education's *Fiscal Year 2005 Performance and Accountability Report*

The Department of Education's publicly available *Fiscal Year 2005 Performance and Accountability Report (PAR)* will be a fully interactive Web site, which will be live by December 15, 2005, on the Department's Web site at http://www.ed.gov/about/reports/annual/2005report/index.html. This print version, provided in limited distribution, contains the exact content and generally reflects the online layout. However, menus and navigational tools will be added to the online version.

Additionally, a color print highlights document and interactive CD of the entire PAR will be available by January 2006.

To request a copy of our *Highlights Report* in print,
with CD of the full *Performance and Accountability Report,*
contact edpubs@inet.ed.gov.

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

Message From the Secretary

Nearly four years ago, President Bush and the Congress led our nation in a historic commitment to provide a quality education for every child—regardless of race, income, or special need. *No Child Left Behind* aims high and focuses on using what works. It brings practical, research-based tools into the classroom, and it holds schools accountable for student achievement.

We now have proof that the law's high standards and accountability are paying off. Scores are at all-time highs for African-American and Hispanic students, especially in the early grades. We have made more progress in the last five years than in the previous 30 combined.

We are no longer relying on guesswork or anecdotal evidence to guide our children's future, as we have too often done in the past. Instead, we are focusing our resources on strategies that are proven to work.

Measuring our children's progress every year helps us understand where help is needed before it's too late. Once we know the contours of a problem and who is affected, we can start working on the solution. Teachers can adjust lesson plans, administrators can evaluate curricula, and the Department can provide clear, achievable priorities and devote resources toward those priorities.

The same principles are guiding the Department's own operations. Although our performance data are fundamentally complete and reliable, we are working to further improve both timeliness and accuracy. We have partnered with state educational agencies, colleges and universities, and financial institutions to streamline reporting systems and create common definitions for performance data.

This report presents complete, reliable information that demonstrates our efforts to hold both programs and financial systems to the highest standards of accountability. For the fourth year in a row, the Department has earned a "clean" opinion from independent auditors on its financial statements. For the third year in a row, we have no material weaknesses in our internal controls. For the programs, organizations, and functions covered by the *Federal Managers' Financial Integrity Act*, the Department's financial management systems and management controls, taken as a whole, provide reasonable assurance that the objectives of this act are met.

Education is the new civil right. It's the key to realizing the promise of American democracy, and the promise of the American dream. Millions and millions of Americans of every color and every background trust our public schools with their children. They also trust us with their hopes and dreams for their children's future.

High standards and accountability make sense to Americans, and for good reason. Within the Department itself and throughout our nation, we now have proof that those concepts are helping students achieve their dreams.

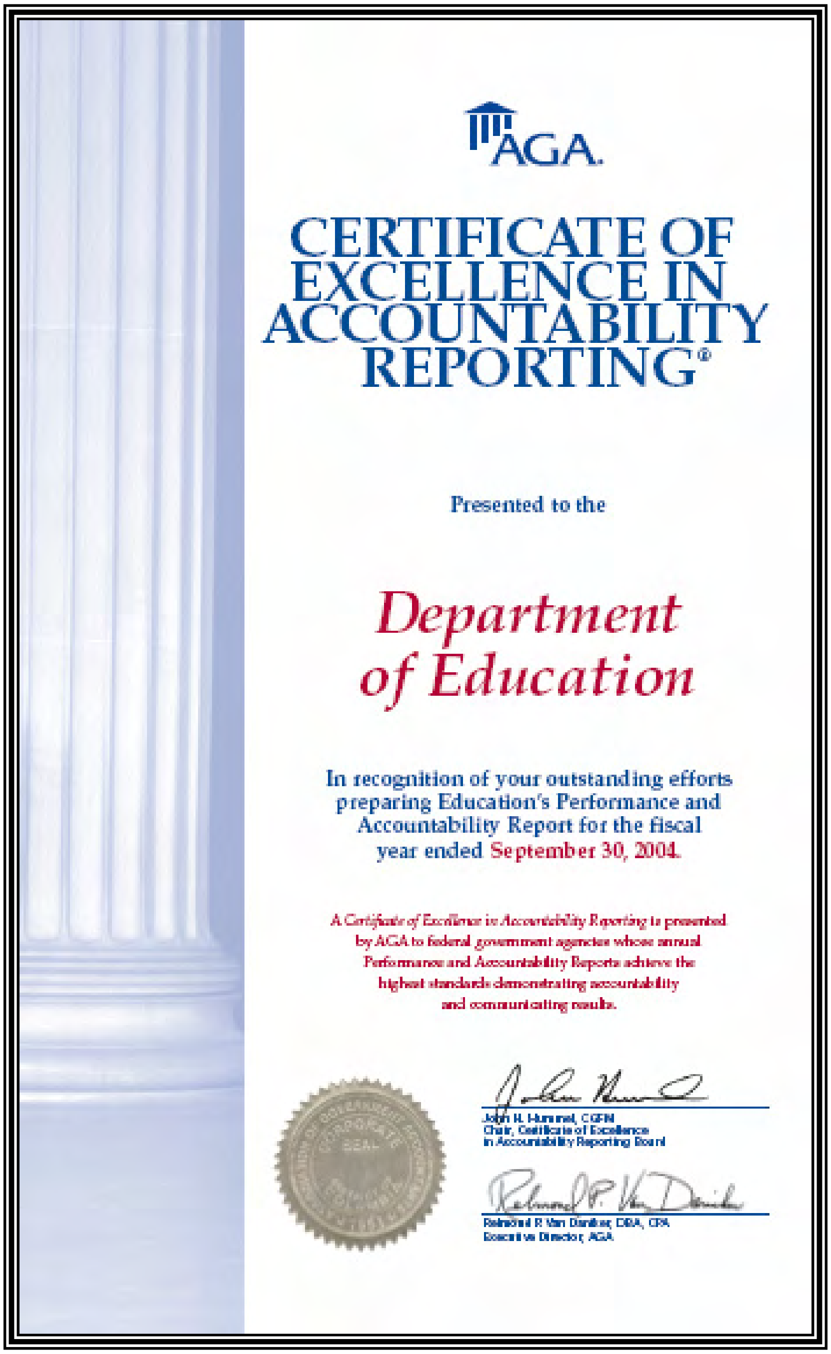
Sincerely,

Margaret Spellings

Margaret Spellings
November 15, 2005

What Is a Performance and Accountability Report?

The *Government Performance and Results Act of 1993 (GPRA*) requires federal agencies to develop annual performance reports based on their strategic plans and annual performance budgets. The *Government Management Reform Act of 1994* requires federal agencies to develop accountability reports of their financial information. As a result of the *Reports Consolidation Act of 2000*, the Office of Management and Budget requires that a number of federal agencies, including the Department of Education, combine these reports. This combined report is the annual performance and accountability report.


AGA

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING®

Presented to the

Department of Education

In recognition of your outstanding efforts preparing Education's Performance and Accountability Report for the fiscal year ended September 30, 2004.

A *Certificate of Excellence in Accountability Reporting* is presented by AGA to federal government agencies whose annual Performance and Accountability Reports achieve the highest standards demonstrating accountability and communicating results.

John H. Hummel, CGFM
Chair, Certificate of Excellence in Accountability Reporting Board

Relmond P. Van Daniker, DBA, CPA
Executive Director, AGA

The Department of Education won a second consecutive Certificate of Excellence in Accountability Reporting for our Fiscal Year 2004 Performance and Accountability Report.

In our tradition of quality reporting, we proudly present this Fiscal Year 2005 Performance and Accountability Report.

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Introduction

What does the Department of Education do for the American public?

As Gulf Coast states and school districts struggled to recover from the upheaval caused to education institutions by hurricanes Katrina and Rita, the Department affirmed that it exists for the benefit of the public. Business as usual was replaced by a focus on solutions for helping displaced students. In natural disasters, in protecting students' civil rights, in improving student achievement, and in the everyday responsibility of running an accountable agency, the Department serves the public. See p. 5.

How well has the Department performed?

As the Department looks back on FY 2005, we reflect on successes like the national sample of 9-year-olds whose reading scores are higher this year than in any previous assessment year and challenges like those we have with collecting reliable, valid, and timely data. This Performance and Accountability Report is our primary document for disclosing and communicating our FY 2005 results. See p. 27.

What is the Department's financial position?

For the fourth consecutive year, the Department's financial statements received an unqualified audit opinion. The Congress and the public can rely on the information we provide in our financial statements as accurate. Throughout 2005, we sustained a "green" for financial performance on the *President's Management Agenda Scorecard.* This Performance and Accountability Report is our primary document for disclosing and communicating our FY 2005 financial information and data. See p. 42.

Management's Discussion and Analysis

Management's Discussion and Analysis Overview

Department at a Glance (See p. 5.)

Our mission, our customers, our work to ensure civil rights, our history and organization, our efforts in integrating performance and financial information, and our scorecard on the *President's Management Agenda*.

Performance Highlights (See p. 27.)

Overview of each of our six strategic goals with net cost, key FY 2005 results, and areas of focus.

Financial Highlights (See p. 42.)

Overview of our financial position, future trends, challenges, and issues relating to improper payments, along with management assurances under the *Federal Managers' Financial Integrity Act*.

Department at a Glance

Our Mission

To ensure equal access to education and to promote educational excellence throughout the nation.

No Child Left Behind Is Working to Close the Achievement Gap

The progress of racial/ethnic minority students, students with disabilities, limited English proficient students, and low-income students on fourth-grade reading and eighth-grade mathematics state assessments between 2003 and 2004 shows that *No Child Left Behind* is working to address the largest and most persistent achievement gaps. More, see p. 6.

Evidence-Based Research Focuses on Promoting Educational Excellence

In 2005, the Department established new priorities for federal education research—priorities that ensure that our research will provide teachers and policymakers with evidence of what works in the classroom. More, see p. 9.

Federal Civil Rights Laws Protect Equal Access

The Department enforces civil rights laws that prohibit discrimination on the basis of race, color, national origin, sex, disability, and age in programs that receive federal financial assistance. More, see p. 10.

ESEA Celebrates 40 Years of Access and Excellence

The *Elementary and Secondary Education Act of 1965* marked its 40th anniversary in 2005.

Eight reauthorizations of the act have continued to uphold its initial mission: equal access and educational excellence for all. More, see p. 12.

No Child Left Behind Is Working to Close the Achievement Gap

By requiring states to conduct annual assessments in grades 3 through 8 by 2006, *No Child Left Behind* has pushed schools to measure the achievement of all students and to improve performance where gaps exist. The progress of targeted students on state fourth-grade reading and eighth-grade mathematics assessments between SY 2002–03 and SY 2003–04 shows that *No Child Left Behind* is working to address the largest and most persistent achievement gaps.

A comparison of state-reported proficiency data for SY 2002–03 and SY 2003–04 for states testing fourth-grade reading and eighth-grade mathematics shows increases in the percentages of targeted students who are proficient in a majority of those states. Of these targeted groups, the largest increases in reading proficiency were reported for limited English proficient students, African-American students, and low-income students; the largest increases in mathematics proficiency were reported for low-income students and Hispanic students. The tables below reflect results from states that conducted assessments in SY 2002–03 and SY 2003–04; states are not required to assess each of grades 3 through 8 until SY 2005–06.

Reading Results—Grade 4

The Percentage of Reporting States That Showed an Increase in Proficiency on Fourth-Grade State Reading Assessments Between SY 2002–03 and SY 2003–04

Disaggregated Category	Percentage of Reporting States Showing an Increase in Proficiency	Number of States Assessing and Reporting For Both Years
African-American Students	75	32
Hispanic Students	59	32
Students with Disabilities	75	32
Limited English Proficient Students	81	32
Low-income Students	76	33

Note. In Puerto Rico, Limited Spanish Proficient is used in lieu of Limited English Proficient.
Source. U.S. Department of Education, Consolidated State Performance Report, official state submissions.

Mathematics Results—Grade 8

The Percentage of Reporting States That Showed an Increase in Proficiency on Eighth-Grade State Mathematics Assessments Between SY 2002–03 and SY 2003–04

Disaggregated Category	Percentage of Reporting States Showing an Increase in Proficiency	Number of States Assessing and Reporting For Both Years
African-American Students	68	40
Hispanic Students	73	41
Students with Disabilities	62	42
Limited English Proficient Students	63	43
Low-income Students	76	41

Note. In Puerto Rico, Limited Spanish Proficient is used in lieu of Limited English Proficient.
Source. U.S. Department of Education, Consolidated State Performance Report, official state submissions.

The gains in proficiency for students with disabilities, low-income students, and minority students are shown because they demonstrate a narrowing of the gap at important learning milestones for reading and mathematics. The development of good reading skills in early grades provides a good foundation for later academic success in higher grades. In particular, the skills required for fourth-grade reading proficiency are necessary for understanding and applying concepts in other subjects such as mathematics and science. The measure of eighth-grade mathematics proficiency demonstrates the understanding of mathematical concepts, procedures, and problem-solving skills; such proficiency is necessary for students before they begin advanced mathematics courses such as calculus.

The following chart reflects state-by-state performance at the grades for which the Department set performance measures for reading and mathematics (see pp. 85 and 89) and is not necessarily a reflection of each state's overall assessment system. For SY 2002–03 and SY 2003–04, states were only required to assess one grade between grades 3 and 5, inclusive; one grade between grades 6 and 9, inclusive; and once in high school. States are not required to assess each of grades 3 through 8 until SY 2005–06. For more complete information on a state's assessment system, visit the state educational agency's Web site.

Comparison of Percentage of Students Proficient on State Assessments From SY 2002–03 to SY 2003–04 for Selected Grades, Subjects, and Student Groups

↑ means the state increased the percentage of proficient students	Fourth-Grade Reading						Eighth-Grade Mathematics					
	All Students	African-American Students	Hispanic Students	Students With Disabilities	Limited English Proficient Students	Low-Income Students	All Students	African-American Students	Hispanic Students	Students With Disabilities	Limited English Proficient Students	Low-Income Students
Alabama	↑	↑	↑	—	↑	↑	—	—	—	—	—	—
Alaska	↓	↓	↓	↓	↓	↓	↓	↓	↑	↓	↓	↑
Arizona	—	—	—	—	—	—	↑	↑	↑	↑	~	—
Arkansas	↑	↑	↑	↑	↑	↑	↑	↓	↓	—	↑	↑
California	↑	↑	↑	↑	↑	↑	~	↑	↑	↑	↓	~
Colorado	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Connecticut	—	—	—	—	—	—	~	~	~	—	↓	~
Delaware	—	—	—	—	—	—	↑	↑	↓	↑	↓	↑
District of Columbia	↓	↓	↓	↓	↓	↓	↓	↓	↑	↑	↓	↓
Florida	↑	↑	↑	↑	↑	↑	~	↑	↑	↑	↑	↑
Georgia	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Hawaii	—	—	—	—	—	—	↑	↑	↑	—	↑	↑
Idaho	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Illinois	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Indiana	—	—	—	—	—	—	~	~	~	—	~	~
Iowa	↑	↑	↓	↑	↑	↑	↑	↑	↓	↓	↑	↑
Kansas	—	—	—	—	—	—	—	—	—	—	—	—
Kentucky	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑
Louisiana	↑	↑	↑	↑	↑	↓	↑	↑	↑	↑	↑	↑
Maine	↑	↓	↓	↑	↓	↓	↑	↓	↑	—	↓	↑
Maryland	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Massachusetts	↑	↑	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑
Michigan	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Minnesota	—	—	—	—	—	—	—	—	—	—	—	—
Mississippi	↑	↑	↓	↓	↓	↑	↑	↑	↑	↓	↑	↑
Missouri	—	—	—	—	—	—	↓	—	—	—	↓	—
Montana	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
Nebraska	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Nevada	↓	↓	↑	↑	↑	~	—	—	—	—	—	—
New Hampshire	—	—	—	—	—	—	—	—	—	—	—	—
New Jersey	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
New Mexico	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
New York	↓	↓	↓	↑	↑	↓	↑	↑	↑	↑	↑	↑
North Carolina	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
North Dakota	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑	↑
Ohio	↑	↑	↓	↑	↑	↑	—	—	—	—	—	—
Oklahoma	—	—	—	—	—	—	↑	↓	↓	↑	↑	↓
Oregon	—	—	—	—	—	—	~	↓	↑	↑	↓	↑
Pennsylvania	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Puerto Rico	—	—	—	—	—	—	~	—	↑	↓	~	↓
Rhode Island	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
South Carolina	↑	↑	↑	↓	↑	↑	↑	↑	↑	—	↑	↑
South Dakota	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑
Tennessee	—	—	—	—	—	—	—	—	—	—	↑	—
Texas	↓	↑	~	↓	↑	↑	↓	↓	↓	↓	↓	↓
Utah	↓	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑
Vermont	—	—	—	—	—	—	—	—	—	—	—	—
Virginia	—	—	—	—	—	—	↑	↑	↑	↑	↑	↑
Washington	↑	↑	↑	↑	↑	↑	—	—	—	—	—	—
West Virginia	—	—	—	↑	—	↑	—	—	—	—	—	↑
Wisconsin	↑	↑	~	↑	↑	↑	↓	↓	↓	↓	↓	↓
Wyoming	↑	↑	↓	↑	↑	↑	↑	↑	↑	—	↑	↑

↑ Increase from SY 2002–03 to 2003–04 ↓ Decrease from SY 2002–03 to 2003–04 ~ No increase or decrease from SY 2002–03 to 2003–04

— State did not submit data for these grades for both years; assessments are not required in all grades 3 through 8 until SY 2005–06.

Note. In Puerto Rico, Limited Spanish Proficient is used in lieu of Limited English Proficient.

Source. U.S. Department of Education, Consolidated State Performance Report, official state submissions.

Evidence-Based Research Focuses on Promoting Educational Excellence

To support educational excellence, the Department is committed to providing teachers and policymakers with useful information on effective educational practices. In 2005, the Department established the following priorities for federal education research:

- To develop or identify a substantial number of programs, practices, policies, and approaches that enhance academic achievement and that can be widely deployed.
- To identify what does not work and what is problematic or inefficient, and thereby encourage innovation and further research.
- To gain fundamental understanding of the processes that underlie variations in the effectiveness of education programs, practices, policies, and approaches.
- To develop delivery systems for the results of education research that will be routinely used by policymakers, educators, and the general public when making education decisions.

The National Board for Education Sciences, an advisory board to the Department's main research arm, approved these priorities as part of its responsibility to provide independent advice on the research funded and conducted by the Department.

The Department grounds its expectations for education excellence in scientifically based research to ensure that practitioners have the tools needed to achieve the best teaching and learning in our nation's schools. The recently approved research priorities ensure that the projects funded reflect the Department's dedication to transforming education into an evidence-based field.

Federal Civil Rights Laws Protect Equal Access

The Department is responsible for enforcing a series of laws to ensure civil rights in the following ways:

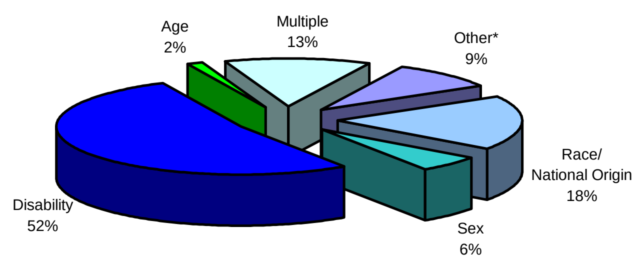
- To prohibit discrimination based on race, color, and national origin—Title VI of the *Civil Rights Act of 1964*. (See "Race/national origin" wedge of graph.)
- To prohibit sex discrimination in education programs—Title IX of the *Education Amendments of 1972*. (See "Sex" wedge of graph.)
- To prohibit discrimination based on age—*Age Discrimination Act of 1975*. (See "Age" wedge of graph.)
- To prohibit discrimination based on disability—Section 504 of the *Rehabilitation Act of 1973*. (Included in "Disability" wedge of graph.)
- To prohibit discrimination based on disability by public entities, whether or not they receive federal financial assistance—Title II of the *Americans with Disabilities Act of 1990*. (Included in "Disability" wedge of graph.)

In addition, we enforce 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.

These antidiscrimination laws protect more than 54 million students attending elementary and secondary schools and more than 16 million students attending colleges and universities (U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2013* (NCES 2004-013), Washington, DC: 2003, Tables 1 and 10).

The Office for Civil Rights (OCR), a law enforcement agency within the Department, executes the Department's civil rights enforcement responsibilities through a variety of activities. The Department conducts complaint investigations with the dual objectives of promptly investigating complainants' allegations of discrimination and accurately determining whether the civil rights laws and regulations have been violated. In FY 2005, the Department received 5,531 complaints alleging discrimination and resolved 5,360. As reflected in the chart, the majority of complaints received by the Department allege discrimination on the basis of disability.

FY 2005 Discrimination Complaints



* Indicates no jurisdiction or jurisdiction not yet determined

In addition to complaint investigations, the Department initiates compliance reviews and other proactive initiatives to focus on specific civil rights compliance problems in education that are particularly acute or national in scope. Seventy-three compliance reviews were initiated in FY 2005 on issues including access for students with physical disabilities to postsecondary schools and the overrepresentation of minority and national origin limited English proficient students in special education. The Department also conducted compliance reviews of universities and school districts to ensure that Title IX coordinators were designated and trained and that the Title IX non-discrimination policy and other information were published in accordance with regulations.

The Department also pursues compliance by federal funds recipients by promulgating regulations implementing the civil rights laws, developing clear policy guidance interpreting those laws, and broadly disseminating this information to educational institutions, parents, students, and others. This information is conveyed using a variety of media and by the direct provision of technical assistance. To assist the public, the Department provides civil rights information, including policy documents and technical assistance publications; tools that recipients can use to assess their own compliance with the civil rights laws; and information to help students and parents understand their rights. The Department provides an online complaint form through which it now receives over 50 percent of its discrimination complaints.

ESEA Celebrates 40 Years of Access and Excellence

For 40 years and through eight reauthorizations, the *Elementary and Secondary Education Act of 1965 (ESEA)* has kept public school education focused on access and equity. The first act included these words: "In recognition of the special educational needs of low-income families and the impact that concentrations of low-income families have on the ability of local educational agencies to support adequate educational programs, the Congress hereby declares it *to be the policy of the United States* to provide financial assistance … to local educational agencies serving areas with concentrations of children from low-income families … " (Section 201).

The *No Child Left Behind Act of 2001*, the most recent reauthorization of the celebrated act of 1965, continues to be guided by the same mission. *No Child Left Behind* maintains the original premise of access and equity and combines it with widespread accountability for achievement. *No Child Left Behind* requires states to have standards and assessments, including clear designations of student proficiency levels in reading and mathematics, and prescribes strong consequences for schools that do not make adequate yearly progress. Science assessment requirements begin in SY 2007–08. Schools designated as in need of improvement are mandated to offer parents the choice of sending their children to higher-performing schools or receiving supplemental educational services from state-approved providers for their children. The supplemental services provision applies for schools in the second year of improvement. *No Child Left Behind* also requires all public school teachers of core academic subjects to be highly qualified by the end of SY 2005–06.

No Child Left Behind guides the Department's operations relating to elementary and secondary public school education. Other major laws control the Department's work in areas of special education, postsecondary education, adult education, and vocational education.

- The *Individuals with Disabilities Education Act,* originally enacted in 1975 and reauthorized December 3, 2004, mandates that children with disabilities be provided with a free and appropriate public education.
- The *Higher Education Act*, originally enacted in 1965 and currently in the process of reauthorization by the Congress, provides need-based grants and loans for undergraduates as well as a variety of programs to improve postsecondary education.
- The *Adult Education and Family Literacy Act*, which is Title II of the *Workforce Investment Act*, authorized in 1998, provides grants to state agencies for family literacy services, English literacy programs, and adult education and literacy services, which may include workplace literacy services.
- The *Carl D. Perkins Vocational and Technical Education Act* provides secondary and postsecondary vocational and technical education programs with federal assistance.
- The *Rehabilitation Act of 1973* authorizes programs to provide and improve vocational rehabilitation and independent living services for individuals with disabilities.

Our Customers

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

Meeting the Needs of Katrina Evacuees

Hurricane Katrina left Gulf Coast schools about to begin a new school year in disarray. Elementary, secondary, and postsecondary students and their teachers spread out across the nation to find new schools to attend. The Department commends the many communities that welcomed displaced students and their families. More, see p. 14.

Minority Students Increase Participation in Public Education

As enrollment in schools and colleges increases, cohorts of students are more diverse:

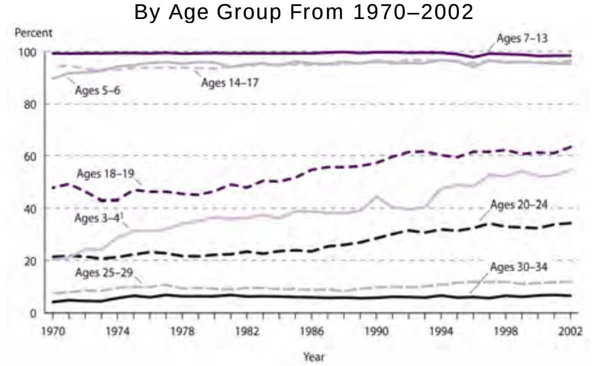
- The percentage of public school students who are racial/ethnic minorities increased from 22 percent in 1972 to 42 percent in 2003.
- The number of children aged 5 through 17 who spoke a language other than English at home more than doubled between 1979 and 2003.
- Twenty-nine percent of all students enrolled in degree-granting, postsecondary institutions in 2002 were racial/ethnic minorities.

More, see p. 17.

Elementary/Secondary and Postsecondary Education Benefit From Public Revenues

As the graph below shows, significant numbers of U.S. residents aged 3 through 34 are enrolled in our many public education institutions: prekindergarten, elementary, secondary, postsecondary, and adult education. More, see p. 15.

Education Enrollment
By Age Group From 1970–2002



Source. U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 2004*.

Parental Information and Options

No Child Left Behind requires schools to provide parents with information about the performance of schools against grade-level standards and provides options to parents whose children attend underperforming schools. Options include school choice, supplemental educational services (e.g. tutoring), and charter schools. More, see p. 20.

Meeting the Needs of Katrina Evacuees

After Hurricane Katrina, disaster reports from the Gulf Coast education community estimated that 372,000 students from Louisiana and Mississippi were not able to return to class in their local public or private school. The Department focused on every potential resource for relief to meet the needs of those students and proposed to Congress targeted funding to ensure states, districts, and parents had the resources they needed to educate the displaced students.

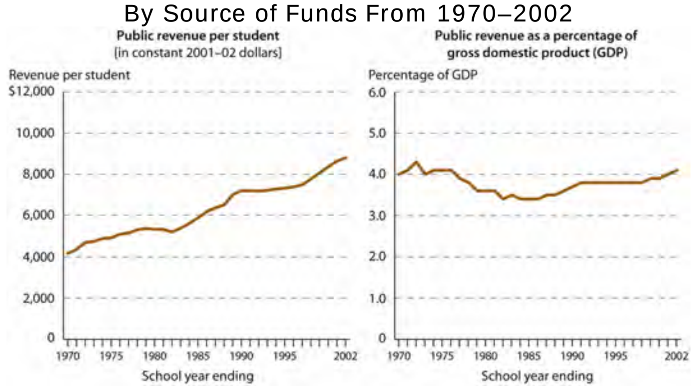
- The Department proposed up to $1.9 billion in funding to school districts, including charter schools, that enrolled at least 10 displaced children. This targeted funding would reimburse districts at a maximum annual payment of $7,500 per child for the unexpected cost of educating these displaced children for the SY 2005-06. The Department offered charter schools the opportunity to request statutory and regulatory waivers of various requirements to assist them in serving displaced students. We also identified $20.9 million in FY 2005 Charter School funds and made these funds available to meet the immediate needs of states affected by Hurricanes Katrina and Rita. (See Key Policy Letters signed in September 2005.)
- The Department proposed up to $488 million in funding for children enrolled in private schools, with a maximum annual payment of $7,500 per child.
- Colleges and universities were encouraged to admit students from affected institutions in a manner that permits them to receive federal student aid. Under the Department's proposal, postsecondary institutions enrolling displaced students would receive $1,000 for each displaced student. To help colleges and universities in severely damaged areas to resume operations, the Department proposed that these institutions be allowed to retain student aid already received for the new academic year. The Department proposed to forgive six months of interest on all student loans for borrowers in the severely impacted areas of Alabama, Louisiana and Mississippi.
- Under the waiver authority in the *Elementary and Secondary Education Act of 1965*, the Department solicited and negotiated requests from affected areas for waivers of maintenance-of-effort and fiscal and administrative requirements. The Department provided help to states and school districts as they sought to manage the impacts of the hurricane on students, schools, and programs.
- The *Assistance for Individuals with Disabilities Affected by Hurricanes Katrina and Rita Act of 2005* became law on September 30, granting the Department authority to permit hurricane-affected Gulf Coast states access to $25.9 million in federal funds for vocational rehabilitation services without the states having to provide matching funds. These services may include education, training, assistive technology or various supports necessary for employment of individuals with disabilities affected by the hurricanes. Additional support for children and adults with disabilities who evacuated because of the hurricanes is described in the Department's fact sheet.
- The Department's Office of Safe and Drug-Free Schools (OSDFS) committed $7 million for states affected by Hurricane Katrina: $2.75 million for Louisiana, $1.75 million for Mississippi, $1.75 million for Texas, and $750,000 for Alabama. Each state was contacted and provided with instructions on how to apply for funding and with an OSDFS contact to assist with the application process. On September 15, 2005, the Department sponsored a listening session on the health and welfare of children following Hurricane Katrina. The session included national experts in child trauma and mental health who provided input on children's long- and short-term recovery issues.

Elementary/Secondary and Postsecondary Education Benefit From Public Revenues

Elementary and Secondary Education Financing. The public revenue that supports public school education can be assessed in two ways: by measuring the level of public investment per student and by measuring the level of public investment in relation to the total value of goods and services produced in the domestic economy. In the elementary and secondary graph below, local, state, and federal fiscal support are summed and equal the level of public investment. The first measure in the graph shows the average level of public resources devoted to the education of each public school student; the second measure represents public revenue for education as a percentage of the gross domestic product (GDP).

Public revenue per student at the elementary and secondary levels generally increased between the SY 1969-70 and SY 2001-02 school years in constant dollars. The general increases in revenue per student over recent decades took place in both periods of declining enrollment and periods of rising enrollment. While public revenues per student increased substantially from SY 1969-70 to SY 2001-02 (109 percent), public revenue as a percentage of GDP did not.

Indicators of Public Effort To Fund Elementary and Secondary Education
By Source of Funds From 1970–2002



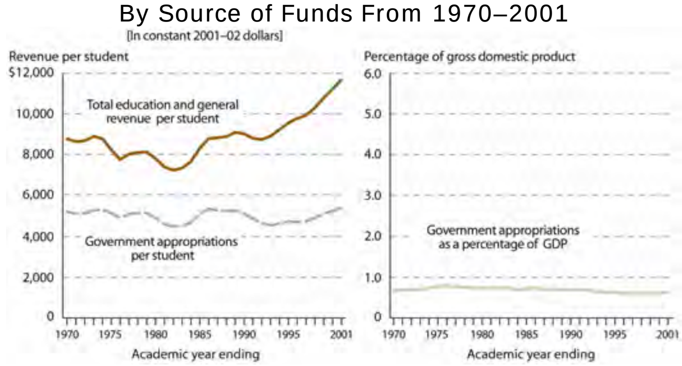
Source. U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 2005,* p.95. The source provides extensive notes and supplemental tables that support the data included in the graph.

Postsecondary Education Financing. Public investment in postsecondary public two- and four-year degree granting institutions equals the sum of federal, state and local government appropriations and the sum of tuition and fees, private gifts and endowments, and government contracts. The graph below plots these two groups of revenues, labeling them "government appropriations per student" and "total education and general revenue per student," and shows the level of funding per student for each revenue source from SY 1969-70 to SY 2000-01. One observation that can be drawn from the graph is that revenues per student from sources other than government appropriations, sources such as student tuition and fees, increased substantially more than did government appropriations per student during the time period represented in the graph.

The second indicator in the graph shows government appropriations for postsecondary public two- and four-year degree granting institutions as a percentage of gross domestic product (GDP). In SY 2000-01 government appropriations were 0.64 percent of GDP, approximately the same percentage as in SY 1969-70 when the index was 0.66 percent of GDP. (Revenues are in constant SY 2001-02 dollars, adjusted using the Consumer Price Index.)

Indicators of Public Effort To Fund Public, Degree-Granting, Postsecondary Institutions

By Source of Funds From 1970–2001



Source. U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 2005,* p. 95. The source provides extensive notes and supplemental tables that support the data included in the graph.

Minority Students Increase Participation in Public Education

Analyzing trends in enrollment helps educators and policymakers gain insight into the scope of public education. Rising immigration (the immigrant population nearly tripled from 1970 to 2000) is one of the trends that had a role in boosting school enrollment and in changing the face of our schools. Another trend involves limited English proficient students. Between 1979 and 2003, the number of school-aged children (aged 5–17) who spoke a language other than English at home grew from 3.8 million to 9.9 million. Enrollment numbers for limited English proficient students in kindergarten through grade 12 grew 65 percent between SY 1993–94 and SY 2003–04. (See table below.) Larger numbers of students with disabilities participating in public education and increases in the size of racial/ethnic groups of students have also contributed to growing enrollment numbers and broader diversity in elementary and secondary schools across the United States. (See graph below.)

The Growing Numbers of Limited English Proficient Students: SY 1993–94 Through SY 2003–04

School Year	Total K–12 Enrollment [1,2,4]	K–12 Growth Since 1993–94 (Percent)	ELL Enrollment [1,3,4]	ELL Growth Since 1993–94 (Percent)
1993–94	45,443,389	0	3,037,922	0
1994–95	47,745,835	5.07	3,184,696	4.83
1995–96	47,582,665	4.71	3,228,799	6.28
1996–97	46,714,980	2.80	3,452,073	13.63
1997–98	46,023,969	1.28	3,470,268	14.23
1998–99	46,153,266	1.56	3,540,673	16.55
1999–00	47,356,089	4.21	4,416,580	45.38
2000–01	47,665,483	4.89	4,584,947	50.92
2001–02	48,296,777	6.28	4,750,920	56.39
2002–03	49,478,583	8.88	5,044,361	66.05
2003–04	49,619,117	9.19	5,014,437	65.06

ELL = English language learner K–12 = kindergarten through 12th grade

Sources.

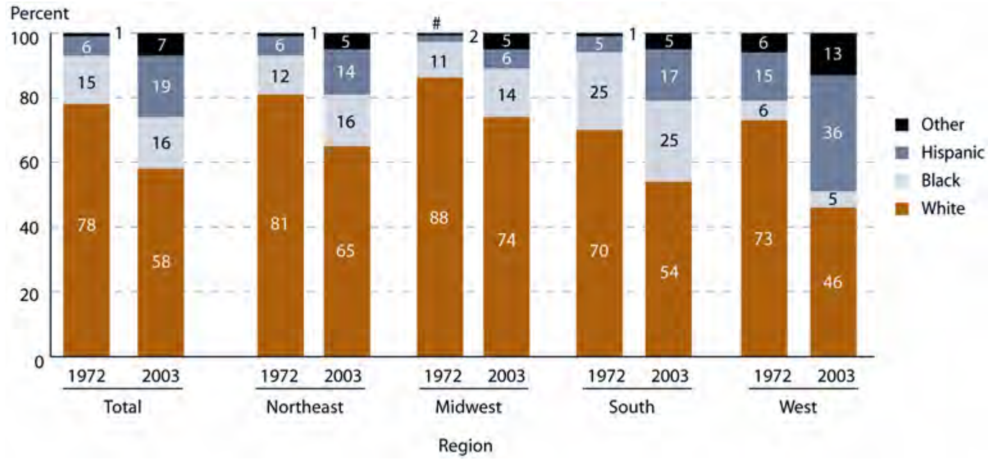
[1] U.S. Department of Education's Survey of the States, Limited English Proficient Students and Available Educational Programs and Services, 1993–1994 through 2003–2004.

[2] National Center for Education Statistics, Common Core of Data, 1998–1999 through 2003–2004.

[3] FY 2002 Consolidated State Applications for State Grants under Title IX, Part C, § 9302 of the *Elementary and Secondary Education Act*.

[4] SY 2003–04 data reported by states.

Minority Enrollment for Public Elementary and Secondary School Students
By Region and Race/Ethnicity in 1972 and 2003



Notes. Percentages of minority enrollment may not add to 100 because of rounding. For several categories, the cell size is so small that it does not appear in the bar. Instead its size is designated by a small numeral to the right.

In one category ("other" in 1972), the cell size is so small that it rounds to zero.

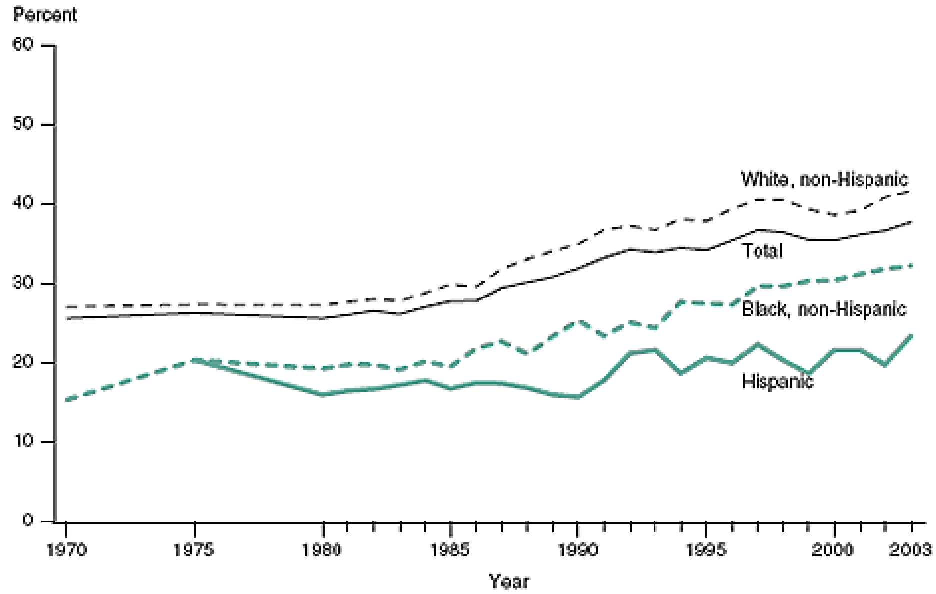
Source. U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 2005, p. 33*.

Diversity and enrollment have also been increasing in our nation's postsecondary institutions. In 1980, 26 percent of 18- to 24-year-olds enrolled in college; in 2002, the proportion increased to 38 percent. In particular, the percentage of racial/ethnic minorities has increased during this time period in two telling ways, both in terms of the percentage of total students enrolled in postsecondary institutions and in terms of the percentage of 18- to 24-year olds.

- As a percentage of total postsecondary enrollment figures in 2002, racial/ethnic minorities comprised 29 percent of all students enrolled in postsecondary education. Specifically, American Indian students comprised 1 percent of all students enrolled in postsecondary institutions, Asian/Pacific Islander students comprised 6 percent, black students comprised 12 percent, and Hispanic students comprised 10 percent.
- As a percentage of all 18- to 24-year-olds, minority enrollment has also increased. In 2003, 42 percent of white, 32 percent of black, and 23 percent of Hispanic 18- to 24-year-olds were enrolled in degree-granting postsecondary institutions. (See the following graph.)

Minority Enrollment of 18- to 24-Year-Olds for All Degree-Granting, Postsecondary Institutions as a Percentage of All 18- to 24-Year-olds

By Race/Ethnicity From 1970 to 2003



Note. Data in 1970 for White and Black enrollment include persons of Hispanic origin. Data are based upon sample surveys of the civilian noninstitutional population. Some data have been revised from previously published figures.

Source. U.S. Department of Education, National Center for Education Statistics, *Youth Indicators, 2005*, p. 53.

Parental Information and Options

Parents play an important role in supporting their child's educational needs, but they may encounter difficulties in finding school performance data and information on their child's educational progress. Recognizing this, Secretary of Education Margaret Spellings said, "I know it isn't always easy, especially with all the educational acronyms like AYP, HQT and SES flying around. We need to help families make sense of it all. That's why *No Child Left Behind* requires schools to regularly reach out to parents."

The Department provides parents with easy-to-understand information. On our Department Web site, we feature information for parents to help them make the best decisions for their child's future. For parents with limited English proficient children, the OELA Summit III Parent Involvement Toolkit is available. We also provide information for parents who want to better understand the parental involvement and information provisions of *No Child Left Behind*, such as supplemental educational services, charter schools, and other school choice options.

One key parental information requirement established by *No Child Left Behind* is the mandatory distribution of local school report cards to parents. *No Child Left Behind* requires schools that receive federal funds to disseminate to parents a local report card with annual information on school and district academic performance. The report cards must describe aggregate student performance data to inform parents which schools have been identified as needing improvement, corrective action, or restructuring. From this information, parents can tell if they are eligible to exercise the school choice and supplemental educational services options available under *No Child Left Behind* for parents of children in underperforming schools.

Department at a Glance

Organization and History

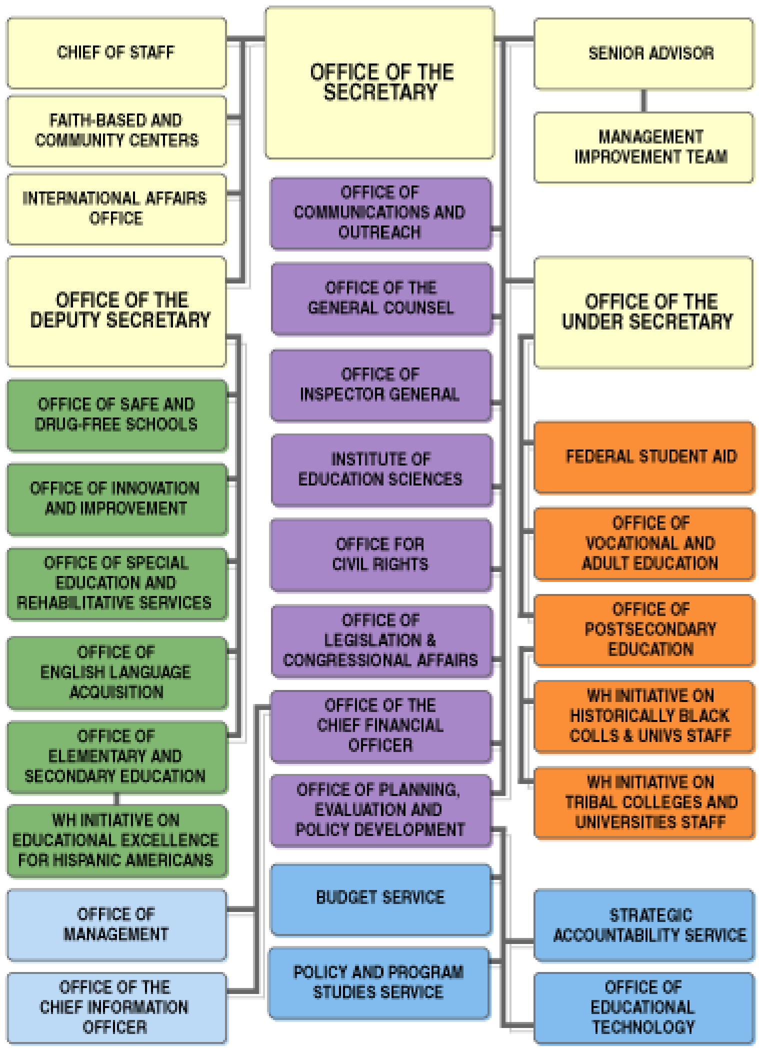
The federal government has taken an active role in education since 1867, when its duties encompassed statistical collection and reporting, but the Cabinet-level Department of Education was created only 25 years ago, in May 1980. By that time, major legislation had been passed that channeled federal support to improve the quality of higher education and access thereto via student financial aid; to strengthen mathematics, science, and vocational education; to provide supplemental resources to improve learning for low-income students and students with disabilities in elementary and secondary schools; and to enforce a variety of laws that protect civil rights.

During the Department's quarter century, the *Elementary and Secondary Education Act of 1965* has been transformed, such that the provision of federal funds to America's poorest schools is coupled with an insistence on measurable improvement in student performance. The *No Child Left Behind Act of 2001*, which is the most recent amendment to the 1965 act, accounts for more than 43 percent of the Department's FY 2005 discretionary spending. This commitment requires our careful oversight to ensure that *No Child Left Behind*'s provisions result in educational achievement. Under *No Child Left Behind* and other education laws, we manage 154 programs that provide federal support for educational research and instructional support for students and teachers, and we are accountable for assessing and improving the performance of these programs.

We strive to achieve these results with the smallest workforce of the 16 Cabinet-level departments, fewer than 4,400 full-time-equivalent staff who manage nearly $60 billion in annual discretionary funds and oversee a student financial loan portfolio exceeding $400 billion. To prepare for these challenges in the Department's second quarter century, Secretary Spellings announced a new coordinating structure—one that better focuses our resources on assisting our educational partners and emphasizes tangible results as the paramount yardstick of our success. Among the major changes, the Deputy Secretary oversees all K–12 education policy and the Under Secretary directs all higher and adult education policy activities. To enhance external relations and coordinate policy initiatives across the agency, the Department has created the new Office of Communications and Outreach and the new Office of Planning, Evaluation, and Policy Development, each led by an assistant secretary reporting directly to the Secretary. These combined efforts will result in a Department of Education that is increasingly responsive to the needs of states, districts, schools, teachers, students, institutions of higher education, and other stakeholders in fostering academic achievement.

The Department recognizes the primary role of states and school districts in providing a quality education, employing highly qualified teachers and administrators, and establishing challenging content and achievement standards. Our role is to supplement these state and local efforts with targeted resources, expertise, and leadership that optimize education opportunities for all Americans.

Department of Education Coordinating Structure For FY 2005



Department at a Glance

Integration of Performance and Financial Information

Focusing on results and accountability with performance monitoring and financial reporting is a sound practice for increasing the Department's productivity. One critical gauge of how well taxpayer dollars are being used is for an agency to link the performance of its programs to subsequent budget determinations. Not long ago, we could discern such a linkage for only a few federal programs, but the absence of performance metrics at the program level is now clearly the exception rather than the rule. Furthermore, if the conventional wisdom that what gets measured gets done is proven true, the increasing use of rigorous performance measurement will help to bring about the positive results we seek.

The Department constantly seeks to strengthen the linkage between financial investments and program quality. We do this not only through the development of program measures, but also through various reporting mechanisms and effective budget management. This report is one example of how we provide comprehensive, accurate information to the American public in a timely manner. The following are some other major activities related to budget and performance integration.

Program Assessment Rating Tool. Since 2002, the Office of Management and Budget (OMB) has asked federal agencies to systematically assess the quality of government programs using the Program Assessment Rating Tool (PART). Using this consistent mechanism, OMB works with federal agencies to judge the effectiveness of programs with regard to their stated purpose, strategic planning, internal management, and results and accountability. Although primarily a diagnostic tool for programs, PART reviews provide critical information that can be used to establish funding priorities for budget planning and development. Following the PART process, programs take follow-up action based on the recommendations from the PART.

By September 2005, the Department had completed PART reviews on 56 of our programs. This Performance and Accountability Report includes detailed information on the programs evaluated through PART in preparation for the Department's FY 2005 budget submission. The Performance Details section shows ratings, recommendations, and the changes these programs have implemented during FY 2005 to improve their effectiveness. See the PART section under each goal chapter for this information. By 2007, most Department programs will have undergone PART evaluations.

Integrating Performance Plan into Budget. Beginning with our FY 2005 budget, the Department has combined our annual performance plan and our annual budget to create an annual performance budget, consistent with OMB guidance for facilitating budget and performance integration. Additionally, effective FY 2005, the Department shifted from the use of strategic measures that reported the national status of education to a focus on program-related measures to more accurately reflect departmental objectives. We accomplished this by selecting key existing program measures as representative of our strategic goals and discontinuing most of the prior national status measures. We continue also to report on the full set of program measures as found in each program's annual plan under the *Government Performance and Results Act*.

Crosswalk of Appropriations and Net Cost to Strategic Plan Goals. This *Fiscal Year 2005 Performance and Accountability Report* continues to emphasize the alignment of financial data and performance priorities by again identifying in the Performance Details section both appropriations and net costs for the goals of the Strategic Plan. Each Department program is aligned with the same strategic goal as in the past two years, enabling both our appropriations and our estimated net costs to clearly reflect the discrete priorities of the Strategic Plan. The Department considers Goal 1, Creating a Culture of Achievement, to be a high-level synopsis of the four pillars on which educational excellence is established; as a result, we do not assign specific programs to that goal. Goals 2 through 5 are sharper directives that guide subdivisions of the Department to carry out the vision of the four pillars, and our programs are therefore assigned to one of these goals. Goal 6, Establishing Management Excellence, emphasizes the administrative and oversight responsibilities that support our programmatic mission. See the program summary section of each goal chapter for this information.

The Department's Statement of Net Cost provides a crosswalk between accounting methods that predate *No Child Left Behind* and our Strategic Plan goals. In the Statement of Net Cost, Program A (Enhancement of Postsecondary and Adult Education) aligns with Goal 5. Program B (Student Achievement, Culture of Achievement, and Safe Schools) aligns with Goals 1, 2 and 3. Program C (Transformation of Education) represents Goal 4. Program D (Special Education and Program Execution) spans Goals 2 through 5. The Financial Details section of this Performance and Accountability Report analyzes this crosswalk. In the event that our Strategic Plan were to be significantly amended, the accounting crosswalk will provide continuity in linking program emphases to reliable financial reporting.

Challenges Linking Performance to Funding. The Department's challenges of linking performance results, expenditures, and budget are complicated by the fact that we accomplish our objectives indirectly, with more than 98 percent of our funding going out in grants and loans, and further complicated by the schedule of funding for these programs.

In the Department, only a portion of a given fiscal year's appropriations are actually available to state, school, organization, and student recipients during the fiscal year in which they are appropriated; the remainder become available at or near the end of the appropriation year or in the subsequent year and remain available to recipients for varying lengths of time, as long as 27 months or more. Thus, linking appropriated funds and program results for a particular fiscal year is not only complex, but also different for different programs.

For example, large formula programs, such as Title I of the *Elementary and Secondary Education Act* and Grants to States under the *Individuals with Disabilities Education Act*, may receive both "forward-funded" and "advance" appropriations. Forward-funded amounts made available under the FY 2005 appropriations for these programs were not available for award until July 2005, nine months after the beginning of FY 2005. Advance amounts made available under the FY 2005 appropriations were not available until October 2005 (at the beginning of FY 2006). Both forward-funded and advance amounts made available in the FY 2005 appropriations are intended for use primarily during SY 2005–06, and these funds can be carried over for obligation at the state and local levels through the end of September 2007.

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

Thus, the results we see during FY 2005, which are to be measured for this report, are not solely the results of actions taken with FY 2005 funds, but rather the combination of funds from FY 2003, FY 2004, and FY 2005. Furthermore, the actual results of education programs are often not apparent until long after the funds are expended. For example, a program to support middle school students in ways that will increase the likelihood that they go to college has approximately a six-year lag time for measuring initial results.

Although we cannot isolate program results and link them directly to a fiscal year's funding, performance during a single program year serves as a proxy, because most of our programs are ongoing. Along with performance results for each program, this report shows the amount of funds appropriated for FY 2005 and the amount of funds expended in FY 2005. See pp. 103, 126, 132, 159, and 190 for these tables.

Department at a Glance

Scorecard on the *President's Management Agenda*

Under the *President's Management Agenda*, the Executive Branch Management Scorecard tracks how well the departments and major agencies are executing five governmentwide initiatives and other program-specific initiatives. The scorecard employs a simple grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory.

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. They 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 success listed in the respective column; it is "red" if it has any one of a number of serious flaws listed in the red column.

Progress. The Office of Management and Budget assesses agency "progress" on a case-by-case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows: green means implementation is proceeding according to plans agreed upon with the agencies; yellow means 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 means the initiative is in serious jeopardy and is unlikely to realize objectives absent significant management intervention.

Department of Education Results. During FY 2005, the Department made significant improvements on the scorecard:

- We achieved the goals of the initiative of elimination of fraud and error in the student aid programs and deficiencies in financial management.
- We moved from yellow to green on status for competitive sourcing and faith-based and community initiatives and on progress for e-government and eliminating improper payments.

President's Management Agenda
FY 2005 Scorecard

Target Area			Q1	Q2	Q3	Q4
Governmentwide Initiatives	Human Capital	*Status* *Progress*	Y G	Y G	Y G	Y G
	Competitive Sourcing	*Status* *Progress*	Y G	Y G	Y G	G G
	Financial Performance	*Status* *Progress*	G G	G G	G G	G G
	E-government	*Status* *Progress*	Y Y	Y G	Y G	Y G
	Budget-Performance Integration	*Status* *Progress*	Y G	Y G	Y G	Y G
Program Initiatives	Faith-Based and Community Initiatives	*Status* *Progress*	Y G	Y G	Y G	G G
	Eliminating Improper Payments	*Status* *Progress*	R NA	R Y	R G	R G
	Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management	*Status* *Progress*	Y G	G G	Goals Achieved	

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

Performance Highlights

The Department's *2002–2007 Strategic Plan* built upon the foundation of the *No Child Left Behind Act* to chart a course for fundamental improvement in American education and accountability in managing our own affairs. The six goals of our strategic plan formed the basis of our FY 2005 annual performance plan, which was incorporated into our Department's *FY 2005 Performance Budget*. These goals encapsulate the major tasks that we must accomplish to fulfill our mission. Every day, we focus on the following:

- Goal 1: Create a culture of achievement. (See p. 28.)
- Goal 2: Improve student achievement. (See p. 31.)
- Goal 3: Develop safe and drug-free schools. (See p. 33.)
- Goal 4: Transform education into an evidence-based field. (See p. 36.)
- Goal 5: Enhance the quality of and access to postsecondary and adult education. (See p. 39.)
- Goal 6: Establish management excellence. (See p. 41.)

Goal Overviews

Goal 1: Create a Culture of Achievement

The 40th anniversary celebration of the *Elementary and Secondary Education Act of 1965 (ESEA)* calls to mind the language of that act: "the Congress hereby declares it to be the policy of the United States to provide financial assistance … to local educational agencies serving areas with concentrations of children from low-income families … ." The congressional mandate of 1965 has guided the federal role in elementary and secondary education for 40 years. The *No Child Left Behind Act of 2001*, which amended the *ESEA*, preserves the equal access tradition and couples it with accountability for results. The focus of Goal 1, creating a culture of achievement, derives from *No Child Left Behind*'s emphasis on accountability.

Key Results for Goal 1

- As a follow-up to Secretary Spellings's 2005 announcement of a "more workable, sensible" approach to implementing *No Child Left Behind*, during the SY 2004–05 amendment cycle, the Department processed and approved requests from 46 states for amendments to their accountability systems.
- State-level education leaders responded to a customer satisfaction survey on the Department's products and services. The Department's score of 63 on the American Customer Satisfaction Index is consistent with other federal grant-making agencies.

Areas of Focus

To improve future results, the Department accepted a recommendation from the National Board for Education Sciences, a 14-member advisory group to the Institute of Education Sciences, which is the Department's primary research arm, that in FY 2006 we set as a priority developing systems for delivering research that policy-makers, educators, and the public can rely on in their quest for education interventions that work. Improving delivery and dissemination of evidence-based approaches will become a priority of the Department's research action plan for FY 2006.

The Department was unable to collect data in FY 2005 for our measure on whether schools have adopted evidence-based approaches to instruction and integrated them into the classroom; we are committed to collecting such data when more information is available to schools about a range of evidence-based approaches.

Goal 1: More About the First Key Result

State Requests for Amendments to Accountability Systems	
Most Commonly Approved Amendments	**Number Approved**
Adjusting the AYP definition (on a short-term basis) to account for students with disabilities who may be assessed with a modified assessment (2 percent interim flexibility).	31
Changes in the additional academic indicator.	19
Identifying districts for improvement only when they do not make AYP in the same subject for two consecutive years in all grade spans.	16
Changes in the assessment system affecting AYP.	12
Averaging proficiency results or participation rates across years.	9
Raising the minimum subgroup size for students with limited English proficiency.	10
Using a confidence interval of 75 percent under *No Child Left Behind*'s Safe Harbor provision.	7
Use of an index to calculate AYP.	5
Taking advantage of LEP flexibility.	7
Revising annual AYP targets to increase in 10 equal increments through 2014.	3
Revising system of rewards and sanctions.	3
Use of a new data management system.	3
Using a confidence interval of 99 percent in calculating AYP.	4

AYP = Adequate yearly progress
LEP = Limited English proficient

Goal 1: More About the Second Key Result

Department of Education American Customer Satisfaction Index (ACSI) Score: 63

Satisfaction as measured by the ACSI was 63. This is the aggregate score for all respondents. For a point of reference, the CFI Group that conducted this survey has found satisfaction scores on other federal grantee satisfaction surveys typically to be in the low 60s.

Grantee Disaggregated ACSI Scores

Results on Department of Education Grantee Satisfaction Survey By Grantee Group	
Lead Agency Early Intervention Directors (OSERS/OSEP)	68.1
Title III State Directors (OELA)	67.8
State Title I Directors (OESE)	63.3
State Directors of Adult Education and Literacy (OVAE)	63.0
State Educational Technology Directors (OESE)	62.4
State Directors of Special Education (OSERS/OSEP)	61.8
Career and Technical Education State Directors (OVAE)	61.5
EDEN/PBDMI State Coordinators (OUS)	59.7
Chief State School Officers	57.3

OSERS = Office of Special Education and Rehabilitative Services
OSEP = Office of Special Education Programs
OELA = Office of English Language Acquisition
OVAE = Office of Vocational and Adult Education
OUS = Office of the Under Secretary
EDEN = Education Data Exchange Network
PBDMI = Performance-Based Data Management Initiative

ACSI Questions

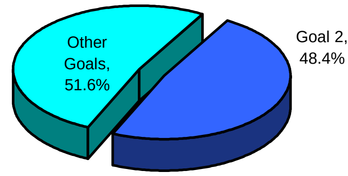
- How satisfied are you with ED's products and services?
- Rate the extent to which the products and services offered by ED have fallen short of or exceeded your expectations.
- Now forget for a moment about the products and services offered by ED, and imagine the ideal products and services. How well do you think ED compares with that ideal?

ACSI Methodology

The ACSI survey measures satisfaction and the key drivers of satisfaction using the methodology of the American Customer Satisfaction Index. The ACSI is the national indicator of customer evaluations of the quality of goods and services available to U.S. residents. ACSI has measured more than 100 programs of federal government agencies since 1999.

Goal Overviews

Goal 2: Improve Student Achievement



Along with local school teachers and parents, state education leaders, business leaders, everyday U.S. citizens, and students themselves, the Department's goal is to improve educational achievement. The *No Child Left Behind Act* sets as a national goal that all students achieve proficiency in reading and mathematics by SY 2013–14. Goal 2 focuses on improvements in early reading instruction, middle school mathematics instruction, high school proficiency, and teacher quality.

Key Results for Goal 2

- Nine-year-old students' average reading scores on the 2004 National Assessment of Educational Progress Long-Term Trend Assessment were higher than in any previous assessment year; Hispanic, black, and white 9-year-old students' average reading scores increased between 1999 and 2004 by 12, 15, and 5 points, respectively.
- The Department has committed to making available to the public state high school graduation rates calculated by a standard measure with state-submitted graduation rates. Standardizing graduation rates is the first step in data-driven high school reform.

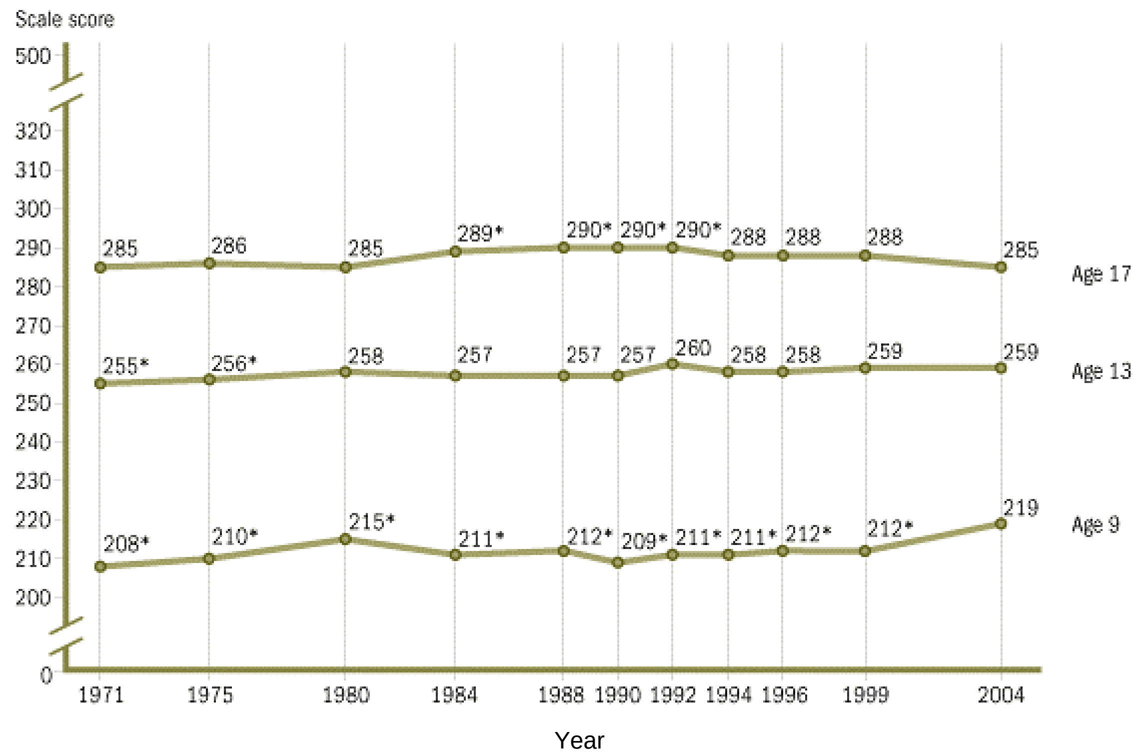
Area of Focus

In 2004 and 2005, the Department clearly stated that we are committed to high school reform. We held two national summits in as many years to support the Preparing America's Future High School Initiative. But high school reform encounters seemingly intractable problems: high school students say they are unengaged and unchallenged in school; in some groups, as few as half of students graduate; and graduates sometimes find themselves unprepared when they go to college.

High school reform remains an important area of focus for the Department in 2006 as President Bush requested $1.9 billion for high school reform in his FY 2006 budget proposal. Programmatically, the Department is proposing High School Intervention, a new formula grant program designed to help local educational agencies meet the needs of at-risk high school students. Additionally, the budget proposal would increase support for Striving Readers, support the development of assessments for all high school students in reading and mathematics, accelerate mathematics learning through competitive grants under the Mathematics and Science Partnerships program, increase student access to the Advanced Placement program, and increase the number of states implementing the State Scholars program.

Goal 2: More About the First Key Result

Trends in Average Reading Scale Scores on the NAEP Long-Term Trend Assessment
By Age From 1971 to 2004

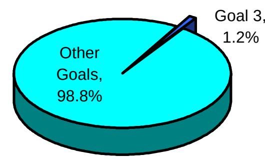


* Significantly different from 2004.

Source. U.S. Department of Education, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 1971–2004 Long-Term Trend Reading Assessments.

Goal Overviews

Goal 3: Develop Safe and Drug-Free Schools



To meet the universal student achievement goals of *No Child Left Behind*, schools must be safe and drug free. Without a safe and orderly learning environment, teachers cannot teach, and students have difficulty learning. Given the myriad causes of violence and drug prevalence in schools, educators must consider policies and approaches to ensure a supportive learning environment for every student. The Department administers programs that provide financial help and information to states, districts, and schools for implementing effective programs and strategies for the prevention of substance abuse and violence.

Key Results for Goal 3

- Recent data from two ongoing comprehensive surveys, the Youth Risk Surveillance System and Monitoring the Future, show overall decreases in reported marijuana use despite little change in the reported availability of the drug. The Monitoring the Future survey also reported increased perceived drug use risk and disapproval among 8th-, 10th-, and 12th-grade students from 2002 to 2004. See graph for disapproval of marijuana use.
- Between 1993 and 2003, the percentage of students in grades 9–12 who reported being in a fight on school property declined from 16 percent to 13 percent.

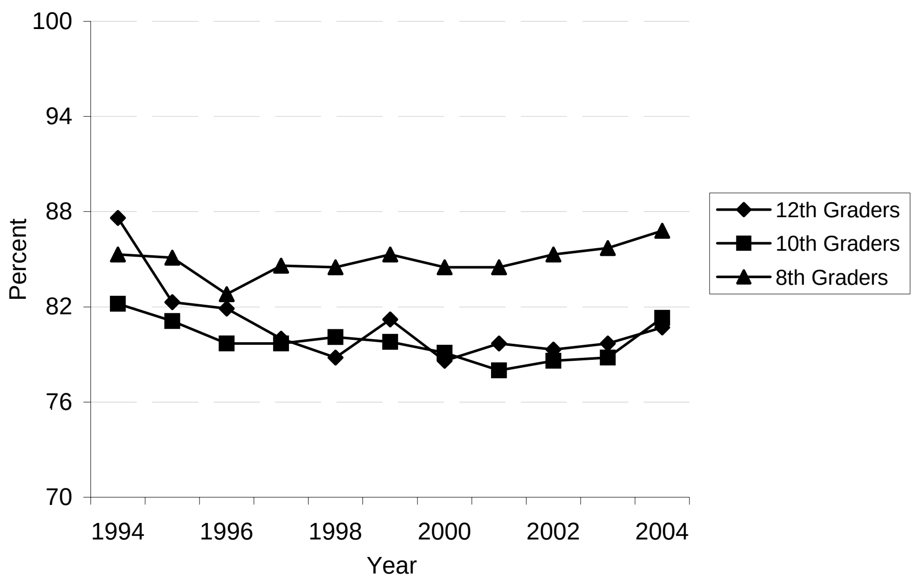
Areas of Focus

Because drug use and violence in schools is often influenced by health-related behaviors and external societal risk factors, each school requires specific information to implement prevention programs that address the health and academic needs of students. The Department has made several long-term investments to provide detailed information on drug use and violence to inform the implementation of prevention programs.

- Grantees under the Department's Grants to States to Improve Management of Drug and Violence Prevention Programs are expanding their capacity to collect, analyze, and use youth drug use and violence data to improve the quality of drug and violence prevention programs administered in the grantee's state.
- The Department's What Works Clearinghouse will conduct evidence-based reviews of violence prevention interventions in schools. Detailed information on the study topic, Interventions to Reduce Delinquent, Disorderly, and Violent Behavior in Middle and High Schools, is available on the What Works Clearinghouse Web site.

Goal 3: More About the First Key Result

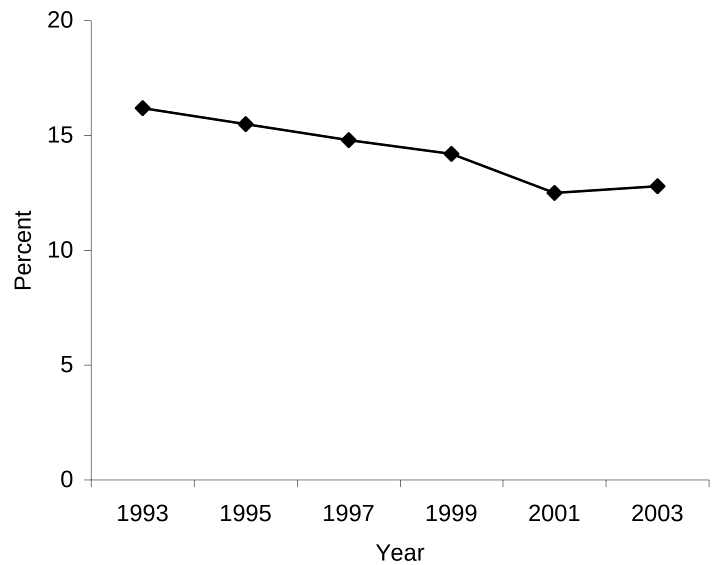
Trends in the Disapproval of Marijuana Use
By Grade From 1994 to 2004



Source. National Institutes of Health, National Institute on Drug Abuse, *Monitoring the Future: Overview of Key Findings 2004*, tables 8-4, 8-5, 8-6.

Goal 3: More About the Second Key Result

Trends in Physical Fights on School Property
From 1993 to 2003

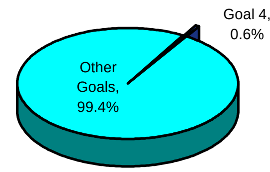


Note. Data on physical fights include percentage of students who were in a physical fight on school property one or more times during the past 12 months.

Source. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Youth Risk Behavior Surveillance System: Youth Online Comprehensive Results, 2003.

Goal Overviews

Goal 4: Transform Education Into an Evidence-Based Field



"Data is our best management tool," said Secretary of Education Margaret Spellings. In highlighting the importance of relevant research to the Department of Education, she continued, "I often say that what gets measured, gets done. If we know the contours of the problem, and who is affected, we can put forward a solution. Teachers can adjust lesson plans. Administrators can evaluate curricula. Data can inform decisionmaking." During the past year, the Department continued to ensure the highest quality and relevance of research funded and conducted by the Department, so that ultimately the development and dissemination of research results informs and improves teacher instruction and student achievement.

Key Results for Goal 4

- The National Center for Special Education Research was launched in 2005 with the President's signing of the reauthorization of the *Individuals with Disabilities Education Act*. The center supports a program of research that addresses a wide range of issues in special education. In 2005, the center initiated a national study on alternate assessments. In addition to this evaluation, the center announced 10 special education research competitions.
- The Department's What Works Clearinghouse published a review of the available research on the effectiveness of curriculum-based interventions for improving mathematics achievement for middle school students. From a systematic review of published and unpublished research, the What Works Clearinghouse identified 10 studies that met the clearinghouse's standards of evidence. These studies examined the effects of five middle school mathematics interventions.

Areas of Focus

- In providing information on the condition and progress of education in the United States, the Department is committed to increasing the timeliness and quality of data collection and reporting. With timely and relevant results, the Department will ensure that practitioners, policymakers, and the public can promptly translate research results into educational practice and improvement.
- The What Works Clearinghouse topic reviews, which identify studies of the effectiveness of educational interventions will be expanded. The Department has begun reviewing studies in six new areas: beginning reading, character education, early childhood education, elementary school mathematics, English language learners, and dropout prevention.

Goal 4: More About the First Key Result

The National Center for Special Education Research

The National Center for Special Education Research, one of four centers within the Department's Institute of Education Sciences, supports a comprehensive research program to promote the highest quality and rigor in research on special education and related services, and to address the full range of issues facing children with disabilities, parents of children with disabilities, school personnel, and others.

The authorization for the National Center for Special Education Research occurred on December 3, 2004, with the President's signing of the reauthorization of the *Individuals with Disabilities Education Act*. The *Individuals with Disabilities Education Improvement Act of 2004* transferred the responsibilities for research in special education within the Department from our Office of Special Education and Rehabilitative Services to our Institute of Education Sciences.

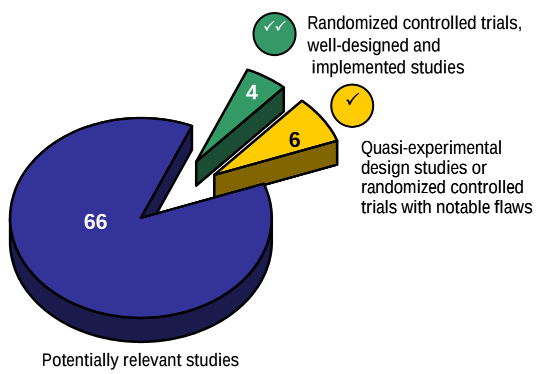
Highlights of the center's research initiatives include the following:

- A national study on alternate assessments, initiated in 2005, that will accomplish the following:
  - Produce assessment profiles of all states and a national summary profile.
  - Describe the characteristics of alternate assessments, processes of student placement, alignment with content standards, and uses of data; the state and local processes that facilitate or impede the implementation of alternate assessments, alternate achievement standards, and modified academic achievement standards; and consequences for students with disabilities.
  - Conduct a quantitative analysis of the relationships between variables in alternate assessment systems and student outcomes.
- Announcement of 10 special education research competitions for 2006, designed to address assessment, early intervention, teacher quality in reading and writing, teacher quality in mathematics and science, language and vocabulary development, individualized education programs, behavior problems, and secondary and postsecondary transitions.

Goal 4: More About the Second Key Result

What Works Clearinghouse Review of Research on Middle School Math Curricula

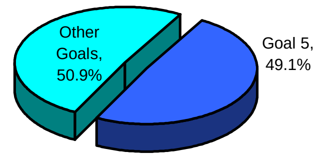
The What Works Clearinghouse review examined available evidence from research conducted since 1983 on the effectiveness of curriculum-based interventions for improving mathematics achievement for middle school students. From a systematic search of published and unpublished research, the clearinghouse identified 10 studies of the effects of five middle school math interventions that met clearinghouse standards of evidence.



Source. U.S. Department of Education, Institute of Education Sciences, What Works Clearinghouse, *Middle School Math Curricula Topic Report,* 2005.

Goal Overviews

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



"We have a responsibility to make sure our higher education system continues to meet our nation's needs for an educated and competitive workforce in the 21st century. ... Throughout our history, we've answered the call to extend the promise of higher education to more Americans." Secretary Margaret Spellings's remarks reinforce the Department's focused efforts to enhance the quality of and access to postsecondary and adult education. Postsecondary and adult education continues to provide a means by which Americans can acquire literacy skills, prepare for jobs, and become better-informed citizens.

A recent national survey commissioned by the Job Shadow Coalition shows that 70 percent of teenagers believe that they need higher education to achieve the American dream. Considering that more than two-thirds of new jobs require some postsecondary education, the Department's achievements in improving postsecondary and adult education in America benefit students and encourage successful life outcomes.

Key results for Goal 5

- Postsecondary completion rates rose significantly from 1970 to 2004, indicating increased access to and persistence in pursuing a postsecondary education. While figures show that white adults aged 25–29 are more likely to have earned a bachelor's degree or higher than minority adults, trends for black and Hispanic adults also show an increase in degree attainment.
- Fiscal management has improved in the Department's postsecondary aid programs. In 2005, our student financial aid programs were removed from the Government Accountability Office list of high-risk programs.

Areas of Focus

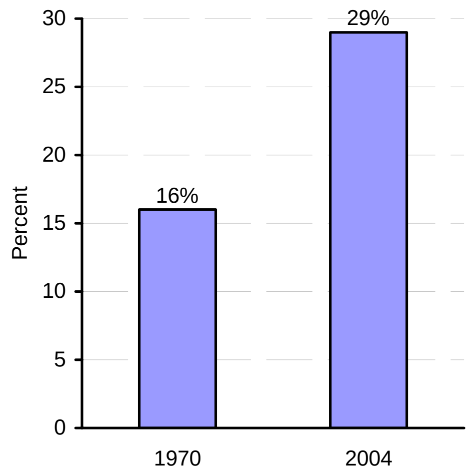
In 2005, we formed the Secretary of Education's Commission on the Future of Higher Education to focus on the improvement of the nation's postsecondary education system. The new commission is charged with developing a comprehensive national strategy for postsecondary education to meet the needs of America's diverse population and to address the economic and workforce needs of the country's future.

The Department began the first phase of a pilot test of the use of efficiency measures to improve program performance in the TRIO Student Support Services program. The results of analyses are expected to provide project directors with information that will guide projects and the program toward adopting best practices and making other program improvements. Other changes in TRIO include better integration across TRIO programs to provide continued services to participants as they transition from high school to college and beyond.

Goal 5: More About the First Key Result

College Completion for 25- to 29-Year-Olds

For 1970 and 2004

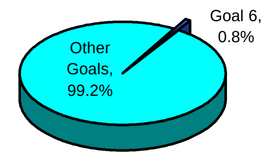


Source. U.S. Department of Education, National Center for Education Statistics, *Youth Indicators, 2005*, p. 49.

Goal Overviews

Goal 6: Establish Management Excellence

To make high-quality education a reality for as many Americans as possible, the Department must deploy our financial and intellectual resources for maximum impact. Achieving such an impact requires continued demonstration of superior fiscal management, commitment to developing highly skilled Department staff, and constant improvements in program performance. These are the keys to establishing management excellence.



The Department has earned the public's confidence with four consecutive clean financial statement opinions, strong customer satisfaction in student financial aid services, improved risk management to reduce improper payments in major programs, and the development of performance-oriented criteria to reward our employees. The Department has also made significant strides in improving program performance and has played a leading role in federal initiatives to improve electronic access to government services and grant opportunities.

Key Results for Goal 6

- The Department earned the prestigious President's Quality Award for improved financial performance.
- Department efforts to encourage repayment of Federal Direct Student Loans and Federal Family Education Loans helped the two loan programs realize the lowest cohort default rate in the Department's history.

Areas of Focus

In 2006, we will increase the number of our programs that demonstrate proven effectiveness, encourage novice applicants to apply in larger numbers to our discretionary grant competitions, and sustain our previous accomplishments for another year.

Financial Highlights

The Department's strategic plan commits us to management excellence and overall financial improvement in concert with an increased focus on academic performance. The Department earned a fourth consecutive unqualified audit opinion from independent auditors. American taxpayers and other readers of our financial statements can rely on the information presented, accurately informed of the status of the Department's financial position and the stewardship of our assets.

Solid management controls sustain an unqualified audit opinion and ensure effective stewardship of assets. The Department recognizes the need for accountability, and management supports the framework necessary to derive superior results.

The Department continues to review existing internal controls and implement changes where necessary. In accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, the Department will be enhancing the review, assessment, and testing of our internal controls in fiscal year 2006.

- Lines of Business (See p. 43.)
- Financial Position (See p. 44.)
- Future Trends (See p. 46.)
- Management Challenges Overview (See p. 49.)
- Improper Payments Overview (See p. 52.)
- Management Assurance (See p. 54.)

Lines of Business

The Department managed a budget of $73 billion in fiscal year (FY) 2005, of which 52 percent supported elementary and secondary programs and grants. Postsecondary grants and administration of student financial assistance accounted for 41 percent, including programs that helped nearly 9.4 million students and their parents to better afford higher education during FY 2005. An additional 5 percent went toward other programs and grants encompassing research, development, and dissemination, as well as rehabilitation services. The remaining 2 percent of our appropriations was directed toward administrative expenditures.

Nearly all our appropriations, 98 percent in FY 2005, support three primary lines of business—grants, administration of guaranteed loans, and administration of direct loans. The original principal balances of the Federal Family Education Loans and Federal Direct Student loans, which comprise a large share of federal student financial assistance, are funded by commercial bank guarantees and treasury borrowings.

Grants

A significant part of the Department's budget is used to support ongoing programs that were reauthorized or created by the implementation of *No Child Left Behind*. This support is provided to state and local governments, schools, individuals, and others that have an interest in educating the American public.

The Department's three largest grant programs, 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 exceeded $10 billion in appropriations for FY 2005.

Guaranteed Loans

The Federal Family Education Loan Program makes loan capital from more than 3,200 private lenders available to students and their families. Through 35 active state and private nonprofit Guaranty Agencies, the Department administers the federal loan guarantee program to protect lenders against losses related to borrower default. As of the end of September 2005, the total principal balance of outstanding guaranteed loans held by lenders was approximately $289 billion, with the government's estimated maximum exposure being $288 billion.

Direct Loans

The Federal Direct Student Loan Program, created by the *Student Loan Reform Act of 1993*, provides an alternative method for delivering assistance to U.S. students that uses Treasury funds to provide loan capital directly to schools. The schools then disburse loan funds to students. As of September 30, 2005, the value of the Department's direct loan portfolio is $95.7 billion.

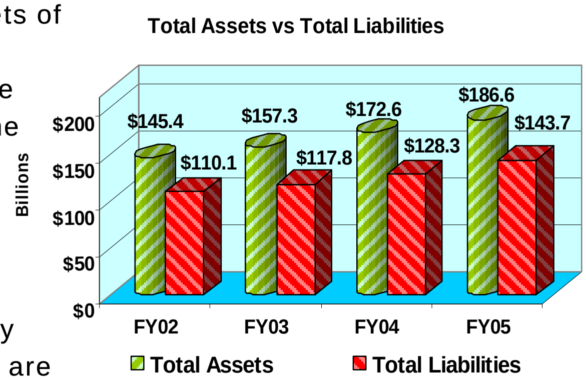
Financial Position

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. FY 2005 financial statements and footnotes appear on pp. 207–244.

Balance Sheet

The Balance Sheet presents, as of a specific point in time, the economic 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 p. 207 reflects total assets of $186.6 billion, an 8 percent increase over FY 2004. This increase is attributable to increased funding related to the continuing implementation of *No Child Left Behind* and the anticipated steady growth of student financial assistance programs.



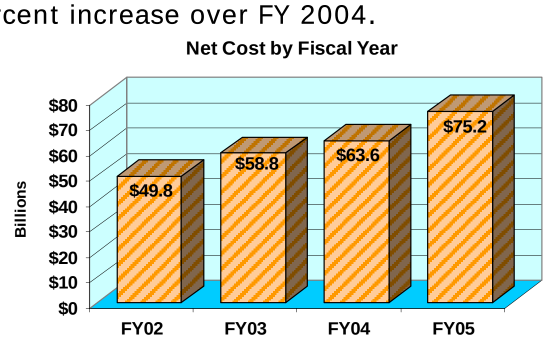
Intragovernmental liabilities constitute 77 percent of the Department's total liabilities. Our intragovernmental liabilities consist mainly of Treasury debt, which is directly related to the Department's focus on ensuring that funds are available for any student desiring a postsecondary education.

Liabilities for Loan Guarantees increased by 31 percent, which is related to assumption changes for loan maturity term and consolidation loan volume.

Several factors influenced the change in the Department's Net Position in FY 2005. These include the timing of the execution of prior year subsidy re-estimates for federal student loan programs and the overall management of the Department's capital structure. Net Position decreased by 3 percent from FY 2004.

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 Statement of Net Cost is presented to be consistent with the Department's strategic goals, as directed by the *President's Management Agenda*. The Department's total program net costs, as reflected on the Statement of Net Cost, p. 208, are $75.2 billion, an 18 percent increase over FY 2004.



The Enhancement of Postsecondary and Adult Education (Program A), which tracks with the Department's funding for Strategic Goal 5, experienced a 26 percent increase in costs from FY 2004 largely due to assumption changes for loan maturity term and consolidation loan volume. Program B is representative of creating a culture of achievement, culture of student achievement and safe schools, tracking with Goals 1, 2, 3. Program C, the transformation of education aligns with Goal 4. Combined Programs B and C experienced a

13 percent cost increase in FY 2005. This tracks with increased funding for these programs and related distribution of funds to grantees.

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. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the United States Government.*

The statement displayed on p. 210 shows that the Department had $154.1 billion in budgetary resources for the year ended September 30, 2005. Of the $25.0 billion that remained unobligated at year end, $24.4 billion that represents funding provided in advance for activities in future periods was not available. The Department had $69.8 billion in Net Outlays for FY 2005.

Statement of Financing

This statement demonstrates the relationship between an entity's proprietary and budgetary accounting information. It links the net cost of operations (proprietary) with net obligations (budgetary) by identifying key differences between the two statements. This statement is structured to identify total resources used during the fiscal year, with adjustments made based on whether the resource was used to finance the net obligations or net cost.

This statement, displayed on p. 211 identifies $72.9 billion of resources used to finance activities, $2.1 billion of resources not part of the net cost of operations, and ($0.2) billion of components of net cost of operations that will not require or generate resources in the current period.

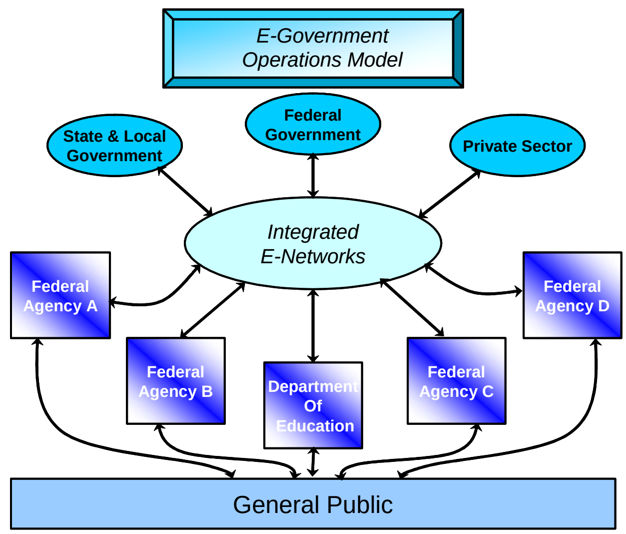
Future Trends

From a financial management perspective, the Department of Education is unique among federal government agencies. We must manage, consolidate, and account for more than 230 appropriations. Among the 16 Cabinet-level departments, we maintain the smallest number of employees while managing the third-largest discretionary budget.

A continuation of current downward trends in full-time equivalent staff will result in a critical reliance on a sound intellectual capital plan. The Department must increasingly coordinate strategic technology investments with human capital management.

Technology Transformation

Technology improvements will continue to empower organizations in the future by increasing the availability of a critical resource: time. These improvements will enable executive management to devote additional time to policy analysis and decisionmaking rather than the manual processing and compiling of key data. The Department benefits at an increasing rate from the maturing of investments in systems and e-government.



Major Department investments include a reimplementation of the existing financial accounting system and full participation in ongoing federal e-government initiatives. The adjacent chart depicts our vision of the e-government operational model that highlights electronic information-sharing capabilities via data networks.

This unified data network will create public value by optimizing government operations and providing effective oversight, coordinating strategic technology investment planning with human resource management and planning governmentwide.

We are currently in the process of completing a study to determine the best approach to migrating to a center of excellence or becoming one. This analysis will be completed by the end of the first quarter of fiscal year 2006.

Human Capital Transformation

A results-oriented enterprise requires that an organization clearly identify and achieve viable results. The Department of Education's *Results Agenda* clearly articulates this expectation, enabling Department personnel to understand how they will be held accountable for performance. Our employees also understand how their achievements align with and contribute to our mission.

The Department continued the implementation of a human capital management plan that was launched in FY 2004. Our plan integrates human capital management, competitive sourcing, restructured business processes, and other Departmental strategic infrastructure investments. Future actions to meet challenges within our principal offices will include:

- Improving clarity of results in employee's performance standards (targeted to specific principal office goals and objectives).
- Linking employee awards to performance.
- Training supervisors/managers in assessment of employee performance and techniques for improving management practices.
- Improving communication and techniques to foster a team culture.
- Conducting appropriate forums to obtain employee perspectives on motivation, commitment, and productivity, implementing strategies based on information gathered.

The Department's continued commitment to human capital transformation will result in a more robust, cost-effective business environment and a better return on taxpayer investment.

Economic Transformation

Tuition costs and interest rates will continue to have significant effects on the Department. Increasing tuition costs for postsecondary education should compel a greater number of individuals to seek tuition assistance in the form of loans or grants.

Rising interest rates have driven a surge in the refinancing and consolidation of student loans. Variable student loan interest rates were reset on July 1, 2005, increasing nearly two percentage points from 3.37 percent for academic year 2004-05 to 5.30 percent for academic year 2005-06. In anticipation of this increase, private lenders, schools, and others encouraged borrowers to consolidate their existing variable rate loans into fixed rate loans. This resulted in an unprecedented surge in loan consolidations, leading to substantially higher volume than the previous fiscal year. Based on preliminary data, projected cohort-year 2005 consolidations will approximate $68.5 billion, $24.8 billion above the fiscal year 2006 *President's Budget* estimate.

Fiscal year 2005 direct consolidation loan volume is estimated at $17.7 billion. These consolidations are comprised of underlying direct loans, guaranteed loans, and, to a much lesser extent, defaulted guaranteed loans in repayment. In disbursing a direct loan consolidation, the Department pays in full the holders of the underlying loans.

Fiscal year 2005 FFEL consolidation loan volume is estimated at $50.8 billion. These consolidations are primarily from guaranteed loans in repayment and some direct loans (in most cases from borrowers with loans from both programs). Under current projections, the prepayment of the underlying FFEL loans produces significant savings through the elimination of future special allowance payments.

The devastation of Hurricanes Katrina and Rita will impact the Department and the federal government for many years to come. These catastrophic storms have left the Gulf Coast area without many teachers, students, or functional schools or universities. The Department has provided immediate assistance to schools and displaced persons. During the recovery process, we will ensure that students, teachers, and educational institutions receive assistance as needed. Due to the uniqueness of this disaster, financial estimates cannot be made of the type or timing of assistance that will be required. However, the Department has financial management controls in place to ensure that federal funds are disbursed quickly and appropriately.

Regulatory Transformation

Governance, risk management, and compliance activities increasingly interact with one another, requiring sustained management commitment to achieve organizational excellence in all three areas. The Department's future success is highly dependent on the successful convergence of these activities into a coherent strategic operating model.

Focus on the regulatory environment requires the Department to identify and control compliance risk, which includes systemic, nonsystemic, and residual components. We mitigate the risk of impairment to our operations model, reputation, and financial condition by seeking to comply fully with laws and regulations, internal controls, and taxpayer expectations.

The Department is taking a holistic approach to total risk management, the value of which far exceeds the costs of implementation. Senior management is making investments to comply with relevant regulations, to manage the costs associated with compliance, and to identify and address regulatory change.

Operational effectiveness meetings were held twice during FY 2005 with each Department principal office that oversees federal education programs. Senior staff of the Offices of the Deputy Secretary, Under Secretary, Chief Financial Officer, and Chief Information Officer, along with the Office of Management, met with senior principal office leaders to review and evaluate management operations in the areas of customer service, quality and innovation. Principal office managers presented evidence of their offices' performance from historical, current, and future perspectives. These meetings facilitated the sharing of best practices across the Department, and any necessary principal office corrective actions are tracked on a continuous basis.

Our progressive focus will ensure that fewer resources are necessary for remediation activity.

Management Challenges Overview

The Office of Inspector General has identified the Department's major challenges, which are included on pp. 282-288 of this document. Following is management's discussion and analysis of those challenges.

I. Program Accountability

Student Financial Assistance. Continued developments in the modes of education delivery (e.g., nontraditional terms, distance education) and virtual paperless electronic delivery of program funds brings new challenges to ensure adequate oversight to identify and manage risks. The Office of Federal Student Aid must provide adequate program monitoring to reduce fraud and abuse in these programs.

In December 2004, OIG and FSA representatives initiated the OIG/FSA Joint Fraud Initiative—a proactive approach to identify and reduce fraud and abuse in federal student financial assistance programs.

Risk Management of Elementary and Secondary Education Programs. Identifying and taking corrective action to detect and prevent fraudulent activities in these programs, as well as addressing accountability and compliance issues by program participants, remains a challenge for the Department.

The Department has made risk assessment a priority. Its interoffice Risk Management Team, under the leadership of the Under Secretary, is undertaking projects to address accountability and compliance issues, as identified by Office of Inspector General audits, referrals, and single audits conducted by nonfederal auditors. It works with program offices to designate grantees as "high risk" when the situation warrants and has dedicated a weekly meeting to risk management issues. In addition, the Department has sent multidisciplinary teams into key locations, as identified through Office of Inspector General audits, to review and assess the progress the "high-risk" entity is making in addressing its weaknesses.

Unsolicited Grants

Unsolicited grants are awards made by the Department, in most cases, as a result of grantee initiative. Such awards do not result from formal Department solicitations for applications. Complications can arise with unsolicited grants, as many recipients of these funds tend to be first-time participants in federal education programs. They are often unfamiliar with applicable regulations and require additional direction, guidance and support with the compliance processes.

Like unsolicited grants, Congressional earmarks do not result from formal solicitations for applications. The Department is required to ensure that recipients of its funds use them in accordance with applicable laws and regulations. However, the Department has stated it does not have enough staff to administer and properly monitor the recipients of Congressional earmarks. It should be noted that some grant projects that begin as unsolicited grants receive Congressional earmarks in subsequent years.

The Department plans to develop a toolkit to help new grantees properly administer their grant programs and to continue to re-engineer its grants monitoring process.

Data Reliability. Data reliability is both a compliance issue and a performance issue. The Office of Inspector General has performed a number of audits of Title I, Part A, and the *Carl D. Perkins Vocational and Technical Education Act* education programs and concluded that management controls must be strengthened to ensure that data submitted to the Department are complete, accurate, and reliable.

Recognizing the need to improve data quality and data reliability, the Department in FY 2003 launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network database, anticipated for launch in fiscal year (FY) 2006, will provide state educational agencies and the federal government the capacity to transfer and analyze information about education programs. The new database should generate a more reliable, timely, and uniform set of state and local data elements to help the Department make better-informed program decisions.

II. Operations Accountability

Information Technology (IT) Capital Investment. The Department faces challenges in improving its capital planning and investment control oversight, and in using software designed to help agencies manage and control their initiatives.

Many critical IT projects are pending, such as the Oracle 11i project. In 2004, the Office of the Chief Financial Officer and the Office of Federal Student Aid announced plans to consolidate their separate platforms into one functional financial management system, using version 11i of Oracle Federal Financials, by October 2006. However, in February 2005, they decided to forego this consolidation. Although this decision is bound to mitigate significant risks associated with the consolidation and changes in interfacing systems, the initiative is still quite complex and high risk.

For its more complex and costly IT projects, the Department has contracted to have independent, professional consultants provide an assessment as a part of the capital investment process. The Department has made an effort to better articulate the relationship between IT projects and its line of business.

IT Systems. The Department needs to adequately manage and safeguard IT assets and meet e-government requirements. Its 60 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to complete the development of well-defined enterprise architecture, practice sound system analysis and design concepts, and ensure that a robust system acquisition and development life cycle methodologies are in place.

The Department has embarked on several modernization efforts that have the potential to increase business efficiency and improve customer service. It is moving forward with its ongoing system development and consolidation efforts planned for FY 2006. It has also devoted time and resources to enhance security for its systems, including formally certifying all of its general support systems and major applications.

Procurement. The Department must improve its procurement process to ensure that it is receiving quality goods and services in accordance with the contract terms. The Department needs to use pre-award audits, strengthen its ability to clearly and completely define contract requirements thereby ensuring effective communication between relevant contracting and program office personnel, and ensure that contractors are performing in accordance with contract terms and conditions to meet this challenge.

In 2005, the Secretary directed the Chief Acquisition Officer and Contracts and Acquisition Management Director to develop a training program reinforcing the Department's contracting processes and applicable laws and regulations. Senior managers, contracting personnel, and relevant program office personnel will be required to attend this training. The Secretary has also directed each principal officer leading a program office to take immediate steps and personal responsibility for ensuring contracts are awarded properly and effectively monitored, and has designated a senior advisor reporting directly to her to oversee transformation activities to ensure effective investing and risk management of contracts.

Human Capital Management. Like most federal agencies, the Department will see a significant percentage of its work force eligible for retirement in 2006. The Department is also continuing to see a significant change in critical skill requirements for many of its staff. Identification of needed action steps and their prompt implementation to adequately address work force and succession planning issues are critically important.

The Department has begun implementation of a new Human Capital plan that was released in 2004. This fiscal year the Office of Federal Student Aid (FSA), with the aid of a consultant, also developed its own Human Capital plan. The FSA plan specifically focuses on the needs of FSA and is intended to help FSA attract and retain a highly skilled and motivated workforce.

Improper Payments Overview

The Department has undertaken the following initiatives relating to the implementation of the *Improper Payments Information Act of 2002*.

Student Financial Assistance Programs. The Department's Office of Federal Student Aid (FSA) operates and administers the majority of the Title IV Student Assistance programs authorized by the *Higher Education Act of 1965*, as amended. Within these programs, we are identifying activities that are susceptible to significant improper payments. We are also reporting estimates of the annual amount of improper program payments and implementing plans to reduce improper payments.

Eligibility for Title IV student aid is determined exclusively through applicant self-reported income, family size, number of dependents in college, and assets. These data are reported through the Free Application for Federal Student Aid (FAFSA), which applicants typically complete prior to the April 15 Internal Revenue Service (IRS) tax filing deadline.

FSA has undertaken a statistical study in which financial data from a random sample of FAFSA submissions are compared to financial data reported to the IRS in annual income tax filings. Analysis of the study indicates that inaccurate reporting of income, family size, number of dependents in college, and assets may be the primary cause of improper payments within the Title IV programs. However, legislation does not currently permit FSA to verify 100 percent of the FAFSA income data with the IRS.

In pursuit of the goals of the *Improper Payments Information Act*, the Department has been working closely with the Office of Management and Budget to consider other alternatives. We are developing an action plan designed to improve the accuracy of the improper payment estimates and reduce the level of risk and the amount of improper payments in the student financial assistance programs.

Title I Programs

The Department performed a risk assessment of the *Elementary and Secondary Education Act* Title I Program, parts A, B, and D, during FY 2005. The assessment documented that the risk of improper payments under current statutory requirements is very low. In order to refine the process for assessing risk in the program, the Department implemented a monitoring plan to review all states and territories receiving Title I funds within a three-year review cycle. The first three-year monitoring cycle began in FY 2005, and the Office of the Chief Financial Officer is participating with the Office of Elementary and Secondary Education in the monitoring process to provide technical support regarding fiduciary compliance.

A major fiduciary monitoring element involves the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under the U.S. Department of Agriculture (USDA) National School Lunch Program, for this purpose. In many districts, these data are the only indicator of poverty available at the individual school level.

USDA has raised concerns about the reliability of these data. USDA is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

Remaining Grant Programs

During FY 2005, the Department instituted a more detailed risk assessment of all other grant programs. We established a memorandum of understanding with the Department of Energy's Oak Ridge National Laboratory which performed 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. Given scarce resources, we decided to use the results of the thousands of single audits already being performed by independent auditors on grant recipients.

The Department sought to develop a methodology to produce statistically valid improper payment estimates that could be applied uniformly across non-FSA grant programs. This approach establishes a level of quality control for all programs while simultaneously producing a cost-effective measure.

The Department's Office of Inspector General raised concerns following the Oak Ridge study on what constituted a "program." The study's original definition was at a program group level in order to effectively match anticipated outlays as defined in our budget submissions. However, calculating estimated improper payment error rates at that level can effectively mask the potentially higher rates that might exist if "program" is defined to mean the individual program level. For this reason, the Department is considering having Oak Ridge perform the next risk assessment at an individual program level.

Recovery Auditing Progress

To effectively address the risk of improper administrative payments, the Department executed a formal agreement for recovery auditing work on contract payments. All vendor payment transactions made from FY 1998 through FY 2004 were reviewed. Potential recoveries are minimal. FY 2005 payments will be reviewed during FY 2006.

Our purchase and travel card programs remain subject to monthly data-mining to identify potential misuse or abuse.

The Department plans to develop a manager's internal control training program that will focus on controls to eliminate improper payments. This training will help managers use specific criteria to properly assess the risk of improper payments in our programs.

The Department will record and maintain corrective action plans as required. We will configure corrective action plans based on the results of the initiatives outlined above.

To comply with the *Improper Payments Information Act of 2002* the Department is focused on identifying and managing the risks of improper payments and is mitigating risk with adequate control activities. By implementing our current and anticipated actions, we will effectively reduce improper payments throughout the Department.

The Other Accompanying Information section of this report contains additional details of the Department's activities related to the reduction of improper payments.

Management Assurance

The Department of Education is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. Management, administrative, and financial system controls have been developed to ensure the following:

- All programs and operations achieve their intended results efficiently and effectively.
- Resources are used in accordance with the Department's mission.
- All programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable, complete, and timely data are maintained and used for decisionmaking at all levels.

We believe that the rapid implementation of audit recommendations is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals.

Federal Managers' Financial Integrity Act

During fiscal year (FY) 2005, in accordance with the requirements of the *Federal Managers' Financial Integrity Act (FMFIA)* and using the guidelines of the Department and the Office of Management and Budget, we reviewed our management control system. The objectives of our management control system are to provide reasonable assurance that the following occur:

- Our obligations and costs are in compliance with applicable laws.
- Our 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 to maintain accountability over assets.
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Statement on Management and Financial Controls

For the programs, organizations, and functions covered by the *Federal Managers' Financial Integrity Act (FMFIA)*, I am pleased to report that the Department of Education accounting systems and management controls, taken as a whole, provide reasonable assurance that the objectives of *FMFIA* have been achieved.

—Margaret Spellings
Secretary of Education

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office and the Office of Inspector General, specifically requested studies, or observations of daily operations. These reviews ensure that our systems and controls comply with the standards established by *FMFIA*. Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from assistant secretaries serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statements are based upon each principal office's evaluation of progress made in correcting any previously reported problems; new problems identified by the Office of Inspector General, the Government Accountability Office, and other management reports; and the management environment within each principal office. Department organizations that have material weaknesses identified are required to submit plans for correcting those weaknesses. The plans, combined with the individual assurance statements, provide the framework for continually monitoring and improving the Department's management controls.

FMFIA Section 2, Management Control. All of the 80 internal control material weaknesses identified since the inception of *FMFIA* have been corrected and closed.

FMFIA Section 4, Financial Management Systems. All of the 95 financial management systems nonconformances identified since the inception of *FMFIA* have been corrected and closed.

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

We are cognizant of our auditors concerns relating to instances of non-compliance with FFMIA as noted in the Compliance with Laws and Regulations Report located on p. 275 of this report, we continue to strengthen and improve our financial management systems.

However, since our last FFMIA report, the Department has continued to invest a considerable amount of time, effort and resources in assessing and strengthening the security controls protecting its information and information resources. As a result of these assessments, the Department has learned that certain vulnerabilities identified by OIG and our auditors in this year's reports were previously accepted on an enterprise-wide basis by the Department's Designated Approving Authorities, Certifier and Government Technical Expert, supported by the recommendation of the Department's Independent Verification and Validation Management Committee (IV&V MC).

The IV&V MC prescribes five basic tenets in the acceptance of any individual vulnerability:

1. It is not technically feasible to correct the vulnerability.
2. It is cost prohibitive to correct the vulnerability.
3. Correcting the vulnerability will result in the loss of system or application functionality.
4. In the context of the Common Vulnerabilities and Exposures definition, the vulnerability is more correctly identified as a security exposure.
5. All accepted vulnerabilities or security exposures must demonstrate that compensating security controls are in place and are operating as intended.

To this end, the Department has come to understand its risk management responsibilities. The Department has made a well-informed and documented risk-based business decision to operate its networks, systems and applications in the presence of certain vulnerabilities and security exposures. This acceptance of risk is in keeping with the rules and principles governing a risk management program.

Furthermore, the Department fully understands the risks inherent in operating information resources in the presence of common vulnerabilities and security exposures. To assist in the management of the potential risks, the Department has implemented proactive processes to identify research, manage, remediate and monitor for vulnerabilities and security exposures. This remediation cycle can be an extended process for any particular vulnerability and as a result, at any given time as they await remediation, vulnerabilities may be present in any networked environment, including the Department's.

Performance Details

Performance Details Overview

The Department organizes our performance results around our strategic goals:

Goal 1: Create a Culture of Accountability (See p. 61.)

Goal 2: Improve Student Achievement (See p. 82.)

Goal 3: Develop Safe and Drug-Free Schools (See p. 120.)

Goal 4: Transform Education Into an Evidence-Based Field (See p. 127.)

Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education (See p. 136.)

Goal 6: Establish Management Excellence (See p. 177.)

For each strategic goal, we discuss key measures, program performance, PART, and evaluations or studies, as applicable.

Performance Goals

For each of the Department's six strategic goals, we identified performance goals that represent major areas within the goal. Each goal chapter provides an overview of our results.

Key Measures

For each strategic goal, the Department selected key program measures as a focus. Each goal chapter provides specific detail about our progress on each key measure.

Explanation of Documentation for Key Measures

Table. Provides trend data as well as newly reported data. Boldface entries represent data not previously reported in an annual performance report. Status row shows relationship between new actual values and targets as follows:

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

Source. Provides bibliographic information below the data table.

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

Data Quality. Includes 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 improvement of data quality.

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

Related Information. Identifies supplementary information that is available on the Web.

Additional Information. Provides relevant background about a measure. Where data are not yet available, this section provides the date by which data are expected.

Throughout the text, FY means fiscal year and SY means school year.

Programs

The Department administers 154 programs. Each program supports one of our strategic goals. In applicable goal chapters, a table provides a summary of each program's performance results for four years, a link to its Web site (if available), its FY 2005 budget, and its FY 2005 expenditures.

Methodology for Program Performance Summary

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

In the Program Performance Summary tables that are part of each goal chapter of this *FY 2005 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 2002 through FY 2005. For each year, we assess against the measures that were established for that year in the program's published plan and provide the percentage of measures whose targets were met (including exceeded), the percentage whose targets were not met, and the percentage for which we have no data. The percentage with no data may include measures for which we were unable to collect data and measures with pending data. In some cases, our target was to establish a baseline; this was necessary particularly because *No Child Left Behind* created a new program environment and we had no trend data for many important concepts. In the case of these measures, if we collected data and established the baseline, then we counted that as a measure whose target was "met"; if we were unable to collect the data to establish the baseline, we counted that measure as "no data."

The tables also identify, by shading, those programs that did not have a performance plan for a particular year from FY 2002 through FY 2005.

The full individual program performance reports for FY 2005 are available at http://www.ed.gov/about/reports/annual/2005report/program.html. The FY 2005 program performance reports also show the targets and actual values for prior years (except for measures that were discontinued prior to FY 2005).

Throughout the text, FY means fiscal year and SY means school year.

PART Analysis

Using the Office of Management and Budget's Program Assessment Rating Tool (PART), the Department has conducted PART reviews on 56 of our programs. As applicable, each goal chapter contains an overview of each PART review that was conducted in preparation for the FY 2005 budget.

Methodology for PART Reviews

The Program Assessment Rating Tool (PART) was developed and implemented by the Office of Management and Budget (OMB) as a standardized process for determining program effectiveness in a consistent way across agencies. Programs that are reviewed 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/accountability (50 percent). Weighted scores are combined and translated into one of four ratings (effective, moderately effective, adequate, ineffective); or a rating of results not demonstrated is given if the program does not have agreed-upon performance measures or lacks baseline performance data.

Over a five-year period, most government programs will be evaluated under this process. Results of PART reviews are used by agencies as one component of justifying their budget requests. OMB's Web site provides one-page summaries and full detailed PART reviews for all agencies.

Throughout the text, FY means fiscal year and SY means school year.

Program Evaluations, Studies, and Reports

The Department conducts periodic evaluations, studies, and reports on major programs; and Government Accountability Office (GAO) or Inspector General (IG) studies often provide information on our programs. Each goal chapter contains short summaries and one-page overviews of key studies published in FY 2005.

Goal 1: Create a Culture of Achievement

Performance Goals

State Accountability Systems in Compliance

The *No Child Left Behind Act of 2001* placed new requirements on state accountability systems, requirements designed to improve student achievement. After three years of working within the provisions of the law, Secretary Spellings announced a "more workable, sensible approach" that remains true to the law's mission while taking into account each state's unique situation. The new flexibility guidelines are captured in *Raising Achievement: A New Path for No Child Left Behind.*

Local Flexibility for Targeting Federal Funds

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

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

Customer Satisfaction With Department

To measure how well our products and services meet the needs of the people we serve, the Department surveyed state-level education leaders who direct federal programs in their states. Results of the survey indicated an American Customer Satisfaction Index score of 63, which we will benchmark against businesses and other federal agencies.

Expansion of Choice Options for Parents

Parents of public school children who attend a Title I school designated 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, and, if the school's status remains "in need of improvement" for more than one year, families whose children stay in the home school may enroll their children in supplemental educational services (tutoring). Parents' options within the public school system have increased with the growing numbers of public charter schools that create alternatives to the traditional public school.

Evidence-Based Approaches to Instruction

The *No Child Left Behind* goal—all students proficient in reading and mathematics by SY 2013–14—has the best chance of being met if classroom instruction is built around what works. The Department's What Works Clearinghouse just released research findings on what works in middle school mathematics interventions.

Goal 1: Create a Culture of Achievement

Key Measures

The Department of Education's first goal is to create a culture of achievement in education. Accountability for results is the foundation for our other five goals. We do not specify programs or funding streams as supporting Goal 1—this goal cuts across all our programs and activities. We have, however, identified nine key measures that inform our progress in meeting Goal 1.

See p. 58 for an explanation of the documentation fields for the key measures.

State Accountability Systems in Compliance

The *No Child Left Behind Act of 2001* placed new requirements on state accountability systems, requirements designed to improve student achievement. The basic components of a state accountability system, as outlined in the law, are standards and assessments, goals of adequate yearly progress for schools and districts to have all students meet state standards, public school choice, supplemental services, and teacher quality. In 2005, a staff of national experts knowledgeable in the fields of standards and assessments began to review state assessment systems through the Department's standards and assessment external peer review process. Secretary Spellings, concurrent with the process of reviewing state assessment systems, announced a new "more workable, sensible approach" to implementing the accountability provisions of *No Child Left Behind*. To take into account each state's unique situation, new guidelines appeared in *Raising Achievement: A New Path for No Child Left Behind*.

The Department applied the Secretary's common sense approach and provided additional flexibility as states continued to implement accountability systems. Areas where flexibility was granted during the course of the year are represented in the following provisions:

- Interim policy regarding alternate assessments based on modified achievement standards for students with cognitive disabilities (May 2005).
- Revised and expanded nonregulatory guidance in "Highly Qualified Teachers and Improving Teacher Quality State Grants" (August 2005).
- Decision letters sent to 46 states approving requests for amendments to state accountability plans during the 2004-05-amendment cycle. See p. 29 for the most commonly approved amendments.
- The Secretary's announcement of flexibility in supplemental educational services (Chicago Public Schools and four Virginia districts) (September 2005).

The Department measured states' progress on implementing state accountability systems by calculating the number of states with approved assessment systems in reading and mathematics and the number of states that are field testing reading and mathematics assessments.

1.1 State Assessments. The number of states that have reading/language arts assessments in grades 3 through 8 and high school.	
Fiscal Year	**Actual**
2004	0
2005	**0 with full approval** **0 with approval with recommendations** **4 with deferred approval** **3 with final review pending** (partial data)
We did not meet our 2005 target of 18.	

1.2 State Assessments. The number of states that have mathematics assessments in grades 3 through 8 and high school.	
Fiscal Year	**Actual**
2004	0
2005	**0 with full approval** **0 with approval with recommendations** **4 with deferred approval** **3 with final review pending** (partial data)
We did not meet our 2005 target of 18.	

U.S. Department of Education, Standards and Assessment External Peer Review Process, Title I review processes, staff recommendations, and decisions by the Secretary of Education.

Note. These measures refer to states with assessment systems that have been approved by the Department as meeting the requirements of *No Child Left Behind*. Six additional states were reviewed in FY 2005 and decisions are pending.

Analysis of Progress. The Department did not meet established targets for the numbers of states that have approved reading/language arts and mathematics assessments at the requisite grade levels. However, in FY 2005, we conducted peer reviews of 13 state assessment systems, a year in advance of the *No Child Left Behind* deadline for states to have full systems in place; and we expect to continue to make progress. When *No Child Left Behind* required that all states have mathematics and reading/language arts assessments in grades 3 through 8 and high school by the end of SY 2005–06, states began to add standards-based assessments at the required grades. States that do not have a full complement of assessments are currently working through the process of aligning tests to standards, developing and field testing assessments, and submitting systems for approval.

To help states prepare for the peer review process, which examines evidence that the state's assessment system meets *No Child Left Behind* requirements and leads to final approval, the Department issued guidance and a timeline for peer reviews of February 2005 to September 2006. States are asked to initiate the review process when they have collected the necessary documents for review. At the end of FY 2005, 13 states had completed the review process. The Department expects all states will participate in the process within the 2005–06 time frame.

Since the passage of *No Child Left Behind*, the Department has made more than $1.5 billion available under Section 6111 of the *Elementary and Secondary Education Act* to states to increase their capacity for rigorous assessments. In FY 2005, technical assistance providers under the *Individuals With Disabilities Act* received approximately $14 million to support states' ability to administer alternate and modified assessments for students with disabilities.

Data Quality. The universe for this measure is the 52 entities (50 states, the District of Columbia, and Puerto Rico) that are required by *No Child Left Behind* to administer reading/language arts and mathematics assessments in grades 3 through 8 and high school by SY 2005–06.

Target Context. The target for this measure represents a relatively small number of the 52 entities that are required to have their standards and assessments peer reviewed and approved. States are not required by law to have reading and mathematics assessments in grades 3 through 8 and high school until the end of SY 2005–06; consequently, the Department did not expect all states to be ready to submit documentation at the beginning of 2005. Additionally, not all entities could be reviewed in one year since each state's review takes several months.

Related Information. Information on the Standards and Assessment Peer Review Guidance can be obtained at http://www.ed.gov/policy/elsec/guid/saaprguidance.pdf and http://www.ed.gov/admins/lead/account/saapr.doc.

Additional Information. In 2004, the Department approved a standards and assessment peer review process to be used to review and approve the state assessment systems against *No Child Left Behind* requirements. No reviews were conducted that year. The Department established peer review dates for 2005 (February, May, September, and November) and for 2006 (February, May, and September). In February 2005, the Department conducted its first peer review of reading/language arts and mathematics assessment systems of five states (Maryland, North Carolina, South Carolina, Texas, and West Virginia). Reading/language arts and mathematics assessment systems of two additional states (Alabama and South Dakota) were reviewed in May. Six additional reviews (Idaho, Minnesota, Montana, Nebraska, Nevada, and Oregon) were conducted in September 2005, and the results of this group are pending. After the review, a state receives one of five distinct ratings: full approval, full approval with recommendations, deferred approval, final review pending, or not approved system. Following the administration of the assessment, a state must still provide the Department with data on the technical quality of the assessment instruments (i.e., reliability coefficients, item statistics, and validity coefficients).

1.3 State Assessments. The number of states that have completed field testing of the required assessments in reading/language arts.

Fiscal Year	Actual
2003	16
2004	20
2005	**47**
We exceeded our 2005 target of 30.	

1.4 State Assessments. The number of states that have completed field testing of the required assessments in mathematics.

Fiscal Year	Actual
2003	16
2004	20
2005	**47**
We exceeded our 2005 target of 30.	

U.S. Department of Education, Consolidated State Performance Report, grantee submissions; state Web sites.

Analysis of Progress. The Department exceeded established targets for the numbers of states completing the field testing of reading/language arts and mathematics assessments. All states must field test standards and assessment systems before the systems are peer reviewed. The fact that 47 states, 17 more than we targeted, have completed their field testing positions us well for meeting our FY 2006 target for the number of states that have peer-reviewed and approved standards and assessment systems.

Data Quality. Fifty-two entities (50 states, the District of Columbia, and Puerto Rico) are required by *No Child Left Behind* to have reading/language arts and mathematics assessments in grades 3 through 8 and high school by SY 2005–06. Each state has developed a schedule by which its reading/language arts and mathematics assessments will be developed and field tested, and submitted to the Department for review and approval prior to implementation.

Target Context. The target of 30 was set with the knowledge that states were not required by law to have standards and assessments for grades 3 through 8 and high school until the end of SY 2005–06.

Related Information. Information about the standards and assessments peer-review process is available at www.ed.gov/admins/lead/account/peerreview/index.html. Information on state student assessment programs is available at www.ccsso.org/projects/Accountability_Systems/State_Profiles/.

Additional Information. Field testing is one of the initial phases of establishing statewide reading/language arts and mathematics assessments prior to the actual administration of the assessment. Field testing helps ensure the validity and reliability of test items and permits states to omit those test items that it deems biased, too difficult, or too easy, thus affecting the rigor of the test.

Local Flexibility for Targeting Federal Funds

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

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

States reported that in FY 2003 (the most recent year for which the Department has data), some 1,600 districts transferred approximately $90 million. Districts transferred $47.5 million into State Grants for Innovative Programs and $22.7 million into Title I Grants to Local Educational Agencies. States reported that districts transferred $66.5 million out of the Improving Teacher Quality State Grants program. In FY 2005 no states participated in the State-Flexibility Demonstration Program and Seattle participated in the Local-Flexibility Demonstration Program.

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

1.5 Rural Education Program. The percentage of eligible school districts utilizing the Rural Education Achievement Program (REAP) flexibility authority.	
Fiscal Year	**Actual**
2003	61
2004	**59**
2005	Target is 65.
We did not meet our 2004 target of 71. Data for 2005 are pending.	

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

Analysis of Progress. The flexibility authority offered in the Rural Education Achievement Program has been available for four years. Approximately 60 percent of the 4,000 districts eligible to use this authority have done so according to the two most recent reports from the states. The Department has provided extensive information about the availability of this authority over the past four years and considers that the 60 percent of users represents close to the percentage of districts that need this authority to allocate resources effectively.

Data Quality. Department staff reviewed Consolidated State Performance Reports submitted by state educational agencies in spring 2005 for SY 2003–04.

Target Context. After analyzing the FY 2004 data, the Department set more realistic targets for FY 2005. An expectation that 100 percent of eligible districts would use the authority is not a desired outcome because it would reflect that the normal allocation of federal resources did not meet most districts' needs.

Related Information. Information on the Rural Education Achievement Program is available at http://www.ed.gov/programs/reapsrsa/index.html.

Additional Information. Data for FY 2005 will be available in April 2006.

The Alternative Uses of Funds Authority under the Rural Education Achievement Program allows eligible local educational agencies the authority to combine funding under certain federal programs to carry out activities under other specified federal programs. Eligible districts are those that serve relatively small numbers of students and are located in rural areas (*ESEA* Section 6221(b)(1)).

Customer Satisfaction With the Department

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

Other major Department surveys include a biennial customer survey conducted by the National Center for Education Statistics and an annual survey conducted by the Office of Federal Student Aid. The results from the Federal Student Aid survey are reported in Goal 6, pp. 182-85, under Student Financial Assistance programs.

1.6 The overall American Customer Satisfaction Index (ACSI) as scored by Department grantees.	
Fiscal Year	**Actual**
2005	**63**
We established a baseline in 2005.	

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

Analysis of Progress. For perspective on how to interpret the Department's American Customer Satisfaction Index score of 63, it is notable that the most recent average score for federal agencies was 72. It's also important to note that federal agencies that serve grantees or interact in a regulatory role typically score in the low 60s. A score of 63, while below the federal agency average, is on a par with the typical scores of comparable agencies. In response to survey results, Department program offices that participated in the survey identified areas of greatest impact (information provided by the survey methodology), which will guide their direction for making improvements.

Data Quality. The CFI Group, under contract to the Department, conducted the 2005 survey using the methodology of the American Customer Satisfaction Index. The index was developed by the University of Michigan Business School, the CFI Group, and the American Society for Quality and meets their standards for data quality. The CFI Group reports business and federal agency customer satisfaction indices quarterly in major news outlets, which allows for standardization of customer satisfaction information.

Grantee Satisfaction Survey respondents included the chief state school officers and the state-level directors and coordinators of the Early Intervention, Special Education, Education Data Exchange Network, Career and Technical Education, Adult Education and Literacy, English Language Acquisition (Title III), Improving the Academic Achievement for Disadvantaged Students Grants to Local Educational Agencies (Title I), and Educational Technology programs. The survey was e-mailed to 490 potential respondents; the response rate was 73 percent.

The FY 2005 actual value of 63 is the American Customer Satisfaction Index score reported by our revised customer survey. It is not a percentage; rather, the score is best thought of as a weighted scale based on multiple responses to questions in the survey. Survey scores are indexed on a 100-point scale. Agencies that score in the 80s are ranked as world class.

Target Context. The FY 2005 actual value provides baseline data for the new Grantee Satisfaction Survey.

Additional Information. Prior to FY 2005, the Department conducted the Survey on Satisfaction with the U.S. Department of Education. Beginning in FY 2005, we revised our measure for customer satisfaction to reflect data we intended to collect from the new American Customer Satisfaction Index survey. To smooth the transition, in the 2005 survey we included the seminal question of the Survey on Satisfaction, the question on overall satisfaction with the Department's products and services. The response to that question indicated that 66 percent of respondents (a 1 percent decline from the previous year, considered not statistically significant) were satisfied with the Department's products and services. We collected these data to meet our FY 2004 commitment for providing customer satisfaction data. Data will not be collected on this question in FY 2006.

Expansion of Choice Options for Parents

Parents of public school children who attend a Title I school that has been designated by the state to be in need of improvement have choices under the provisions of *No Child Left Behind*. They may send their child to another public school in the district, and, if the school's status remains "in need of improvement" for more than one year, families whose children stay in the home school may enroll their children in supplemental educational services (tutoring).

2005 data show that many more parents are eligible to secure supplemental educational services for their children than are currently doing so. To help inform parents of this opportunity, the Department created a listserv where interested parents automatically receive periodic notification of relevant information posted on ed.gov, the Department's Web site. A similar service for charter school information is also available to parents.

As of August 2005, state lists posted online include 2,796 approved supplemental service providers, compared to 2,535 in September 2004. In 2005, private providers continued to represent about 80 percent of all providers. States and districts continue to identify providers and encourage parents to use their services.

Using data from SY 2003–04, the Government Accountability Office (GAO) reviewed the implementation of the school choice provision, which allows parents to transfer their child from a school in need of improvement to another public school within the district. GAO found that about 1 in 10 of the nation's 50,000 Title I schools were identified for school improvement in each of the first two years of implementation (SY 2002–03 and SY 2003–04). And about 1 percent of eligible children, or 31,000 students, transferred under the *No Child Left Behind* choice option in SY 2003–04. GAO recommended that the Department monitor the extent to which classroom capacity constraints appear to limit school choice options. The Department responded to the GAO report by pointing to its initiatives for expanding classroom capacity through such means as technical assistance workshops; grants to support national-level choice activities; and discretionary grant competitions for the Charter Schools Grants program, Magnet Schools Assistance program, and Voluntary Public School Choice program.

Since 1995, the Charter Schools Grants program has provided funds to increase the number of charter schools in operation. Charter schools are public schools that operate with freedom from many local and state regulations that apply to traditional public schools. Under *No Child Left Behind*, the charter school initiative has gained momentum as a way to offer parents public school options. *Evaluation of the Public Charter Schools Program: Final Report* (November 2004), the Department's study on charter schools, reports that while the growth in the number of states with charter legislation has tapered off, the number of charter schools continues to grow.

The measures adopted by the Department to monitor the expansion of parental choice under *No Child Left Behind* are the number of charter schools in operation and the amount of funding raised by Credit Enhancement for Charter Schools Facilities grantees for charter school facilities in addition to the amount contributed to the financing from the grant.

1.7 Charter Schools Grants. The number of charter schools in operation.

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

We did not meet our 2004 target of 3,000.
We exceeded our 2005 target of 3,300.

Center for Education Reform, Annual Survey of America's Charter Schools.

Analysis of Progress. Similar to recent years, the number of charter schools increased at a rate of approximately 10 percent, surpassing the expectations of the Department and allowing us to exceed our target. The Department's Charter Schools Grants program will continue to increase national awareness of the charter schools model by funding national leadership activities that result in the dissemination of successful charter schools practices and policies.

Data Quality. Data are verified by Department program staff through monitoring and technical assistance activities and by a review of Government Accountability Office and Office of Inspector General reports.

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

Target Context. Targets are based on previous growth trends, which have averaged 10 percent per year over the last five years.

Related Information. The Department's charter school program Web site is http://www.ed.gov/programs/charter/index.html.

The Education Commission of the States compiles statistics, policy reviews, and case studies on charter schools as part of its public education issues data collection. These data are available at http://www.ecs.org/ecsmain.asp?page=/html/educationalIssues/CharterSchools/CHDB_intro.asp.

The National Association of Charter School Authorizers (NACSA) provides research and policy briefs for states and their chartering agencies at http://www.charterauthorizers.org/site/nacsa/.

The National Association of State Directors of Special Education (NASDSE) provides research, studies, and policy for states and their charter schools enrolling students with disabilities, and it provides technical assistance for implementing the Individuals with Disabilities Education Act and other federal laws relevant to serving the needs of students with disabilities at http://www.edgateway.net/cs/spedp/print/usuc_docs/spedp/home.htm.

The National Alliance for Public Charter Schools compiles policy reviews, issue briefs, and studies on charter schools. These data are available at http://www.charterschoolleadershipcouncil.org/.

The Center for Education Reform compiles statistics on charter schools. These statistics are available at http://www.edreform.com.

The Common Core of Data compiled by the National Center for Education Statistics collects information on charter schools as part of the NCES Public School Universe data collection. These data are available at http://nces.ed.gov/ccd/.

The U.S. Department of Education published *America's Charter Schools—Results From the NAEP 2003 Pilot Study*. This study can be accessed electronically at http://nces.ed.gov/pubsearch.

Additional Information. Growth in the number of charter schools is largely under the control of state legislatures, which maintain authority to pass laws authorizing the creation and regulation of charter schools. While some states have reached capacity in terms of the number of charter schools allowed by their laws, other states have successfully amended their statutes to allow for multiple authorizers and, therefore, greater flexibility. In addition, some states have used *No Child Left Behind* provisions that allow local educational agencies to convert low-performing Title I schools into charter schools.

1.8 Credit Enhancement for Charter School Facilities. The amount of funding grantees leverage for the acquisition, construction, or renovation of charter school facilities.

Fiscal Year	Actual
2003	$66 million
2004	**$74 million**
2005	Target is $100 million.
We did not meet our 2004 target of $100 million. Data for 2005 are pending.	

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

Analysis of Progress. The Credit Enhancement for Charter School Facilities program helps charter schools with their facility needs typically by guaranteeing debt and sometimes leases that are used to obtain their facilities. The program, which first issued grants in 2002, reported leveraging $140 million in debt and leases as of the end of FY 2004. The total amount leveraged will be much greater over the 5- to 20-year lifespan of the grants.

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

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

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

Target Context. We modified our FY 2005 target to be more realistic based on the updated methodology.

Related Information. Additional information on the New Markets Tax Credits program is available at http://cdfifund.gov/programs/programs.asp?programID=5.

More information on the Credit Enhancement for Charter Schools Facilities program is available at http://www.ed.gov/programs/charterfacilities/index.html.

Additional Information. Data for FY 2005 will be available in January 2006. Grantees for this program receive multiyear funding at the beginning of the first project period. The federal funds and earnings on those funds remain available until they have been expended for the grant's purposes or until financing facilitated by the grant has been retired, whichever is later. Most of the Department's grantees are required to report midyear to qualify for continuation awards, but, because there are no continuation awards for this program, we allow these grantees to report after the end of each fiscal year to give them a full year of performance before reporting data.

Evidence-Based Approaches to Instruction

The *No Child Left Behind* goal—all students proficient in reading and mathematics by SY 2013–14—has the best chance of being met if classroom instruction is built around what works.

The Department's What Works Clearinghouse released research findings on the effectiveness of curriculum-based interventions for improving mathematics achievement for middle school students ranging from 6th to 10th grade. The Clearinghouse collected more than 800 studies for the middle school mathematics curriculum review. Studies were rated according to the strength of their causal evidence. The Clearinghouse identified 10 studies of five middle school mathematics interventions that met the Clearinghouse's standards of

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

evidence. The middle school mathematics Intervention and Topic reports are posted on the What Works Clearinghouse Web site. The Department is currently working on the next six topic reviews on beginning reading, character education, early childhood education, elementary school mathematics, English language learners, and dropout prevention.

1.9 The proportion of school-adopted approaches that have strong evidence of effectiveness compared to programs and interventions without such evidence.	
Fiscal Year	**Actual**
2005	Not available
Data for 2005 were not collected.	

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

Analysis of Progress. Data on the use of evidence-based interventions cannot be collected until the clearinghouse has released more information on such interventions. To date, information is available only on middle school mathematics programs. The Department intends to retain this measure and will collect data when more information is available to schools about a range of evidence-based approaches.

Related Information. The What Works Clearinghouse collects, screens, and identifies studies of the effectiveness of education interventions (programs, products, practices, and policies). See http://www.whatworks.ed.gov.

The Department also provides evidence-based information for the education of English language learners to the education community and to parents through the National Clearinghouse for English Language Acquisition. The Clearinghouse has adopted the guidelines of the National Board of Education Sciences for evaluating and incorporating documents into its resource library. More information is available at http://www.ncela.gwu.edu/oela/summit2004/cd/FILES/wwAppendixB.pdf.

Discontinued Strategic Measures

The following measures were discontinued after FY 2004 but were reported as pending in our *FY 2004 Performance and Accountability Report*. We report here our results on those for which we now have data. (See p. 23 for a discussion of why we discontinued measures.)

Measure		**Fiscal Year**	**Target**	**Actual**	**Status**
1.2.1a	The percentage of school districts using Transferability	2004	22.5	18.7	Target not met
1.2.4	The percentage of Department grantees that express satisfaction with Department customer service	2004	67	66	Target not met
1.3.3	Of eligible children, the percentage using supplemental educational services under the provisions of *ESEA* Title I	2003	Set baseline	Pending	Data expected 10/2005
		2004	Baseline + 5 PP	Pending	Data expected 12/2005

PP = percentage point

Sources

1.2.1a	U.S. Department of Education, Consolidated State Performance Report, grantee submissions.
1.2.4	U.S. Department of Education, Grantee Satisfaction Survey, 2005.
1.3.3	U.S. Department of Education, *Evaluation of Title I Accountability and School Improvement Efforts (TASSIE): Findings From 2002–2003 and 2003–2004.*

Goal 1: Create a Culture of Achievement

Findings and Recommendations From Program Evaluations, Studies, and Reports

Information that the Department uses to inform management and program improvements comes from many sources, including evaluations, studies, and reports that are Department-sponsored studies and those from the Government Accountability Office (GAO) and the Office of Inspector General (OIG). The following evaluations, studies, and reports were completed during FY 2005.

America's Charter Schools: Results From the NAEP 2003 Pilot Study

This snapshot study by the National Center for Education Statistics (NCES) determined that charter schools have considerable variation in student and school characteristics and that their unique qualities require additional information to be collected by future surveys. One key finding concluded that in both reading and mathematics, the performance of charter school fourth-grade students with similar racial and ethnic backgrounds was not measurably different from those in other public schools. (See p. 76 for a summary of this report.)

***Charter Schools: To Enhance Education's Monitoring and Research, More Charter School-Level Data Are Needed* (GAO-05-5)**

Under *No Child Left Behind*, charter schools are subject to the same performance requirements as other public schools, but some flexibilities are permitted. This report examines the ways states allow flexibility for charter schools, the ways states promote accountability for performance and financial integrity, and the roles that *No Child Left Behind* and the Department play in holding charter schools accountable. Of the states that were surveyed, most provided flexibility by releasing charter schools from some traditional public school requirements. (See p. 77 for a summary of this report.)

Evaluation of the D.C. Opportunity Scholarship Program: First Year Report on Participation

The D.C. Opportunity Scholarship Program is the first federal initiative to provide vouchers for grades K–12 to families who live in the District of Columbia and who are at or below 185 percent of the federal poverty line. The vouchers enable families to send their children to private schools of their choice. In SY 2004–05, applications were received from 1,848 students with about 53 percent of all private schools in the District participating in the program. (See p. 78 for a summary of this report.)

Evaluation of the Public Charter Schools Program: Final Report

Since 1995, the Public Charter Schools program has provided funding to plan, develop, and implement charter schools and to assist successful charter schools in disseminating best practices. This report provides a descriptive examination of the Public Charter Schools program and looks at the growth of the charter schools movement in the United States. Charter schools tend to have greater autonomy over their curricula, budgets, and teaching staff than do traditional public schools. Charter schools, overall, tend to be smaller, more likely to serve minority and low-income students, and more likely to have teachers from minority backgrounds. (See p. 79 for a summary of this report.)

No Child Left Behind Act: Education Needs to Provide Additional Technical Assistance and Conduct Implementation Studies for School Choice Provision (GAO-05-7)

The school choice provisions of the *No Child Left Behind Act* apply to schools that receive Title I funds and that have not met state performance goals for two consecutive years. Students in such schools must be offered the choice to transfer to another school in their district. This report reviews the first two years of implementation of *No Child Left Behind* school choice provisions. About 31,000 students transferred under choice options in SY 2003–04. (See p. 80 for a summary of this report.)

Case Studies of Supplemental Services Under the No Child Left Behind Act: Findings from 2003–04.

The *No Child Left Behind Act* provides that children from low-income families enrolled in Title I schools that have not made adequate yearly progress for three years or more receive supplemental services, including tutoring, remediation, and other academic instruction. This report presents findings from case studies conducted on a sample of six states and nine districts during SY 2003–04, the second year that the supplemental services provisions of *No Child Left Behind* had been in effect. The number of supplemental service providers approved for SY 2003–04 increased in all six states, in line with a nationwide increase of about 90 percent. In SY 2003–04, the amount of Title I, Part A, allocation districts set aside for choice-related transportation and supplemental services ranged from 2 to 21 percent. (See p. 81 for a summary of this report.)

Study of Charter Schools' NAEP Results

Report Title

America's Charter Schools: Results From the NAEP 2003 Pilot Study (U.S. Department of Education, National Center for Education Statistics) December 2004.

Overview

The National Center for Education Statistics (NCES) conducted a pilot study of America's charter schools and their students as part of the 2003 NAEP reading and mathematics assessments of fourth-graders. The study included 150 charter schools. Charter schools have considerable variation in student and school characteristics. Because the study was a snapshot of the schools, it could not capture all of the unique characteristics of the individual charter schools. Additional information will be collected to supplement the NAEP survey information.

Findings in Reading

- There was no overall measurable difference between the reading scores of charter school students and other public school students.
- Female students in charter schools scored lower, on average, in reading than female students in other public schools.
- Charter school students eligible for free or reduced-price school lunch scored lower in reading than eligible students in other public schools.
- The reading scores for white, black, and Hispanic students in charter schools were not measurably different from those for students with the same racial/ethnic background in other public schools.

Findings in Mathematics

- Both male and female charter school students had a lower overall average score in mathematics than students in other public schools.
- The average score for charter school students who were eligible for free or reduced-price school lunch was lower than that of their peers in other public schools.
- Students who attended charter schools in central cities scored lower on average than students who attended other public schools in similar locations.
- The percentages of students at or above *Basic* and at or above *Proficient* were lower in charter schools than in other public schools.

Recommendations

The report made no recommendations.

Report on the Quality of Charter Schools' School-Level Data

Report Title

Charter Schools: To Enhance Education's Monitoring and Research, More Charter School-Level Data Are Needed (GAO-05-5) January 2005.

Overview

Under the *No Child Left Behind Act*, charter schools are subject to the same performance requirements as other public schools, but the act allows some flexibilities where permitted by state law. This report examined how states allow flexibility in design and operation, how states promote accountability for school performance and financial integrity in their charter school systems, the implications of *No Child Left Behind* for charter schools, and the role the Department plays in charter school accountability for school performance and financial integrity.

Findings

- Of the 39 states surveyed, most provided flexibility by releasing charter schools from some traditional public school requirements.
- About half of the 39 states reported having primary responsibility for enforcing school improvement actions for charter schools that did not achieve performance goals under *No Child Left Behind*, and a third reported having primary responsibility for monitoring charter schools' financial situations.
- Though the Department must ensure that charter schools receive timely payment of federal grant funds, it focuses its monitoring and data collection efforts on states rather than on individual schools.

Recommendations

- The Department should support implementation of the Performance-Based Data Management Initiative's financial performance information component to assist states in developing automated financial information systems to measure and track the disbursement of funds to the charter schools.
- The Department should require Charter School program grantees to include in their annual performance reports standard indicators of program accomplishment, especially the number of schools started through the use of grant funds.
- The Department's planned charter school impact evaluation should include an analysis of the effects of accountability practices on charter schools' performance.

Department's Response

- The Department agrees to expand its impact evaluation design to include a review of authorizers' oversight and accountability practices.
- The Department will look more closely at selected state financial information systems to assess the degree of burden in tracking financial information to the school level.
- The Department will seek to include standard indicators of program accomplishments in its annual performance report.

Evaluation of School Choice Option for the District of Columbia

Report Title

Evaluation of the D.C. Opportunity Scholarship Program: First Year Report on Participation (U.S. Department of Education, Institute of Education Sciences) April 2005.

Overview

The District of Columbia School Choice Incentive Act of 2003, passed by the Congress in January 2004, established the D.C. Opportunity Scholarship Program. This is the first federal initiative to provide K–12 education vouchers to families living in the District of Columbia and having an income at or below 185 percent of the federal poverty level to enable them to send their children to private schools of choice. In SY 2004–05, applications were received from 1,848 eligible students.

Findings

- Of the 109 private schools in the District of Columbia, 58 participated in the voucher program in its first year, representing 53 percent of all private schools in the District.
- All but four of the schools made new slots available for voucher recipients.
- Four schools were willing to enroll voucher students only if they had been previously accepted to the school.
- Seventy-two percent of the eligible applicants were attending public school in SY 2003–04, while 28 percent were already attending private schools but met the statutory eligibility requirement.
- Fifty-one percent of the participating private schools were Roman Catholic, 21 percent were various non-Catholic religions, and 28 percent were independent.
- Most participating private schools served a higher proportion of students of color than nonparticipating private schools.
- About 70 percent of the participating schools charged tuitions that were under the $7,500 maximum provided by the federal scholarship program.

Recommendations

No recommendations are available at this time. This is the first in a series of reports on the D.C. Opportunity Scholarship Program and provides an important foundation for the future analysis of program impacts.

Evaluation of the Public Charter Schools Program

Report Title

Evaluation of the Public Charter Schools Program: Final Report (U.S. Department of Education, Policy and Program Studies Service) November 2004.

Overview

Since 1995, the Public Charter Schools program has provided funding to plan, develop, and implement charter schools and to assist successful charter schools in disseminating best practices to other public schools. This evaluation, based on three years of data collected in SY 1999–2000, SY 2000–01, and SY 2001–02, provides a descriptive examination of the program and documents the evolution of the charter school movement.

Findings

- While growth in the number of states with charter legislation has tapered off, the amount of Public Charter Schools program awards to states has increased, and the number of charter schools continues to grow.
- State charter school offices have responsibilities to monitor charter schools, but most states have limited staff to perform these functions.
- Only one-third of charter schools automatically receive waivers from state policies and regulations, but many schools receive waivers on a case-by-case basis.
- Compared with traditional public schools, charter schools are smaller and more likely to serve minority and low-income students but less likely to serve students in special education.
- Charter schools, by design, have greater autonomy over their curricula, budgets, and teaching staff than do traditional public schools.
- Teachers in charter schools are more likely to be African-American; more likely to participate in a variety of professional development activities; and less likely to meet state certification standards than traditional public school teachers.
- While this study does not examine the effect of charter schools on student learning, in five case studies, charter schools were less likely to meet state student academic performance standards than traditional public schools.
- Charter schools are more likely than traditional public schools to have high levels of parent involvement.

Recommendations

- Future studies should focus on the extent to which charter schools serving high proportions of educationally disadvantaged students exhibit improved academic performance over time.
- States should develop an adequate infrastructure to provide administrative oversight, assistance in meeting state or federal regulations, and special education services to students with disabilities who attend charter schools.

Report on the Implementation of School Choice Provisions

Report Title

No Child Left Behind Act: Education Needs to Provide Additional Technical Assistance and Conduct Implementation Studies for School Choice Provision (GAO-05-7) December 2004.

Overview

The school choice provisions of the *No Child Left Behind Act* apply to schools that receive Title I funds and have not met state performance goals for two consecutive years. Students in such schools must be offered the choice to transfer to another school in the district. The Government Accountability Office reviewed the first two years of implementation of *No Child Left Behind* school choice options and reported to the Congress the number of Title I schools and students that have been affected nationally, the experiences of selected school districts in implementing choice, and the guidance and technical assistance provided by the Department.

Findings

- About 1 in 10 of the nation's 50,000 Title I schools were required to offer school choice in each of the first two years since enactment of the act.
- About 1 percent of eligible children, or 31,000 students, transferred under choice options in SY 2003–04.
- Proportionately lower percentages of transferring students were minority, and lower percentages were from low-income families.

Recommendations

- The Department should monitor issues related to limited classroom capacity and consider whether additional flexibility or guidance on capacity might be warranted.
- The Department should collect and disseminate examples of successful strategies to address capacity limitations and information on the costs of these strategies and assist states in developing strategies for better informing parents about school choice options. The Department should identify, for its student outcome study, the methodology that has the greatest potential to identify the effects of school choice transfer on students' academic achievement.

Department's Response

- The Department is focusing on expanding capacity for public school choice through such large discretionary grant programs as the Charter Schools Grants program, the Magnet Schools Assistance program, and the Voluntary Public School Choice program, as well as through funding to organizations to provide information and resources on choice on a national level.
- The Department assists states and districts in developing strategies for better informing parents about school choice options by collecting and disseminating best practices, and by posting tools and templates online. The Department is working to design a rigorous evaluation of student outcomes associated with the participation in the Title I school choice options.

Study of Supplemental Services

Report Title

Case Studies of Supplemental Services Under the No Child Left Behind Act: Findings from 2003-04 (U.S. Department of Education, Policy and Program Studies Service) September 2005.

Overview

The *No Child Left Behind Act* provides that children from low-income families enrolled in Title I schools that have not made adequate yearly progress for three years or more receive supplemental services, including tutoring, remediation, and other academic instruction. Each state is required to develop criteria for selecting supplemental service providers and to publish a list of approved providers. School districts are responsible for notifying parents of their children's eligibility to receive supplemental services and for providing parents with information to select appropriate providers. This report presents findings from case studies conducted on a sample of six states and nine districts during SY 2003–04, the second year that the supplemental services provisions of *No Child Left Behind* had been in effect.

Findings

- The number of supplemental service providers approved for SY 2003–04 increased in all six states, in line with a nationwide increase of about 90 percent.
- State supplemental services coordinators reported that small districts and rural districts continued to be underserved, compared with urban districts.
- In SY 2003–04, the amount of Title I, Part A, allocations districts set aside for choice-related transportation and supplemental services ranged from 2 to 21 percent.
- The average district per pupil expenditure for supplemental services was $1,408 in SY 2003–04.
- In SY 2003–04, the majority of providers interviewed for this study hired only certified teachers to staff their programs.
- Many parents reported that they had received enough information to choose good providers for their children and were satisfied with the services, while nearly as many reported that they were confused about the services available to them.

Recommendations

- Districts need guidance on ways to increase participation rates in supplemental services.
- Districts need guidance on monitoring and evaluating providers' performance and assessing provider quality and impact.
- Districts need support in refining their outreach and communications efforts to parents.
- Both districts and providers need guidance on improved payment policies that ensure providers are paid fairly when students do not attend regularly.

Goal 2: Improve Student Achievement

Performance Goals

Reading Achievement

Reading is the keystone of learning. Reading First is the *No Child Left Behind* national initiative to improve kindergarten through third grade student reading by supporting state and local educational agencies in establishing reading programs that are grounded in scientifically based reading research. The National Assessment of Educational Progress reports an improvement in reading achievement: the average reading score at age nine was higher in 2004 than in any previous assessment year.

Mathematics Achievement

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

High School Completion

"How can a nation that invented the light bulb, created vaccines to eradicate polio, put a man on the moon and conceived the Internet not have a good handle on how many of its students drop out of high school?" says Deputy Secretary Ray Simon. A consensus for high school reform exists among governors, business leaders, for-profit and nonprofit leaders, and the Department, and reform "must start with an honest calculation of graduation rates."

The Department has adopted an interim formula for calculating states' high school graduation rates, and we will post these rates on our Web site along with state-reported graduation rates.

Academic Proficiency

In a nationally representative sample of high school sophomores, 72 percent of teenagers expect to graduate from a four-year college program. Most students (87 percent) said getting good grades was important or very important to them, with blacks (62 percent) and Hispanics (53 percent) more likely than whites (47 percent) to affirm the importance of getting good grades. In response to this and additional evidence of high expectations reported in *A Profile of the American High School Sophomore in 2002* by the National Center for Education Statistics, Secretary Spellings said, "This report shows that we as a society have done an excellent job selling the dream of attending college, but we have to make sure that we are preparing high school students to succeed once they get in the door." The Department has begun a reform initiative that will extend the accountability provisions of *No Child Left Behind* to high schools.

Advanced Placement Participation

Advanced Placement courses are typically considered among the most rigorous high school classes in the curriculum. In 2005, over 15,000 high schools offered Advanced Placement classes, a 36 percent increase in the last decade. Students took over 2 million Advanced Placement exams in May 2005, a 12 percent increase over last year and 66 percent more than five years ago. Growth of the program has been accelerated by a growing national interest in Advanced Placement classes and by provisions in *No Child Left Behind* that support state programs to increase Advanced Placement participation.

Teacher Quality

No Child Left Behind defines "highly qualified teacher" and requires that all public school teachers of core academic subjects meet the qualifications outlined in the definition by SY 2005–06. For the first time, the Congress legislated that teachers in every core academic class have a bachelor's degree, have a state license or a certificate, and be competent in the subjects they teach. The recently reauthorized *Individuals with Disabilities Education Act* also addresses teacher qualification and requires all special educators who teach core academic subjects to be highly qualified.

Resources provided to states to meet the goal of a "highly qualified teacher" in every class include the $3 billion Improving Teacher Quality State Grants and the $68 million Teacher Quality Enhancement program.

Goal 2: Improve Student Achievement

Key Measures

Improving student achievement and closing the achievement gap are the cornerstones of the Department's work. In FY 2005, the Department administered 76 distinct programs that supported Goal 2, Improve Student Achievement. From the master set of measures that help determine these programs' effectiveness, the Department identified 19 key measures to report our progress. Results on these key measures are shown below.

See p. 58 for an explanation of the documentation fields for the key measures.

Reading Achievement

Reading is the keystone of learning. Reading First is the *No Child Left Behind* national initiative to improve kindergarten through third grade student reading achievement by supporting state and local educational agencies in establishing reading programs that are grounded in scientifically based reading research. During FY 2002 through FY 2005, $3.96 billion has been expended on this initiative. The National Assessment of Educational Progress Long-Term Trend Assessment reports improvement in reading achievement: the average reading score at age nine was higher in 2004 than in any previous assessment year.

Local school implementation of Reading First programs began in SY 2002–03 with three states implementing the program. About half of the remaining states began programs in SY 2003–04 and the other half in SY 2004–05. Initial results from 29 states far enough along in implementation to report performance for SY 2003–04 show that 43 percent of first-grade students in Reading First schools met or exceeded proficiency on fluency measures. These early data will serve as a baseline for the ongoing measurement of program success. In addition to fluency data, collected at grades 1 through 3, reading comprehension data are also being gathered and will become available when Reading First grantees submit their first annual performance reports in 2005. Reading First program measures and preliminary data are available from the Reading First State Grants performance report.

Additional federal support for reading instruction goes to states through the large formula grants for disadvantaged students (Title I Grants to Local Educational Agencies), for special education (Special Education Grants to States), and for vocational education (Vocational Education State Grants).

To measure the overall effectiveness of the Department's programs that support improving student achievement, we collected data on how well low-income fourth-grade students and fourth-grade students with disabilities performed on state reading assessments and on the biennial National Assessment of Educational Progress. A large number of states reported gains in their state reading assessment results.

2.1 Title I Grants to Local Educational Agencies. The number of states reporting an increase in the percentage of fourth-grade low-income students meeting state performance standards by achieving proficiency or above in reading on state assessments.	
Fiscal Year	**Actual**
2004	**25**
2005	Target is 25.
Data for 2005 are pending.	

2.2 Special Education Grants to States. The number of states reporting an increase in the percentage of fourth-grade students with disabilities meeting state performance standards by achieving proficiency or above in reading on state assessments.	
Fiscal Year	**Actual**
2004	**24**
2005	Target is 25.
Data for 2005 are pending.	

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

Analysis of Progress. Thirty-four states reported data for both SY 2002–03 and SY 2003–04 on the percentage of fourth-grade low-income students who reached proficiency or above on state reading assessments, and 32 states reported such data on fourth-grade students with disabilities. (States not reporting may have not yet implemented their fourth-grade assessments; states are not required to test all grades from 3 through 8 until SY 2005–06.) Of the states reporting data for both years, 25 reported an increase in the percentage of fourth-grade low-income students achieving proficiency or above in reading in the second year, and 24 states reported an increase for students with disabilities.

The implications of these statistics are encouraging. About three-quarters of states that have completed two years of assessments are seeing improvements in the numbers of students achieving proficient or better on reading assessments. As more states fully implement their assessment systems, the Department expects that the number of states reporting increases will grow.

Data Quality. The universe for these measures is the 52 entities (50 states, the District of Columbia, and Puerto Rico) that are required by *No Child Left Behind* to administer reading/language arts assessments in grades 3 through 8 and high school by SY 2005–06. For each state reporting two sequential years of data, the Department compares the percentage of students at or above proficient in a particular disaggregated group to see if there was an increase from the first year to the second. Comparisons are done on state-level percentages, with no attention to matching individual student records. The group of entities not reporting an increase in FY 2004 includes those that have not yet implemented their fourth-grade reading/language arts assessment as well as those showing a decrease or no change.

Target Context. The FY 2005 targets of 25 were set prior to the receipt of any data. The full battery of state assessments in reading/language arts and mathematics required by *No Child Left Behind* is not due to be in place until the end of SY 2005–06.

Related Information. State-level information on SY 2002–03 assessments is available at http://www.ed.gov/about/reports/annual/nclbrpts.html. Results for SY 2003–04 will be posted in the coming months.

Information specific to state assessments for students with disabilities can be obtained at http://www.ed.gov/news/newsletters/extracredit/2005/05/0510.html.

Information from the Government Accountability Office's *No Child Left Behind: Most Students with Disabilities Participated in Statewide Assessments, but Inclusion Option Could Be Improved* (2005, GAO-05–618) can be obtained at http://www.gao.gov/new.items/d05618.pdf.

Additional Information. Under existing *No Child Left Behind* provisions, a state may provide alternate achievement standards and alternate assessments for up to 1 percent of its school-aged population with the most significant cognitive disabilities and may exclude them from adequate yearly progress calculations. Additionally, under a policy the Department released in May 2005, an additional 2 percent of students with disabilities are allowed to take modified assessments, geared toward their abilities, as long as the state is working to provide better instruction and improved assessments for those students. Until the new policy becomes regulation, states may participate by providing evidence that they meet the specific criteria and requesting a waiver. By the end of FY 2005, 42 states had requested such a waiver and 31 of those requests had been approved. Results of a recent Government Accountability Office study (GAO-05–618) indicate that in SY 2003–04, at least 95 percent of students with disabilities participated in statewide reading assessments in 41 of the 49 states that provided data.

Data for FY 2005 will be available in September 2006.

2.3 Title I Grants to Local Educational Agencies. The percentage of low-income fourth-grade students scoring at or above *Basic* in reading on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	38
2002	46
2003	44
2005	**46**
We exceeded our 2005 target of 43.	

2.4 Title I Grants to Local Educational Agencies. The percentage of low-income fourth-grade students scoring at or above *Proficient* in reading on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	13
2002	16
2003	15
2005	**15**
We did not meet our 2005 target of 17.	

2.5 Special Education Grants to States. The percentage of fourth-grade students with disabilities scoring at or above *Basic* in reading on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	22
2002	29
2003	29
2005	**33**
We made progress toward our 2005 target of 35.	

2.6 Reading First State Grants. The percentage of fourth-grade students scoring at or above *Proficient* in reading on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	28
2002	30
2003	30
2005	**30**
We did not meet our 2005 target of 32.	

U.S. Department of Education, National Assessment of Educational Progress (NAEP).

Analysis of Progress. Students classified as having a disability made the strongest gains on the 2005 National Assessment of Educational Progress (NAEP); these students experienced a six-point gain (on a 0-500 point scale) over their 2003 assessment score. Gains in fourth-grade reading were also reported for racial/ethnic minority groups; on average blacks, Hispanics, American Indian, and Asian American/Pacific Islanders gained from one to three points from 2003 to 2005. Low-income students' scores increased by two points in 2005.

NAEP reports results as scores on a 0-500 point scale and as achievement levels: *Basic, Proficient*, and *Advanced*. The Department uses NAEP *Basic* and *Proficient* achievement levels for national public school students to report on its performance measures. In 2005, we exceeded our targets for the percentage of low-income fourth-grade students who scored at or above *Basic*, but we did not meet the targets we set for our additional three measures. We made progress in meeting our target for the percentage of students with disabilities scoring at or above *Basic*, but the percentage of all fourth-graders and of low-income fourth graders scoring at or above *Proficient* remained flat.

While we continue to see progress on overall NAEP scores, we also understand that it will take time for the real change promoted by *No Child Left Behind*'s emphasis on reading instruction grounded in scientifically based research to be fully realized. To press on toward stronger, long-lasting gains in early elementary reading success and to lay a foundation for better NAEP reading scores, the Department, in FY 2006, will continue to make early reading achievement its highest elementary school priority.

Data Quality. In 2005, the National Center for Education Statistics (NCES) reported two national assessments of fourth-grade reading: the main, biennial National Assessment of Educational Progress assessment and the Long-Term Trend NAEP assessment. The main, biennial assessment reported aggregated scores from the sample of students tested in each state; the long-term trend assessment collected data from an independently selected national sample. In the 2005 main, biennial reading assessment, nationally representative samples that included approximately 2,500 to 3,000 students per state made up the more than 165,000 fourth-grade participants. The Department's performance measures reflect the results of the main, biennial assessment. The key result for Goal 2, reported in the Management's Discussion and Analysis of this document, references data from the Long Term Trend Assessment. Data from the main assessment and the Long-Term Trend Assessment are not comparable because the tests use different sampling strategies and different questions.

No Child Left Behind requires that all states participate in the main, biennial NAEP mathematics and reading assessments. The 2005 NAEP reading assessment was administered in a sample of schools in every state from January to March 2005.

The NAEP reading assessment examines four different aspects of reading: forming a general understanding, developing interpretations, making reader/text connections, and examining content and structure. It also assesses reading for literacy experience, for information, and for task performance.

NAEP test results for students with disabilities are based on students who were assessed and cannot be generalized to the total population of such students.

Related Information. Information on NAEP results can be obtained at http://nces.ed.gov/nationsreportcard/. To replicate the NAEP data reported in our performance measures, go to http://nces.ed.gov/nationsreportcard/ and click on NAEP DATA, Go to Advanced, Grade 4, Reading, National, National Public, Major Reporting Groups (select the appropriate group from dropdown list), Choose Years, Format Table, achievement level (cumulative), Go to Results.

Resources such as demonstration booklets, assessment procedures, frameworks, state profiles, and item maps can be obtained at http://nationsreportcard.gov/reading_math_2005/s0046.asp?printver=.

Additional Information. Future administrations of the main NAEP fourth-grade reading assessments are scheduled for 2007 and 2009.

Mathematics Achievement

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

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

The first Mathematics and Science Partnership program grantee performance reports, available January 2006, will contain information on outcomes. The program's list of measures and actual data is available on the Mathematics and Science Partnerships Web site.

The Department measures student progress in mathematics and science proficiency by collecting data on the progress of selected groups of eighth-grade students in reaching proficiency on state mathematics assessments and mathematics assessments administered by the National Assessment of Educational Progress. A large number of states reported gains in their state mathematics assessment results; results on the 2005 main, biennial National Assessment of Educational Progress (NAEP) also reflect student gains in mathematics achievement.

2.7 Title I Grants to Local Educational Agencies. The number of states reporting an increase in the percentage of eighth-grade low-income students meeting state performance standards by achieving proficiency or above in mathematics on state assessments.	
Fiscal Year	**Actual**
2004	**30**
2005	Target is 25.
Data for 2005 are pending.	

2.8 Special Education Grants to States. The number of states reporting an increase in the percentage of eighth-grade students with disabilities meeting state performance standards by achieving proficiency or above in mathematics on state assessments.	
Fiscal Year	**Actual**
2004	**26**
2005	Target is 25.
Data for 2005 are pending.	

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

Analysis of Progress. Thirty-eight states reported data for both SY 2002–03 and SY 2003–04 on the percentage of eighth-grade low-income students who reached proficiency or above on state mathematics assessments, and 30 states reported such data for eighth-grade students with disabilities. (States not reporting may have not yet implemented their fourth-grade assessments; states are not required to test all grades from three through eight until SY 2005–06.) Of the states reporting data for both years, 30 reported an increase in the percentage of eighth-grade low-income students achieving proficiency or above in mathematics in the second year and 26 reported an increase for students with disabilities.

The number of states reporting increases in proficiency for both groups of students indicates movement in the right direction. As states fully implement their assessment systems, the Department expects that the number of states reporting increases will grow.

Data Quality. The universe for these measures is the 52 entities (50 states, the District of Columbia, and Puerto Rico) that are required by *No Child Left Behind* to administer mathematics assessments in grades 3 through 8 and high school by SY 2005–06. For each state reporting two sequential years of data, the Department compares the percentage of students at or above proficient in a particular disaggregated group to see if there was an increase from the first year to the second. Comparisons are done on state-level percentages, with no attention to matching individual student records. The group of entities not reporting an increase in FY 2004 includes those that have not yet implemented their eighth-grade mathematics assessment as well as those showing a decrease or no change.

Target Context. The FY 2005 targets of 25 were set prior to the receipt of any data; consequently, the FY 2005 target is lower than the 2004 actual performance. The full battery of state assessments in reading/language arts and mathematics required by *No Child Left Behind* is not due to be in place until the end of SY 2005–06.

Related Information. State-level information on SY 2002–03 assessments is available at http://www.ed.gov/about/reports/annual/nclbrpts.html. Results for SY 2003–04 will be posted in the coming months.

Information specific to state assessments for students with disabilities can be obtained at http://www.ed.gov/news/newsletters/extracredit/2005/05/0510.html.

Additional Information. Under existing *No Child Left Behind* provisions, a state may provide alternate achievement standards and alternate assessments for up to 1 percent of its school-aged population with the most significant cognitive disabilities and may exclude them from adequate yearly progress calculations. Additionally, under a policy the Department released in May 2005, an additional 2 percent of students with disabilities are allowed to take modified assessments, geared toward their abilities, so long as the state is working to provide better instruction and improved assessments for those students. Until the new policy becomes regulation, states may participate by providing evidence that they meet the specific criteria and requesting a waiver. By the end of FY 2005, 42 states had requested such a waiver and 31 of those requests had been approved. Data for FY 2005 will be available in September 2006.

2.9 Title I Grants to Local Educational Agencies. The percentage of low-income eighth-grade students scoring at or above *Basic* in mathematics on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	41
2003	47
2005	**51**

We exceeded our 2005 target of 45.

2.10 Title I Grants to Local Educational Agencies. The percentage of low-income eighth-grade students scoring at or above *Proficient* in mathematics on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	10
2003	11
2005	**13**

We met our 2005 target of 13.

2.11 Special Education Grants to States. The percentage of eighth-grade students with disabilities scoring at or above *Basic* in mathematics on the National Assessment of Educational Progress (NAEP).

Fiscal Year	Actual
2000	20
2003	29
2005	**31**

We made progress toward our 2005 target of 32.

U.S. Department of Education, National Assessment of Educational Progress (NAEP).

Analysis of Progress. Average scores of all eighth-grade student groups that took the 2005 mathematics National Assessment of Educational Progress (NAEP) showed gains from the 2003 assessment. Trends over time on the eighth-grade mathematics assessment showed even stronger and more persistent gains. Average eighth-grade scores in 2005 increased since the first assessment year, 1990, by 16 points on a 0 to 500 point scale.

The white, black, Hispanic, American Indian, and Asian American/Pacific Islander racial/ethnic groups of students had higher average scores in 2005 than in any previous assessment year. Low-income students scored higher on average in 2005 than in any previous assessment year, as did students with disabilities.

NAEP results are reported as scores on a 0-500 point scale and as achievement levels: *Basic*, *Proficient*, and *Advanced*. Achievement level results show that the percentage of eighth-graders performing at or above *Basic* increased 17 percentage points in 2005 (69 percent) from 1990 (52 percent), and the percentage of eighth-graders performing at or above *Proficient* increased from 15 to 30 percent.

The Department's mathematics performance measures, which target increases in achievement levels for selected groups of public school eighth-grade students, record the progress these groups made on the 2005 assessment. We exceeded our target for low-income students who achieved at the *Basic* level, met the target for low-income students who achieved at the *Proficient* level, and made progress on our target for students with disabilities who scored at the *Basic* level.

To maintain the level of eighth-grade student progress in mathematics reported in short-term trends on the biennial test between 2003 and 2005 and in long-term trends on the biennial test from 1990 to 2005 and to press forward toward greater gains, the Department intends to follow-up the 2005 release of its research findings on the effectiveness of curriculum-based interventions for improving mathematics achievement in middle schools with research reports on elementary curriculum-based interventions in mathematics.

Data Quality. In 2005, the National Center for Education Statistics conducted two national assessments of eighth-grade mathematics: the main, biennial National Assessment of Educational Progress assessment and a Long-Term Trend assessment. The main, biennial assessment reported aggregated scores from the sample of students tested in each state; the Long-Term Trend Assessment collected data from an independently selected national sample. In 2005, nationally representative samples of about 162,000 eighth-grade students nationwide participated in the biennial mathematics assessment. The Department's measures reflect results of the main, biennial assessment. Data from the main assessment and the Long-Term Assessment are not comparable because the tests use different sampling strategies and different questions.

No Child Left Behind requires that all states participate in the main NAEP mathematics and reading assessments. The 2005 NAEP mathematics assessment was administered in a sample of schools in every state from January to March 2005.

The NAEP mathematics assessment examines student knowledge of the following content: number sense, properties, and operations; measurement; geometry and spatial sense; data analysis, statistics, and probability; and algebra and functions. It includes knowledge of three types of mathematical abilities: conceptual understanding, procedural knowledge, and problem solving.

NAEP test results for students with disabilities are based on students who were assessed and cannot be generalized to the total population of such students.

Related Information. Information on NAEP results can be obtained at http://nces.ed.gov/nationsreportcard/. To replicate the NAEP data reported in our performance measures, go to http://nces.ed.gov/nationsreportcard/ and click on NAEP DATA, Go to Advanced, Grade 8, Mathematics, National, National Public, Major Reporting Groups (select the appropriate group from dropdown list), Choose Years, Format Table, achievement level (cumulative), Go to Results.

Resources such as demonstration booklets, assessment procedures, frameworks, state profiles, and item maps can be obtained at http://nationsreportcard.gov/reading_math_2005/s0046.asp?printver=.

Additional Information. Future eighth-grade NAEP mathematics assessments are scheduled for 2007 and 2009.

High School Completion

"How can a nation that invented the light bulb, created vaccines to eradicate polio, put a man on the moon, and conceived the Internet not have a good handle on how many of its students drop out of high school?" says Deputy Secretary Ray Simon. A consensus for high school reform exists among governors, business leaders, for-profit and nonprofit leaders, and the Department, and reform "must start with an honest calculation of graduation rates."

Accurate graduation rates are also crucial to meeting the regulations of *No Child Left Behind*; states are required to set high school graduation rate targets as one indicator for measuring a high school's progress.

One of the major complications for states in accurately calculating high school graduation rates is the lack of a comprehensive data collection system that can track students over time. Until states have the capacity to collect these data, the Department has committed to publishing two sets of state graduation rates: state-reported rates and standardized rates prepared by the Department. According to a Government Accountability Office report, as of July 2005, 12 states used a graduation rate definition referred to as the cohort definition, which tracks students from when they enter high school to when they leave. Thirty-two states used a definition based primarily on the number of dropouts over a four-year period and the number of graduates. For its calculation, the Department will use enrollment and other data that reside in the Common Core of Data at the National Center for Education Statistics. The Department's formula, the averaged freshman graduation rate, calculates the number of high school graduates in a given year divided by the average of the number of students who entered the 8th grade five years earlier, the 9th grade four years earlier, and the 10th grade three years earlier. The Department's calculations will provide a common measure, track very closely with true on-time graduation rates, and reveal where attention must be paid to ensure all students graduate from high school. The averaged freshman graduation rate is a transitional definition useful until all states have the capacity to collect individual student-level data. The Department's formula is consistent with a formula devised by a high school reform task force created by the National Governors Association in 2005. The task force's formula, which 45 governors have adopted, divides the number of graduates in a given year by the number of students entering the ninth grade for the first time four years before, plus the difference between the number of students who have transferred in and out over the same four years.

For many policymakers, what comes next is a universal definition for dropout rates that would allow states to track missing and transferring students. Additionally, the GAO report recommends that the Department provide guidance on how to account for selected students in special programs and for students with disabilities.

To help states remedy data collection difficulties, the Department has designed and is implementing the EDEN data system that will provide a common method of acquiring and exchanging data at the state, district, and school levels.

To report on states' success in moving high school students to graduation, the Department reports high school completion and dropout rates for students with disabilities.

Data collected to report high school completion rates for students with disabilities reflects steady progress. A second set of data included in the National Longitudinal Transition Study-2, released in July 2005, provides an additional perspective on the scope of the recent successes experienced by students with disabilities. The study reports that the incidence of students with disabilities completing high school rather than dropping out increased by 17 percentage points between 1987 and 2003. The experience of the cohort of students participating in the study also showed the following indicators of progress: core academics improved; grades were higher; age and grade-level match improved; and the students received more support services through their schools.

2.12 Special Education Grants to States. The percentage of students with disabilities that graduate from high school with a regular high school diploma.

Fiscal Year	Actual
1996	42
1997	43
1998	45
1999	47
2000	46
2001	48
2002	51
2003	52
2004	**54**
2005	Target is 54.
Data for 2005 are pending.	

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

Analysis of Progress. Trend data for this measure show that the nation is making steady progress in ensuring that students with disabilities graduate from high school and that their high school experience is within the mainstream curriculum. A Government Accountability Office report bolsters this sense of progress in its conclusion that of the states reporting, at least 95 percent of students with disabilities took statewide reading tests.

Although high school completion rates for students with disabilities show improvement, similar gains may not have occurred in the total high school population.

Data Quality. Prior to 2004, the number of students with disabilities exiting school excluded those who had moved but were not known to have continued in school. State data managers indicated that in most cases in which students moved and were not known to have continued in school, these students had actually dropped out of school. In 2004, the Department revised the method for computing graduation to include in the denominator students who had moved but were not known to have continued in school. The current calculation is the number of students with disabilities who graduate with a regular diploma divided by the number of students with disabilities who exit school for a given year, including students with disabilities who had moved but were not known to have continued in school.

Target Context. Although this was a new measure for reporting in FY 2005, trend data were previously collected. The target for FY 2005 was set before the FY 2004 data were available.

Related Information. Information about results for students with disabilities is included in the *25th Report to Congress on the implementation of the Individuals with Disabilities Education Act (IDEA)* and is available at http://www.ed.gov/about/reports/annual/osep/2003/25th-exec-summ.pdf and http://www.ideadata.org/.

Additional Information. Data for FY 2005 will be available in September 2006.

Recent state reports indicate that significantly fewer students are reported in the "moved but not known to have continued" category. Some of the improvement in graduation rates may be attributable to closer tracking by states, which has resulted in some students being reported as continuing in school who would formerly have been reported as exiting (i.e., reducing the denominator for the indicator and thereby increasing the percentage reported as graduating).

2.13 Special Education Grants to States. The percentage of students with disabilities that drop out of school.

Fiscal Year	Actual
1996	47
1997	46
1998	44
1999	42
2000	42
2001	41
2002	38
2003	34
2004	**31**
2005	Target is 34.
Data for 2005 are pending.	

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

Analysis of Progress. Dropout rates for students with disabilities are declining as graduation rates are increasing; the two statistics in conjunction with each other indicate the progress that is being made in improving education outcomes for students with disabilities.

Data Quality. In 2004, the Department revised the method for computing the dropout rate to include in the numerator and the denominator students with disabilities who have dropped out and who have moved but are not known to have continued in school. The dropout rate for students with disabilities is calculated by dividing the number of students with disabilities (aged 14 and older) who dropped out of school or moved (not known to have continued in education) by the total number of students with disabilities in the same age group who are known to have exited school, including those who graduated with a regular diploma, received a certificate, reached the maximum age for services, died, dropped out, or moved (not known to have continued in education).

Target Context. While this was a new measure for reporting in FY 2005, trend data were previously collected. The target for FY 2005 was set before the FY 2004 data were available.

Related Information. Information about results for students with disabilities is included in the *25th Report to Congress on the Implementation of the Individuals with Disabilities Education Act (IDEA)* can be obtained at http://www.ed.gov/about/reports/annual/osep/2003/25th-exec-summ.pdf and http://www.ideadata.org/.

Additional Information. Data for FY 2005 will be available in September 2006.

Recent state reports indicate that significantly fewer students are reported in the "moved but not known to have continued" category. Some of the improvement in the dropout rate may be attributable to closer tracking by states, which has resulted in some students being reported as continuing in school who would formerly have been reported as exiting.

High School Academic Proficiency

In a nationally representative sample of high school sophomores, 72 percent of teenagers said they expected to graduate from a four-year college program. On a scale of not important, somewhat important, important, and very important, most students (87 percent) said getting good grades was important or very important to them, with blacks (62 percent) and Hispanics (53 percent) more likely than whites (47 percent) to select very important as their response. This and additional evidence of high expectations reported in *A Profile of the American High School Sophomore in 2002* evoked Secretary Spellings' response: "This report shows that we as a society have done an excellent job selling the dream of attending college, but we have to make sure that we are preparing high school students to succeed once they get in the door."

The Department's high school reform initiative began with national summits in 2004 and 2005, which produced consensus goals for improving high school. President Bush, in his 2006 budget request to the Congress, included more than $1.9 billion to fund a comprehensive strategy for high school reform. Programs slated to receive funding in the President's proposed budget include the following: Striving Readers, Advanced Placement, State Scholars Capacity Building, Mathematics and Science Partnerships, High School Intervention, and High School Assessments. The presidential budget request would redirect funds from vocational education grants to the broader effort of comprehensive high school reform.

The Department measured academic proficiency in high school by collecting data on the percentage of vocational concentrators meeting state-established academic standards.

2.14 Vocational Education State Grants. The percentage of vocational concentrators meeting state-established academic standards.

Fiscal Year	Actual
1998	33
1999	45
2000	44
2001	70
2002	71
2003	75
2004	**75**
2005	Target is 77.

We did not meet our 2004 target of 76. Data for 2005 are pending.

U.S. Department of Education, Office of Vocational and Adult Education, Vocational Technical Education Annual Performance and Financial Report.

Analysis of Progress. Although we missed our 2004 target of 76, trend data show we are making progress in helping vocational students meet academic standards.

Data Quality. While the definition of "vocational concentrator" varies from state to state, most states define a concentrator as a student who is enrolled in a threshold level of vocational education, which is usually represented as two or three vocational and technical education courses.

As a third-tier recipient of these data, the Department relies on the states and local programs to collect and report data within published guidelines. The Department has hosted data and program quality workshops and held conference calls to help improve data measurement and data collection. We also established a Web site to foster discussion among states on accountability systems. During monitoring site visits in SY 2003–04, we increased our emphasis on accountability and addressed issues on the policies and procedures used by the state to gather and verify data from local grantees and to ensure that the data received from local grantees are complete, accurate, and reliable. The Department also imposed conditions on the July 1, 2005, grants of numerous states that did not submit complete data and required them to submit detailed corrective action plans for obtaining complete data in the future before the states could receive their October 1, 2005, supplemental grants.

Related Web Sites. Information about career and technical education can be obtained at http://www.ed.gov/about/offices/list/ovae/pi/cte/index.html and http://www.ed.gov/about/offices/list/ovae/resource/index.html.

A Profile of the American High School Sophomore in 2002 is available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2005338.

Additional Information. Data for FY 2005 will be available in March 2006.

Advanced Placement Participation

Advanced Placement courses are typically considered among the most rigorous high school classes in the curriculum. Over 15,000 high schools offered Advanced Placement classes in 2005, a 36 percent increase in the last decade. Students took over 2 million Advanced Placement exams in May 2005, a 12 percent increase over last year and 66 percent more than five years ago. Growth of the program has been accelerated by provisions in *No Child Left Behind* that support Advanced Placement programs as a way to raise academic standards and by states that are using Advanced Placement courses as an avenue to high school improvement. Approximately $30 million in Department funding was available in 2005 to make pre-Advanced Placement and Advanced Placement courses more widely available to low-income students and to pay Advanced Placement test fees. Increasing numbers of low-income students used the test fee support offered in this program.

2.15 Advanced Placement. The number of Advanced Placement tests taken by low-income students nationally.

Fiscal Year	Actual
1999	92,570
2000	102,474
2001	112,891
2002	140,572
2003	166,649
2004	**190,350**
2005	**220,542**
We exceeded our 2004 target of 170,092. We exceeded our 2005 target of 183,314.	

College Board, *Advanced Placement Program Summary Reports,* 2001, 2002, 2003, 2004, and 2005.

Analysis of Progress. The number of Advanced Placement tests taken by low-income students increased by about 15 percent in FY 2005, allowing us to exceed our target. We report 2004 data as new data because they were not reported in our *FY 2004 Performance and Accountability Report*. We also exceeded our FY 2004 target. The President has asked for a 40 percent increase in funding for this program, acknowledging its capacity to increase the number of low-income students who are provided access to a more rigorous high school curriculum through access to Advanced Placement classes and tests.

Data Quality. The College Board does not report "low-income" student outcomes in its *Summary Reports* of Advanced Placement test results. It provides the Department with the number of tests taken by students eligible for fee reduction because of acute financial need. Each school has an official Advanced Placement coordinator (usually a teacher or counselor) who is required to identify which students' tests are eligible for a test fee reduction on the student's registration form. The College Board's fee reduction policy can be found on AP Central at http://www.apcentral.collegeboard.com/exam/fees/1,,152-170-0-0,00.html.

The Department, for reporting purposes, relabels the group of students that the College Board has recorded as eligible for fee reduction as low-income students.

Related Information. Information about the number of Advanced Placement tests taken between 1984 and 1997 can be obtained at Students Who Took Advanced Placement (AP) Examinations. Current reports on Advanced Placement program results are available at http://www.apcentral.collegeboard.com/program/research.

Additional Information. Funding for International Baccalaureate test fees is also available to low-income students through the Advanced Placement Test Fee Program. Data collected by the Advanced Placement program in 2005 will provide baseline data for determining progress in the number of International Baccalaureate tests taken by low-income students nationally. The Department began collecting baseline data in 2005 on the percentage of low-income students served by the Advanced Placement Incentives Program who receive a passing score on Advanced Placement tests and on International Baccalaureate tests.

Teacher Quality

No Child Left Behind defines "highly qualified teacher" and requires that all public school teachers of core academic subjects meet the qualifications outlined in the definition by the end of SY 2005–06. For the first time, the Congress legislated the goal that teachers in every core academic class have a bachelor's degree, have a state license or a certificate, and be competent in the subjects they teach. The recently reauthorized Individuals with Disabilities Education Act also addresses teacher qualification and requires all special educators who teach core academic subjects to be highly qualified. Resources provided states to meet the goal of a "highly qualified teacher" in every core academic class include major funding from the $3 billion Improving Teacher Quality State Grants and the $68 million Teacher Quality Enhancement programs.

The Department reported the 2005 progress of our teacher quality programs in *The Secretary's Fourth Annual Report on Teacher Quality*. The report describes the federal contribution to teacher quality and offers the most current state information on teacher placement, traditional teacher preparation programs, quality standards and state certification requirements, and alternative pathways to teaching.

The Department also assessed four teacher quality programs using the Program Assessment Rating Tool (PART). Using this consistent mechanism, the Department worked with the Office of Management and Budget to judge the effectiveness of these programs with regard to their stated purpose, strategic planning, internal management, and results and accountability. The Troops-to-Teachers program was rated "adequate"; the following programs were rated "results not demonstrated": Improving Teacher Quality State Grants, Teacher Quality Enhancement State Grants, and Special Education Personnel Preparation. PART review findings (see pp. 100-03) for the Department's major teacher quality programs underscored the scarcity of data we have to make a judgment of program effectiveness. The Performance-Based Data Management Initiative has created the Education Data Exchange Network (EDEN), which began accepting data from states in November 2004. EDEN continues to be the Department's long-term solution to improving data collection and data quality. When EDEN is fully populated, it will provide timely and appropriate data for the Improving Teacher Quality State Grants program.

Department staff have taken steps to improve the Teacher Quality Enhancement program by collecting performance data electronically and by developing an efficiency measure for the program (the cost per highly qualified teacher candidate graduating from grantee postsecondary institutions) for which they have collected FY 2004 data.

The Department measured progress in reaching the *No Child Left Behind* goal of a highly qualified teacher in every core academic classroom by the end of SY 2005–06 by determining the percentage of core academic classes taught by highly qualified teachers in elementary and secondary schools and in high-poverty schools. Based on a review of the results with state educational agencies, Secretary Spellings issued an October 21, 2005, letter outlining options for states who are unable to meet the SY 2005–06 deadline.

2.16 Improving Teacher Quality State Grants. The percentage of core academic classes in high-poverty schools taught by highly qualified teachers.

Fiscal Year	Actual
2003	74
2004	**81**
2005	Target is 90.

Data for 2005 are pending.

2.17 Improving Teacher Quality State Grants. The percentage of core academic classes in elementary schools taught by highly qualified teachers.

Fiscal Year	Actual
2003	85
2004	**89**
2005	Target is 90.

We met our 2004 target of 89. Data for 2005 are pending.

2.18 Improving Teacher Quality State Grants. The percentage of core academic classes in secondary schools taught by highly qualified teachers.

Fiscal Year	Actual
2003	80
2004	**84**
2005	Target is 85.

Data for 2005 are pending.

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

Analysis of Progress. When the Department adopted a measure that would provide information on whether students in classrooms across the country are being taught by highly qualified teachers, we were aware of the difficulties we would initially encounter collecting these data. Some states did not have state-specific definitions of highly qualified teachers. The unit of analysis for whether students were taught by highly qualified teachers in some states was the teacher (the number of teachers who are highly qualified) rather than the classroom (the number of classrooms taught by a highly qualified teacher). In spite of these obstacles, we decided to collect available data, and we received 2004 information from 47 states. The remaining states have since committed to providing data in response to the measure. When FY 2005 data become available, they will be more complete and accurate, as will data in succeeding years.

Two-year trend data shows states are making progress in staffing core academic classes with highly qualified teachers. The trend holds for low-income students and for all elementary and secondary students.

Data Quality. Forty-one states reported SY 2002–03 data, and 47 states reported SY 2003–04 data. The number of states reporting these data varies by year and depends on where a state is in its process of defining a highly qualified teacher and whether it has the capacity to collect these data. As states increase data collection capacity, the number of states reporting will increase.

To calculate the percentage of core academic classes in high-poverty schools taught by highly qualified teachers, the Department relied on state identification of high-poverty schools. In most states, high-poverty schools are identified by the percentage of students who apply for the free and reduced-price lunch program. Elementary school students generally apply for the program when they are eligible, and a relatively accurate count of high-poverty students per elementary school is possible. The prevalence of high poverty in high school cannot be assessed with a similar level of accuracy because high school students are less likely to apply for the free and reduced-price lunch program and high poverty is underreported. Consequently, this measure more accurately reflects the total number of elementary schools that are high-poverty schools than it does the number of high-poverty high schools.

Target Context. The three highly qualified teacher measures were new measures in 2005; therefore, no previous targets were set for these three measures. The Department reported 2003 and 2004 data to begin establishing a trend.

Related Information. Information about the Improving Teacher Quality State Grants program can be obtained at http://www.ed.gov/programs/teacherqual/index.html.

Additional Information. Data for FY 2005 will be available in March 2006.

The *No Child Left Behind Act* requires that each state educational agency have a plan to ensure that all teachers within the state teaching in core academic subjects are highly qualified no later than the end of SY 2005–06. The requirement that teachers be highly qualified applies to all public elementary or secondary school teachers employed by a local educational agency who teach a core academic subject. "Highly qualified" means that the teacher must meet all of the following:

- Has obtained full state certification as a teacher or passed the state teacher licensing examination and holds a license to teach in the state, and does not have certification or licensure requirements waived on an emergency, temporary, or provisional basis.
- Holds a minimum of a bachelor's degree.
- Has demonstrated subject matter competency in each of the academic subjects in which the teacher teaches, in a manner determined by the state and in compliance with section 9101(23) of the *Elementary and Secondary Education Act*.

The statutory definition includes additional elements that apply somewhat differently to new and current teachers, and to elementary, middle, and secondary school teachers. The complete definition of a highly qualified teacher is in section 9101(23) of the *Elementary and Secondary Education Act*. The term "core academic subjects" means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. While the statute includes the arts in the core academic subjects, it does not specify which of the arts are core academic subjects; therefore, states must make this determination.

The recently reauthorized *Individuals with Disabilities Education Act* also addressed the issue of highly qualified teachers; it requires all special educators who teach core academic subjects to be highly qualified. Starting in SY 2005–06, all veteran special education teachers who teach core academic subjects must be highly qualified. New special education teachers who teach core academic content must be highly qualified when they are hired. Assuming that such teachers are already highly qualified in at least mathematics, language arts, or science, new special education teachers who teach two or more core academic subjects exclusively to students with disabilities have two additional years from the date they are hired to demonstrate subject matter competency in the additional subjects they teach.

Further, the Department has provided flexibility for teachers in three areas (rural, science, and current multisubject teachers) to demonstrate that they are highly qualified. Additional information can be found at http://www.ed.gov/nclb/methods/teachers/hqtflexibility.html.

2.19 Teacher Quality Enhancement. The percentage of program completers who are highly qualified teachers.

Fiscal Year	Actual
2004	**89**
2005	Target is 80.
Data for 2005 are pending.	

U.S. Department of Education, Office of Postsecondary Education, Teacher Quality Enhancement Program Performance Report.

Analysis of Progress. The newly reported FY 2004 baseline data (89 percent) indicate that the Teacher Quality Enhancement program is producing a high percentage of highly qualified teachers. Our 2005 data will allow us to measure progress.

Data Quality. A program completer is a graduate of a teacher preparation program funded through the Teacher Quality Enhancement Partnership Grants program. A high-quality completer has a bachelor's degree, subject area competence established through testing, and certification from state licensing authorities. The process of identifying high-quality completers gives graduates of the program a year to pass certification examinations.

Target Context. The target for FY 2005 was established before FY 2004 data were collected.

Related Information. Information on Teacher Enhancement Grants can be obtained at http://www.ed.gov/programs/heatqp/index.html. The National Center for Education Statistics prepared *The Reference and Reporting Guide* to assist postsecondary institutions and states in meeting reporting requirements for teacher preparation, certification, and licensing mandated by Title II of the *Higher Education Act*. Information on the guide can be obtained at http://www.title2.org/guide.htm. *The Secretary's Fourth Annual Report on Teacher Quality* can be found at http://www.ed.gov/about/reports/annual/teachprep/2005Title2-Report.pdf.

Additional Information. Data for FY 2005 will be available in August 2006.

Discontinued Strategic Measures

The following measures were discontinued after FY 2004 but were reported as pending in our *FY 2004 Performance and Accountability Report*. We report here our results on those for which we now have data. (See p. 23 for a discussion of why we discontinued measures.)

Measure			Fiscal Year	Target	Actual	# States Reporting	Status
2.1.1–2.1.6	Of states with third-grade reading assessments, the percentage meeting their targets for third-grade reading achievement	All Students	2004	100	87.5	32	Target not met
		Low-Income Students	2004	100	67.7	31	
		African-American Students	2004	100	61.3	31	
		Hispanic Students	2004	100	62.5	32	
		Students with Disabilities	2004	100	31.3	32	
		Limited English Proficient Students	2004	100	37.5	32	
2.2.1–2.2.6	The percentage of states meeting their targets for middle school (sixth-grade) mathematics achievement	All Students	2004	100	82.6	23	Target not met
		Low-Income Students	2004	100	56.5	23	
		African-American Students	2004	100	45.5	22	
		Hispanic Students	2004	100	65.2	23	
		Students with Disabilities	2004	100	9.1	22	
		Limited English Proficient Students	2004	100	36.4	22	
	The percentage of states meeting their targets for middle school (seventh-grade) mathematics achievement	All Students	2004	100	80.0	20	Target not met
		Low-Income Students	2004	100	45.0	20	
		African-American Students	2004	100	31.6	19	
		Hispanic Students	2004	100	45.0	20	
		Students with Disabilities	2004	100	10.0	20	
		Limited English Proficient Students	2004	100	20.0	20	
	The percentage of states meeting their targets for middle school (eighth-grade) mathematics achievement	All Students	2004	100	88.9	45	Target not met
		Low-Income Students	2004	100	52.3	44	
		African-American Students	2004	100	36.4	44	
		Hispanic Students	2004	100	50.0	44	
		Students with Disabilities	2004	100	2.3	44	
		Limited English Proficient Students	2004	100	25.0	44	
2.3.1–2.3.6	The percentage of states meeting their targets for high school reading achievement	All Students	2004	100	84.3	51	Target not met
		Low-Income Students	2004	100	24.0	50	
		African-American Students	2004	100	22.0	50	
		Hispanic Students	2004	100	24.0	50	
		Students with Disabilities	2004	100	5.9	51	
		Limited English Proficient Students	2004	100	7.8	51	

Measure			Fiscal Year	Target	Actual	# States Reporting	Status
2.3.7–2.3.12	The percentage of states meeting their targets for high school mathematics achievement	All Students	2004	100	82.4	51	Target not met
		Low-Income Students	2004	100	37.3	51	
		African-American Students	2004	100	20.0	50	
		Hispanic Students	2004	100	44.0	50	
		Students with Disabilities	2004	100	9.8	51	
		Limited English Proficient Students	2004	100	21.6	51	
2.3.20–2.3.22	The percentage of 18- to 24-year-olds who have completed high school	All Students	2003	86.5	87.1		Target met
			2004	87.5	Pending		Data expected 05/2006
		African-American Students	2003	84.5	85.0		Target met
			2004	85.5	Pending		Data expected 05/2006
		Hispanic American Students	2003	66.0	69.2		Target met
			2004	69.0	Pending		Data expected 05/2006
2.4.1	The percentage of classes taught by teachers of core academic subjects that are highly qualified as defined by *No Child Left Behind*		2004	75	elementary: 85 secondary: 80		Target met
2.5.2	The number of U.S. postsecondary students studying abroad		2004	164,000	174,629		Target met

Sources and Notes

2.1.1–2.3.12 U.S. Department of Education. Consolidated State Performance Report, grantee submissions.

The ambitious target for this set of measures was that every state that had an assessment at the specified grade level would meet its state-determined target.

2.3.20–2.3.22 Federal Interagency Forum on Child and Family Statistics. *America's Children: Key National Indicators of Well-Being, 2005.*

Previously reported FY 2002 data were estimated and preliminary. Final data were 87.3 percent (all students), 84.8 percent (African-Americans), and 67.9 percent (Hispanic Americans).

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

Data were not collected in the aggregate until FY 2005.

2.5.2 Institute of International Education, Open Doors 2004: American Students Studying Abroad.

Goal 2: Improve Student Achievement

Program Performance Summary

Seventy-six of our grant programs most directly support Goal 2. These programs are listed below. In the table we provide an overview of the results of each program on its program performance measures. (See p. 59 for our 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/2005report/program.html. We also provide both FY 2005 appropriations and FY 2005 expenditures for each of these programs. (See pp. 24-25 for an explanation of why appropriations and expenditures for a given year are not the same and the effect that difference has on the connection between funding and performance.)

Program Name	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
APEB: American Printing House for the Blind	17	17	60	0	40	100	0	0	100	0	0	100	0	0
CFAA: Supplemental Education Grants	18	0				/// (not funded)			/// (not funded)			/// (not funded)		
CRA: Training and Advisory Services	7	7	0	0	100	0	0	100	0	0	100	50	50	0
ESEA: 21st Century Community Learning Centers	991	787	0	0	100	38	62	0	38	62	0	33	67	0
ESEA: Advanced Credentialing	17	17	0	0	100	100	0	0						
ESEA: Advanced Placement	30	24	25	0	75	100	0	0	100	0	0	100	0	0
ESEA: Alaska Native Education Equity	34	21	100	0	0	0	0	100						
ESEA: Arts In Education	36	37	0	0	100									
ESEA: Charter Schools Grants	217	175	50	50	0	0	100	0	0	100	0	0	100	0
ESEA: Civic Education: Cooperative Education Exchange	12	12	0	0	100									
ESEA: Comprehensive School Reform	205	270	0	0	100	0	0	100	0	0	100	0	0	100
ESEA: Credit Enhancement for Charter School Facilities	37	35	0	0	100	50	50	0	///			/// (not funded)		
ESEA: Dropout Prevention Programs	5	7												
ESEA: Early Childhood Educator Professional Development	15	14	0	00	100	67	0	33				///		

Program Name	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Early Reading First	104	63	0	0	100	100	0	0	///			///		
ESEA: Education for Native Hawaiians	34	32	100	0	0	0	0	100						
ESEA: Educational Technology State Grants	496	732	0	0	100	0	0	100	0	100	0	///		
ESEA: English Language Acquisition	676	638	0	0	100	20	0	80	30	0	70	0	0	100
ESEA: Even Start	225	257	0	0	100	33	33	33	50	0	50			
ESEA: Excellence in Economic Education	1	1	0	0	100				/// (not funded)			/// (not funded)		
ESEA: Foreign Language Assistance	18	16	0	0	100									
ESEA: Fund for the Improvement of Education Programs of National Significance	257	291										67	33	0
ESEA: Impact Aid Basic Support Payments	1,075	1,102	100	0	0	100	0	0	100	0	0	50	50	0
ESEA: Impact Aid Payments for Children with Disabilities	50	50												
ESEA: Impact Aid Construction	49	38	0	100	0	0	100	0	0	100	0	0	100	0
ESEA: Impact Aid Facilities Maintenance	8	13												
ESEA: Impact Aid Payments for Federal Property	62	51												
ESEA: Improving Teacher Quality State Grants	2,917	2,954	0	0	100	25	25	50	100	0	0	///		
ESEA: Indian Education Grants to Local Educational Agencies	95	95	0	0	100	0	0	100	0	67	33	0	33	67
ESEA: Javits Gifted and Talented Education	11	10	0	0	100									
ESEA: Literacy Through School Libraries	20	18	0	0	100	0	0	100				///		
ESEA: Magnet Schools Assistance	108	102	0	0	100	0	0	100	0	0	100			
ESEA: Mathematics and Science Partnerships	179	91	0	0	100	0	0	100	/// (program reconfigured)					
ESEA: Migrant State Agency Program	390	383	0	0	100	0	0	100	88	13	0	56	33	11
ESEA: National Writing Project	20	18	0	0	100	0	0	100						
ESEA: Neglected and Delinquent State Agency Program	50	48	0	0	100	0	0	100	75	0	25			
ESEA: Parental Information and Resource Centers	42	43	0	0	100	0	0	100	0	0	100			
ESEA: Reading First State Grants	1,042	1,099	0	100	0				11	11	78	///		

Program Name	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Reading Is Fundamental/ Inexpensive Book Distribution	25	26	0	0	100	0	100	0	100	0	0			
ESEA: Ready to Teach	14	15	0	0	100	0	0	100						
ESEA: Ready-to-Learn Television	23	22	50	25	25	0	0	100	0	0	100			
ESEA: Rural Education	171	162	0	0	100	0	100	0	100	0	0			
ESEA: School Leadership	15	12	0	0	100	100	0	0						
ESEA: Smaller Learning Communities	94	104	0	0	100	50	50	0	0	100	0			
ESEA: Special Programs for Indian Children	20	22	0	0	100	0	0	100						
ESEA: Star Schools Program	21	17	0	0	100	50	50	0	0	50	50	100	0	0
ESEA: State Assessments	412	451	40	60	0	0	100	0	0	0	100	///		
ESEA: State Grants for Innovative Programs	198	316	0	0	100	33	33	33	100	0	0			
ESEA: Striving Readers	25	0	///			/// (not funded)			/// (not funded)			/// (not funded)		
ESEA: Teaching American History	119	56	0	0	100	0	0	100	0	0	100			
ESEA: Title I Grants to Local Educational Agencies	12,740	12,520	43	14	43	25	0	75	100	0	0	67	0	33
ESEA: Transition to Teaching	45	40	0	0	100	75	25	0	50	0	50			
ESEA: Troops-to-Teachers	15	17	0	0	100	0	50	50	100	0	0			
ESEA: Voluntary Public School Choice	27	28	0	0	100	0	0	100	100	0	0			
ESEA: Women's Educational Equity	3	3	0	0	100									
ESRA: Comprehensive Centers	57	25	///			/// (not funded)			/// (not funded)			/// (not funded)		
ESRA: National Assessment	89	97	0	0	100	(off year for collection)			0	100	0	(off year for collection)		
ESRA: Regional Educational Laboratories	66	71	0	0	100	0	0	100	100	0	0	100	0	0
ESRA: Statewide Data Systems	25	0	///			/// (not funded)			/// (not funded)			/// (not funded)		
HEA: High School Equivalency Program	19	20	0	0	100	0	0	100	100	0	0			
HEA Amendments of 1998: State Grants for Incarcerated Youth Offenders	22	18	0	0	100	100	0	0	0	100	0	100	0	0
HEA: Teacher Quality Enhancement	68	76	0	0	100	0	0	100	0	0	100			
IDEA: Special Education Grants for Infants and Families	441	437	0	50	50	25	50	25	67	0	33	50	0	50
IDEA: Special Education Grants to States	10,590	9,790	0	17	83	50	50	0	43	43	14	17	83	0

Program Name	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
IDEA: Special Education Parent Information Centers	26	26	0	0	100	0	0	100	50	0	50	50	0	50
IDEA: Special Education Personnel Preparation	91	81	25	25	50	0	0	100	0	33	67	33	33	33
IDEA: Special Education Preschool Grants	385	401	0	50	50	0	100	0	0	100	0	50	50	0
IDEA: Special Education State Personnel Grants	51	46	///			/// (not funded)			/// (not funded)			/// (not funded)		
IDEA: Special Education Technical Assistance and Dissemination	52	53	0	0	100	0	0	100	0	25	75	25	25	50
IDEA: Special Education Technology and Media Services	39	38	0	0	100	0	0	100	0	40	60	0	40	60
MVHAA: Education for Homeless Children and Youths	62	58	0	0	100	33	33	33	67	0	33			
VTEA: Occupational and Employment Information	9	10	50	50		50	50	0						
VTEA: Tech-Prep Demonstration	5	4	0	0	100									
VTEA: Vocational Education National Programs	12	15	0	0	100	67	17	17						
VTEA: Tech-Prep Education State Grants	106	104	0	0	100	25	50	25	14	86	0	29	71	0
VTEA: Vocational Education State Grants	1,194	1,128												
Administrative and Support Funding for Goal 2#	5	5	#			#			#			#		
TOTAL	**36,951**	*** 35,882**												

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2005 expenditures may include funds from prior years' appropriations.

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

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

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

* Expenditures by program do not include outlays in the amount of $151 million for prior years' obligations for Goal 2 programs that were not funded in FY 2005, FY 2005 estimated accruals in the amount of $386 million, or net costs of -$4 million related to the Department's administration of the DC School Choice program.

APEB: Act to Promote the Education of the Blind
CFAA: Compact of Free Association Act
CRA: Civil Rights Act
ESEA: Elementary and Secondary Education Act
ESRA: Education Sciences Reform Act
HEA: Higher Education Act
IDEA: Individuals with Disabilities Education Act
MVHAA: McKinney-Vento Homeless Assistance Act
VTEA: Vocational and Technical Education Act

Goal 2: Improve Student Achievement

PART Analysis

In preparation for the FY 2005 budget, the Department conducted reviews on the programs listed below using the Office of Management and Budget's Program Assessment Rating Tool (PART). (See p. 60 for a discussion of the PART methodology.) Short summaries of the PART results and follow-up actions are on the following pages. OMB's Web site provides one-page summaries and full detailed PART reviews for all agencies.

21st Century Community Learning Centers
Rating: Adequate

Improving Teacher Quality State Grants
Rating: Results Not Demonstrated

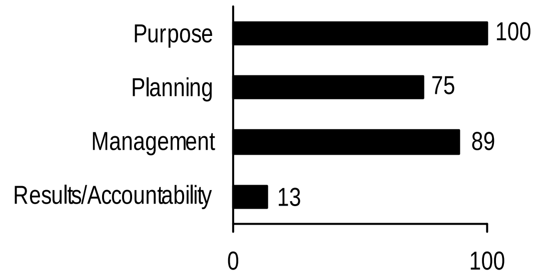
National Assessment
Rating: Effective

Special Education Personnel Preparation
Rating: Results Not Demonstrated

Teacher Quality Enhancement
Rating: Results Not Demonstrated

Troops-to-Teachers
Rating: Adequate

PART Analysis for Programs Reviewed for the FY 2005 Budget



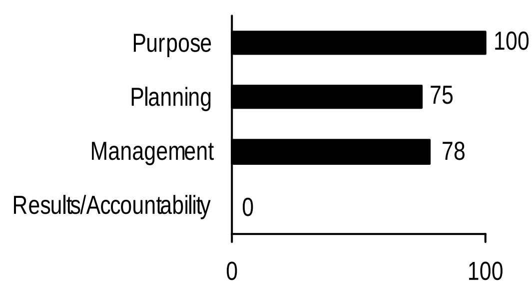
Program: 21st Century Community Learning Centers
Year of Rating: For FY 2005 Budget
Rating: Adequate
Program Type: Block/Formula Grants

Recommended Follow-up Actions

- Ensure that the program has a data collection and evaluation system that will allow the Department to analyze whether state and school district performance goals are being met.
- Hold states accountable for meeting program performance goals.
- Implement a technical assistance strategy to identify and disseminate promising and proven instructional practices in academic areas.

Update on Follow-up Actions

Action steps the Department has taken to promote accountability include a monitoring system and an online data collection system. The Department developed an online evaluation/assessment system to collect data on academic achievement and behavioral outcomes. In September 2003, the Department began a rigorous four-year evaluation of two academic interventions for after-school programs, one for math and one for reading. The Department provides technical assistance on improving academic achievement through after-school programs, its annual summer institutes, and a project to identify and disseminate information on high-quality after-school programs in reading, mathematics, science, and the arts.



Program: Improving Teacher Quality State Grants
Year of Rating: For FY 2005 Budget
Rating: Results Not Demonstrated
Program Type: Block/Formula Grants

Recommended Follow-up Actions

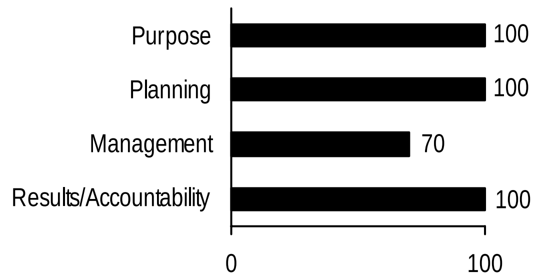
- Continue to collect baseline information on program participants and set targets for its annual measures.
- Develop a meaningful efficiency measure.

Update on Follow-up Actions

The Department has collected two years of performance information for this program after the initial PART assessment. Using these data, the Department has established baselines for its performance measures and established targets for the program's annual measures.

The Department has drafted an efficiency measure for this program and will be working with the Office of Management and Budget to finalize it.

Program: National Assessment of Educational Progress (NAEP)
Year of Rating: For FY 2005 Budget
Rating: *Effective*
Program Type: Research and Development



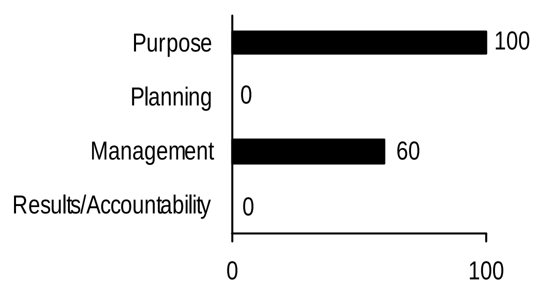
Recommended Follow-up Actions

- Focus on the timeliness of National Center for Education Statistics (NCES) products and services, which include National Assessment activities.

Update on Follow-up Actions

The 2005 PART assessment found a weakness in the timeliness of NCES products. The Department responded to this finding by articulating specific goals for the release of data. In 2006, the initial release of data for 90 percent of NCES products will occur (a) within 18 months of the end of data collection, or (b) with an improvement of 2 months over the previous time for the initial release of data if the 18-month deadline is not attainable. NCES will reduce the deadline by 2 months each year from 2007 to 2010, until the final goal of 12 months is reached. The Department continues to strive to meet its goal of releasing NAEP reading and mathematics assessments data in 6 months. In 2003, the actual time to release was 8 months.

Program: Special Education Personnel Preparation
Year of Rating: For FY 2005 Budget
Rating: *Results Not Demonstrated*
Program Type: *Competitive Grant*



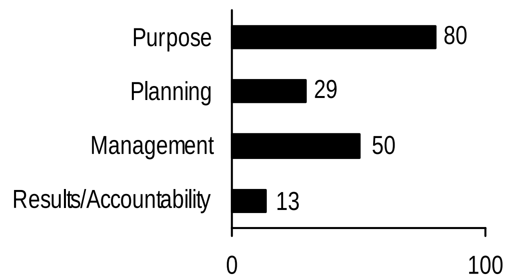
Recommended Follow-up Actions

- Develop a schedule for independent evaluations by 2004.
- Institute a new performance system for grantees by 2004 and make the information available to the public in a transparent and meaningful manner.
- Work with the Department of Education's other teacher programs to review and compare common performance indicators on an annual basis.
- Develop performance measures and goals that appropriately reflect the impact of the federal government's investment in increasing the supply and/or quality of special education personnel.
- Develop program efficiency measures.

Update on Follow-up Actions

The Department has developed new annual and long-term performance indicators for the Personnel Preparation program to assess its impact and effectiveness. These measures focus on use of research-based curriculum by institutions of higher education (program grantees) as well as the employment of special education teachers trained by grantees in schools. Data for these measures will be collected starting in FY 2006. In addition, the Department is working to develop efficiency measures for this program. The Department is also planning to undertake a rigorous evaluation of the Personnel Preparation program.

Program: Teacher Quality Enhancement
Year of Rating: For FY 2005 Budget
Rating: *Results Not Demonstrated*
Program Type: *Competitive Grant*



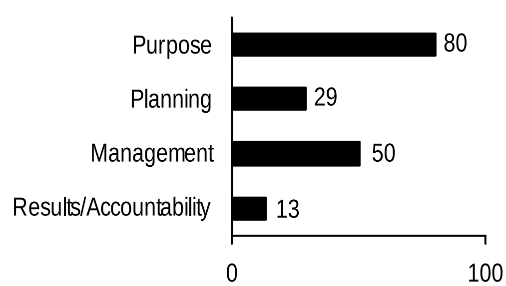
Recommended Follow-up Actions

- Begin to collect baseline data to set targets for the program's new measures.
- Develop the necessary long-term, annual, and efficiency measures.
- Implement its plan to ensure adequate grantee oversight.
- Consider reforms that would enable the Department to use all available Teacher Quality Enhancement funding to support the highest-quality grant applications.

Update on Follow-up Actions

The Department has developed annual, long-term, and efficiency measures for this program and has collected baseline data for all of the measures. The Department has also developed a plan to ensure better oversight of grantees. Supported by its new e-monitoring system, the Office of Postsecondary Education plans to conduct annual project directors' meetings, regular site visits, and increased scrutiny of performance data. The Department has also sought and obtained appropriations language overriding the statutory funding set-asides, which has allowed the Department to fund the highest quality grant applications.

Program: Troops-to-Teachers
Year of Rating: For FY 2005 Budget
Rating: *Adequate*
Program Type: *Competitive Grant*



Recommended Follow-up Actions

- Strengthen program performance data collection and make it publicly accessible.
- Begin to collect baseline information on program participants and set targets for its new measures.
- Develop a meaningful efficiency measure.

Update on Follow-up Actions

In collaboration with the Department of Defense, the agency that administers the Troops-to-Teachers program, the Department has made substantial progress in meeting the performance information requirements identified in its PART assessment. The Department created an efficiency measure for the program that will examine the recruitment cost per teacher of record. Baseline information for this measure will be available in fall 2005. Baseline data were collected in FY 2003 and targets were set for all program performance measures, and the Department has posted program performance information on our Troops-to-Teachers Web page.

Goal 2: Improve Student Achievement

Findings and Recommendations from Program Evaluations, Studies, and Reports

Information that the Department uses to inform management and program improvements comes from many sources, including evaluations, studies, and reports that are Department-sponsored studies and those from the Government Accountability Office (GAO) and the Office of Inspector General (OIG). The following evaluations, studies, and reports were completed during FY 2005.

Analysis of State K–3 Reading Standards and Assessments: Final Report

This study of the Reading First program characterizes the relationship between state content standards and assessments and the five essential components of effective reading instruction as identified by the National Reading Panel. Its purpose was to evaluate the degree to which state reading content standards for students in grades K–3 reflected the five essential areas and the extent to which state assessments in grades K–3 measured Reading First outcomes. States that identified their statewide reading assessments as Reading First outcome measures tended to have more reading standards that represented the five essential elements of effective reading instruction. Future evaluations of Reading First will examine program implementation and impact on reading outcomes. (See p. 114 for a summary of this report.)

When Schools Stay Open Late: The National Evaluation of the 21st Century Community Learning Centers Program **(*Final Report* and *New Findings*)**

These two comprehensive, rigorous evaluations of 21st Century Learning Centers addressed implementation and impact findings on student outcomes for behavior, social development, and academic achievement; characteristics of after-school programs; and types of students most likely to benefit. The most consistent objectives for both middle school and elementary school programs were to provide a safe environment after school and to help students improve academically. (See p. 115 for a summary of this report.)

***No Child Left Behind Act: Most Students With Disabilities Participated in Statewide Assessments, but Inclusion Options Could Be Improved* (GAO-05-618)**

To improve the academic achievement of all students, the *No Child Left Behind Act* requires that all students, including students with disabilities, be included in statewide assessments, and that states, districts, and schools be held accountable for the academic progress of all students. The *Individuals with Disabilities Education Act* also requires assessments. This report determined the extent to which students with disabilities were included in statewide assessments, issues faced by states in implementing alternative assessments, and how the Department supported states in their efforts to assess students with disabilities. For SY 2003–04, at least 95 percent of students with disabilities participated in statewide reading assessments. (See p. 116 for a summary of this report.)

Third National Even Start Evaluation: Follow-Up Findings From the Experimental Design Study

The Even Start Family Literacy program addresses the basic education needs of low-income families, including parents and their children from birth through age seven, by providing a unified program of family literacy services. This study provides follow up on a previously released study that assessed the effectiveness of the Even Start program. This report presents follow-up data collected approximately one year after the previous study. Even Start children and parents made gains on a variety of literacy assessments and other measures at follow up, but they did not gain more than children and parents who were not in the program. (See p. 117 for a summary of this report.)

No Child Left Behind Act: Education Could Do More to Help States Better Define Graduation Rates and Improve Knowledge about Intervention Strategies

The *No Child Left Behind Act* requires states to use graduation rates, along with test scores, to assess the progress of high schools in educating students. In this report, GAO examines the graduation rate definitions states use and how the Department helps states meet legal requirements; the factors affecting the accuracy of states' rates and the Department's role in ensuring accurate data; and how the Department identifies and disseminates intervention research on drop out prevention. To enhance the reliability of graduation rate data, the Department will calculate the averaged freshman graduation rate for each state and report this rate alongside the graduation rates reported by states, provide additional policy guidance to states on ways to account for different types of students in graduation rate calculations, and review and identify research on effective intervention strategies for dropout prevention for dissemination through its What Works Clearinghouse. (See p. 118 for a summary of this report.)

Biennial Evaluation Report to Congress on the Implementation of Title III, Part A of the ESEA

Title III, Part A of the Elementary and Secondary Education Act provides funds for English language instruction programs for limited English language proficient (LEP) students through the state formula grant program. The grants support programs that help LEP students attain English proficiency, develop a high level of academic attainment in English, and meet the same standards expected of all children. The program holds states, districts, and schools accountable for meeting state Title III annual measurable achievement objectives (AMAOs). The first biennial evaluation report covers SY 2002–03 and SY 2003–04 and is a synthesis of data reported by the 50 states, the District of Columbia, and Puerto Rico. For SY 2003–04, 52 entities reported serving a total of 1,218,238 immigrant children and youth, 827,638 of whom were served under the Title III program. (See p. 119 for a summary of this report.)

Report on State K–3 Reading Standards and Assessments in the Context of the Reading First Program

Report Title

Analysis of State K–3 Reading Standards and Assessments: Final Report (U.S. Department of Education, Policy and Program Studies Service) August 2005.

Overview

This study addresses the degree to which state reading content standards for students in grades K–3 reflect expectations for learning in five essential components of reading skills as identified in FY 2000 by the National Reading Panel: phonemic awareness, phonics, fluency, vocabulary, and text comprehension. The study also determined the extent to which state assessments administered in the K–3 grade span play a role in the measurement of Reading First outcomes. The Department is currently funding two other evaluations—a Reading First implementation study and a Reading First impact study; the reports for these will be released in 2006 and 2008.

Findings

- Reading comprehension is the most represented of the essential elements in state K–3 reading content standards, with an average of 57 standards per state.
- Most states have standards that adequately cover comprehension and phonics, while just over half of the states provide adequate coverage for vocabulary, phonemic awareness, and fluency.
- Most standards representing each essential element were judged to be placed at the appropriate grade by most states.
- All of the states make comprehension clearly visible in their organization of reading standards.
- Most states administer statewide reading assessments in grade 3, and very few do so at grades below third.
- Most states identify their grade 3 statewide reading assessments as measures of Reading First outcomes, primarily for vocabulary and comprehension.
- None of the states identifies their statewide reading assessments as outcome measures in the area of fluency, as this area requires individual assessment of children.
- States that identified their statewide reading assessments as Reading First outcome measures tended to have more reading standards that represented the five essential elements of effective reading instruction.

Recommendations

No recommendations resulted from this report.

The 21st Century Community Learning Centers National Evaluation

Report Titles

When Schools Stay Open Late: The National Evaluation of the 21st Century Community Learning Centers Program; Final Report (U.S. Department of Education, Institute of Education Sciences) April 2005.

When Schools Stay Open Late: The National Evaluation of the 21st Century Community Learning Centers Program; New Findings (U.S. Department of Education, Institute of Education Sciences) October 2004.

Overview

In 1999, the Department funded a comprehensive, rigorous national evaluation of the 21st Century Community Learning Centers program. The evaluation addressed three overarching questions. (1) Did the program improve student outcomes such as supervision after school, safety after school, academic achievement, behavior, and social and emotional development? (2) What types of students benefited most from the program? (3) What were the features and characteristics of Community Learning Centers after-school programs?

Implementation Findings

- The average center serves about 200 students, is open 10 or more hours a week, and employs 12–13 staff, many of whom are teachers.
- The average center spends about $1,000 a year per enrolled student.
- Sixty-six percent of middle schools operating Community Learning Centers are classified as high poverty, as opposed to 17 percent of middle schools nationwide.
- Fifty-seven percent of students in middle schools operating Community Learning Centers are minority, as opposed to 37 percent of students in middle schools nationwide.
- The most consistent objectives for both middle and elementary school centers are to provide a safe environment after school and to help students improve academically.

Impact Findings

- The program was shown to have had no overall impact on reading test scores or grades, but, for elementary students who had low grades at baseline, the program had a small positive impact on English grades.
- Elementary school students participating in Community Learning Centers reported feeling safer than students in the control group.
- While homework assistance was the most common activity provided by centers, the study reported no impact on the extent to which students completed homework or received help with it.
- Elementary school students participating in the program were more likely to be disciplined by teachers and suspended as a result of negative behaviors during the school day.

Recommendations

The report made no recommendations.

Report on the Participation Levels of Students with Disabilities in Statewide Assessments

Report Title

No Child Left Behind Act: Most Students with Disabilities Participated in Statewide Assessments, but Inclusion Options Could Be Improved (GAO-05-618) July 2005.

Overview

The Government Accountability Office (GAO) issued a report on the participation of students with disabilities in statewide assessments that provided the following information: the extent to which students with disabilities were included in statewide assessments; the issues selected states faced in implementing alternate assessments; and how the Department supports states in their efforts to assess students with disabilities. Only reading assessments were reviewed, as data for assessments in mathematics were incomplete.

Findings

- For SY 2003–04, at least 95 percent of students with disabilities participated in statewide reading assessments in 41 of the 49 states that provided data.
- Students with disabilities were most often included in regular reading assessments, and relatively few took alternate assessments.

Recommendations

- The Department should explore ways to make information on inclusion of students with disabilities in statewide assessments more accessible to users of its Web site.
- Information on alternative assessment requirements located on the *No Child Left Behind* section of the Department's Web site should be linked to information on the research, development, and use of these assessments where it occurs on other parts of the Department's Web site.
- The Department should work with states, particularly those with high exclusion rates, to explore strategies to reduce the number of students with disabilities who are excluded from the National Assessment of Educational Progress (NAEP) assessments.

Department's Response

- The Department will explore the use of "hot buttons" and links among the Web pages maintained by Department offices to increase access to information on the assessment of students with disabilities.
- The Department is exploring strategies for enhancing the participation of students with disabilities in NAEP assessments.

Evaluation of Even Start: One-Year Follow-Up

Report Title

Third National Even Start Evaluation: Follow-Up Findings From the Experimental Design Study (U.S. Department of Education, Institute of Education Sciences) December 2004.

Overview

The Even Start Family Literacy program addresses the basic education needs of low-income families, including parents and their children from birth through age seven, by providing a unified program of family literacy services. This study follows up a previously released study *(Third National Even Start Evaluation: Program Impacts and Implications for Improvement—2003)* that assessed the effectiveness of Even Start in a group of grantees around the country. This report presents impact analyses of follow-up data collected approximately one year after the previous study. The follow-up study examined whether giving the families the opportunity to participate in Even Start for a second year and having a longer exposure to the Even Start program would lead to larger literacy gains and to statistically significant program impacts.

Findings

- Even Start children and parents made gains on a variety of literacy assessments and other measures at follow-up, but they did not gain more than children and parents who were not in the program.

Recommendations

The report made no recommendations.

Report on State Definitions of Graduation Rates and Dissemination of Research on Dropout Interventions

Report Title

No Child Left Behind Act: Education Could Do More to Help States Better Define Graduation Rates and Improve Knowledge about Intervention Strategies (GAO-05-879) September 2005.

Overview

No Child Left Behind requires states to use graduation rates, along with test scores, to assess the progress of high schools in educating students. *No Child Left Behind* defines graduation rates as the percentage of students who graduate from high school with a regular diploma in the standard number of years. In this report, GAO examines the graduation rate definitions states use and how the Department helps states meet legal requirements, the factors affecting the accuracy of states' rates and the Department's role in ensuring accurate data, and how the Department identifies and disseminates intervention research on drop out prevention.

Findings

- While many states are moving to a cohort graduation rate definition, the Department has not provided guidance to all states on ways to account for select types of students impacting consistency among states in how graduation rates are calculated.
- The primary factor affecting accuracy in calculating graduation rates is student mobility.
- Fewer than half of states conducted audits of data used to calculate graduation rates resulting in data inaccuracies that may affect schools' ability to meet state graduation rate goals.
- The Department has not acted on GAO's 2002 recommendation that it evaluate and disseminate intervention research.

Recommendations

- The Department should provide information to all states on ways to account for different types of students in graduation rate calculations.
- The Department should assess the reliability of state data used to calculate interim graduation rates.
- The Department should establish a timetable to implement GAO's 2002 recommendation to evaluate and disseminate research on dropout interventions.

Department's Response

- To enhance the reliability of graduation rate data, the Department will calculate the “averaged freshman graduation rate” for each state and report this rate alongside the graduation rates reported by states.
- The Department will work with its various offices to provide additional policy guidance to states on ways to account for different types of students in graduation rate calculations.
- The Department is reviewing and identifying research on effective intervention strategies for dropout prevention for dissemination through its What Works Clearinghouse.

Report on the Implementation of Title III, Part A, English Language Instruction Programs for Limited English Proficient Students

Report Title

Biennial Evaluation Report to Congress on the Implementation of Title III, Part A of the ESEA (U.S. Department of Education, Office of English Language Acquisition) March 2005.

Overview

Title III, Part A, of the *Elementary and Secondary Act* provides funds for English language instruction programs for limited English proficient (LEP) students through the state formula grant program. The grants support programs that help LEP students attain English proficiency, develop a high level of academic attainment in English, and meet the same standards expected of all children. The program holds states, districts, and schools accountable for meeting the state Title III annual measurable achievement objectives (AMAOs). The first biennial evaluation report covers SY 2002–03 and SY 2003–04 and is a synthesis of data reported by the 50 states, the District of Columbia, and Puerto Rico.

Findings

- For SY 2003-04, 52 states and territories reported serving a total of 1,218,238 immigrant children and youth, 827,638 who were served under the Title III program.
- Fifty-one entities reported that 316,273 certified/licensed teachers were working in language instruction education programs in SY 2003–04.
- Forty entities reported that their Title III subgrantees use both English as a second language instructional programs and bilingual instructional programs.
- All 52 entities and territories require that all teachers who teach in language instruction education programs for LEP students meet the Title III language fluency requirements.
- Of the 42 entities that provided performance data, 33 reported meeting their annual measurable achievement objectives targets for students making progress in learning English.
- Of the 45 entities that provided proficiency targets and performance data, 41 met at least some of these targets for students' attainment of English language proficiency.
- In SY 2003–04, 44 entities reported 444,451 students transitioned out or exited from language instruction education programs into mainstream classrooms, while 36 states reported that 378,903 transitioned out in SY 2002–03.

Recommendations

This report made no recommendations.

Goal 3: Develop Safe and Drug-Free Schools

Performance Goals

Drug Use

Drug-free schools are associated with healthy antidrug norms among students, and contribute to the healthy physical and social development of each student. The positive school climate of drug-free schools gives students the chance to focus on learning. Results from the 2003 survey of the Youth Risk Behavior Surveillance System show slight declines from 2001 with respect to drug use on school property.

Violent Crime

Safe schools are essential for healthy student development and academic achievement. Secretary Spellings said, "In order for our children to learn well and excel, they need to feel safe." When violent crime takes place on school property, it disrupts the learning environment and creates obstacles to student achievement and physical safety. Department programs address drug use and violence by helping districts and schools implement prevention programs and strategies that foster positive norms and behavior among students. Youth Risk Behavior Surveillance System data for fighting on school property and carrying weapons to school show significant reductions in these risky behaviors from 1993 to 2003, but reductions were not significant during the last two years of that period.

Goal 3: Develop Safe and Drug-Free Schools

Key Measures

In FY 2005, the Department identified five key measures to track the prevalence of substance abuse and violence in schools. The data for these key measures reflect long-term national and state-level trends in drug use and violence in schools, but progress cannot be directly attributed to the activities of grantees of Safe and Drug-Free Schools and Communities programs. The Department's third strategic goal also addresses the development of strong character. We have not identified measures for this trait, but the 12 programs identified as supporting Goal 3 include programs that support character development as well as programs that support the development of safe and drug-free schools.

See p. 58 for an explanation of the documentation fields for the key measures.

Drug Use

Drug-free schools are associated with healthy antidrug norms among students and contribute to the healthy physical and social development of each student. The positive school climate of drug-free schools gives students the chance to focus on learning. To assist schools and districts with drug-use reduction efforts, the Department provides information and financial support for implementing effective drug-use prevention programs and strategies. Effective prevention programs address the health risk behaviors, mental health issues, and school environment problems that contribute to drug use and societal risk factors that may exist in each affected school's community.

Results from the 2003 survey of the Youth Risk Behavior Surveillance System show slight declines from 2001 for the Department's measure of drug use on school property. Though the rate of decline has decelerated since 2001, the 2003 data mark the eighth year of decline for this indicator. Despite the encouraging eight-year trend, schools need to continue their efforts to prevent drug use by new cohorts of students.

3.1 Safe and Drug-Free Schools and Communities State Grants. The percentage of students in grades 9 through 12 who were offered, sold, or given an illegal drug on school property during the past 12 months.

Fiscal Year	Actual
1993	24
1995	32
1997	32
1999	30
2001	29
2003	29
2005	Target is 28.
Data for 2005 are pending.	

3.2 Safe and Drug-Free Schools and Communities State Grants. The percentage of students in grades 9 through 12 who used marijuana one or more times during the past 30 days.

Fiscal Year	Actual
1993	18
1995	25
1997	26
1999	27
2001	24
2003	**22**
2005	Target is 21.
Data for 2005 are pending.	

3.3 Safe and Drug-Free Schools and Communities State Grants. The percentage of students in grades 9 through 12 who had five or more drinks of alcohol in a row (that is, within a couple of hours) one or more times during the past 30 days.

Fiscal Year	Actual
1993	30
1995	33
1997	33
1999	32
2001	30
2003	**28**
2005	Target is 27.
Data for 2005 are pending.	

Department of Health and Human Services, Centers for Disease Control and Prevention, Youth Risk Behavior and Surveillance System (YRBSS).

Analysis of Progress. The most recent data from 2003 show no significant change for access to illegal drugs on school property, and declining marijuana and heavy alcohol use, compared to 2001 data. The data, which represent total responses from all surveyed students, are also reported for respondents by their grade level. These data provide insights into youth drug use.

In both 2003 and 2001, the percentage of high school students who reported access to an illegal drug on school property was very similar among 9th-, 10th-, and 11th-graders. Numbers ranged from 29.1 to 29.9 percent for these grades in 2003, and from 28.7 to 29.0 percent in 2001. During the same period high school seniors were less likely to have been offered, sold, or given an illegal drug on school property. In 2003, 24.9 percent of seniors reported access to an illegal drug on school property, down from 26.9 percent in 2001.

While 2003 current marijuana use and episodes of heavy drinking were down from overall rates reported for 2001, use patterns by grade reflect a pattern of drug use that reflect a relationship between rates of use and grade level. For both 2003 and 2001, the percentage of students reporting current marijuana use increases from grades 9 through 12. For example, in 2001, current marijuana use data range from 19.4 percent for ninth-graders to 26.9 percent for high school seniors. The 2003 marijuana usage data range from 18.5 percent for ninth-graders up to 25.8 percent for seniors.

Similar patterns also emerge for heavy drinking. In 2001, 24.5 percent of ninth-graders report episodic heavy drinking, while 36.7 percent of high school seniors report engaging in that same behavior. In 2003, 19.8 percent of ninth-graders and 37.2 percent of seniors reported episodic heavy drinking.

Data Quality. Data are collected in alternate years from a nationally representative sample of students in grades 9 through 12 and are collected on a calendar-year, not a school-year, basis. The Youth Risk Behavior Surveillance System includes a national school-based survey conducted by the Centers for Disease Control and Prevention as well as state and local school-based surveys conducted by education and health agencies. The 2003 report summarized results from the national survey, 32 state surveys, and 18 local surveys conducted among students in grades 9 through 12 during February through December 2003. Data presented for these measures are rounded to the next whole number.

Related Information. For information about the Youth Risk Behavior Surveillance System, see http://www.cdc.gov/healthyyouth/yrbs/. For detailed information about the methodology of the Youth Risk Behavior Surveillance System, see http://www.cdc.gov/mmwr/PDF/rr/rr5312.pdf.

Additional Information. Data for FY 2005 will be available in December 2006.

Violent Crime

Safe schools are essential for healthy student development and academic achievement. Secretary Spellings said, "In order for our children to learn well and excel, they need to feel safe." When violent crime takes place on school property, it disrupts the learning environment and creates obstacles to student achievement and physical safety. To help schools reduce the prevalence of violence and related health-risk behaviors, the Department provides financial assistance and information to states and school districts. Through this effort, the Department works to positively influence the reduction of violent crime in schools.

Recent Youth Risk Behavior Surveillance System data for fighting on school property and carrying weapons to school show significant reductions in these risk behaviors from 1993 to 2003, but reductions were not significant during the last two years of that period.

3.4 Safe and Drug-Free Schools and Communities State Grants. The percentage of students in grades 9 through 12 who were in a physical fight on school property one or more times during the past 12 months.

Fiscal Year	Actual
1993	16
1995	16
1997	15
1999	14
2001	13
2003	**13**
2005	Target is 12.
Data for 2005 are pending.	

3.5 Safe and Drug-Free Schools and Communities State Grants. The percentage of students in grades 9 through 12 who carried a weapon such as a gun, knife, or club on school property one or more times during the past 30 days.

Fiscal Year	Actual
1993	12
1995	10
1997	9
1999	7
2001	6
2003	**6**
2005	Target is 5.
Data for 2005 are pending.	

Department of Health and Human Services, Centers for Disease Control and Prevention, Youth Risk Behavior Surveillance System (YRBSS).

Analysis of Progress. Between 2001 and 2003, the data show no significant change in the total percentages of students fighting on school property or carrying a weapon on school property. In addition to the data for all respondents, the Youth Risk Behavior Surveillance System also makes data about these behaviors available by student grade level. This data provides some interesting insights that contrast with the patterns identified for measures 3.2 and 3.3 about marijuana use and heavy drinking.

In both 2003 and 2001, students in lower grades were more likely to engage in a physical fight on school property than those in higher grades. In 2003, 18.0 percent of 9th-graders reported participation in a fight, while 7.3 percent of 12th-graders reported participation in a fight. The data from 2001 reflect the same pattern—while 17.3 percent of ninth-graders reported fighting, only 7.5 percent of seniors reported that same behavior.

The percentage of students that report carrying a weapon on school property is more consistent across grades 9 through 12, but patterns across grade levels varied between 2001 and 2003. In 2001, 6.7 percent of 9th- and 10th-graders, 6.1 percent of 11th-graders, and 6.0 percent of 12th-graders carried a weapon on school property. By 2003, 5.3 percent of 9th-graders, 6.0 percent of 10th-graders, 6.6 percent of 11th-graders, and 6.4 percent of high school seniors reported carrying a weapon to school.

Data Quality. Data are collected in alternate years from a nationally representative sample of students in grades 9 through 12 and are collected on a calendar-year, not a school-year, basis. The Youth Risk Behavior Surveillance System includes a national school-based survey conducted by the Centers for Disease Control and Prevention as well as state and local school-based surveys conducted by education and health agencies. The 2003 report summarized results from the national survey, 32 state surveys, and 18 local surveys conducted among students in grades 9 through 12 during February through December 2003.

Related Information. For information about the Youth Risk Behavior Surveillance System, see http://www.cdc.gov/healthyyouth/yrbs/. For detailed information about the methodology of the Youth Risk Behavior Surveillance System, see http://www.cdc.gov/mmwr/PDF/rr/rr5312.pdf.

Additional Information. Data for FY 2005 will be available in December 2006.

Discontinued Strategic Measures

The following measures were discontinued after FY 2004 but were reported as pending in our *FY 2004 Performance and Accountability Report*. We report here our results on those for which we now have data. (See p. 23 for a discussion of why we discontinued measures.)

Measure			Fiscal Year	Target	Actual	Status
3.1.1	The rate of violent crimes and serious violent crimes experienced at school by students aged 12 through 18	Violent Crime	2003	24/1000	Pending	Data expected 12/2005
			2004	23/1000	Pending	Data expected 12/2006

Measure			Fiscal Year	Target	Actual	Status
3.1.2	The rate of violent crimes and serious violent crimes experienced at school by students aged 12 through 18 (continued)	Serious Violent Crime	2003	4/1000	Pending	Data expected 12/2005
			2004	4/1000	Pending	Data expected 12/2006
3.1.3–3.1.5	The percentage of youth aged 12 through 17 who reported using the following substances in the past 30 days	Alcohol	2004	14	Pending	Data expected 12/2005
		Tobacco (Cigarettes)	2004	11	Pending	Data expected 12/2005
		Marijuana	2004	7	Pending	Data expected 12/2005
3.2.2	The percentage of students in grade 12 who think most of the students in their classes would dislike it or dislike it very much if a student intentionally did things to make his/her teachers angry		2004	36	Pending	Data expected 12/2005
3.2.3	The percentage of students in grade 12 who think that most students in their classes would dislike it or dislike it very much if a student cheated on a test		2004	19	Pending	Data expected 12/2005
3.2.4	The percentage of 14- to 18-year-olds who believe cheating occurs by half or most students		2004	40	Not available	Not collected

Sources

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

3.1.3–3.1.5 U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration (SAMHSA), National Survey on Drug Use and Health (formerly called the National Household Survey on Drug Abuse).

3.2.2–3.2.3 University of Michigan, Survey Research Center, Monitoring the Future.

Goal 3: Develop Safe and Drug-Free Schools

Program Performance Summary

Twelve of our grant programs most directly support Goal 3. These programs are listed below. In the table, we provide an overview of the results of each program on its program performance measures. (See p. 59 for our 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/2005report/program.html. We also provide both FY 2005 appropriations and FY 2005 expenditures for each of these programs. (See pp. 24-25 for an explanation of why appropriations and expenditures for a given year are not the same and the effect that difference has on the connection between funding and performance.)

Program Name	Appropriations†	Expenditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Alcohol Abuse Reduction	33	28	0	0	100				0	0	100			
ESEA: Character Education	24	10				0	0	100	100	0	0			
ESEA: Civic Education: We the People	17	17	0	0	100							100	0	0
ESEA: Close-Up Fellowships	1	1	0	0	100	0	0	100						
ESEA: Elementary and Secondary School Counseling	35	32	0	0	100				0	0	100			
ESEA: Exchanges with Historic Whaling and Trading Partners	9	8	0	0	100	60	0	40						
ESEA: Foundations for Learning	1	1				/// (not funded)						/// (not funded)		
ESEA: Mental Health Integration in Schools	5	0	///			/// (not funded)			/// (not funded)			/// (not funded)		
ESEA: Physical Education Program	73	64	0	0	100				0	0	100			
ESEA: Mentoring Program	49	41	0	0	100	0	0	100	100	0	0	100	0	0
ESEA: Safe and Drug-Free Schools and Communities Other National Programs	153	104	0	0	100									
ESEA: Safe and Drug-Free Schools and Communities State Grants	437	526	0	0	100				0	29	71	20	0	80
TOTAL	**837**	*** 832**												

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2005 expenditures may include funds from prior years' appropriations.

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

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

* Expenditures by program do not include outlays in the amount of $3 million for prior years' obligations for Goal 3 programs that were not funded in FY 2005 or FY 2005 estimated accruals in the amount of $42 million.

ESEA: Elementary and Secondary Education Act

Goal 4: Transform Education Into an Evidence-Based Field

Performance Goals

Quality of Education Research

The Department demonstrated a thorough commitment to research quality this year by expanding the use of scientifically based procedures for the evaluation of Department programs, training a new generation of education researchers in rigorous methodologies, and improving the quality of data collections.

In FY 2005, 100 percent of newly funded research proposals were deemed to be of high quality by an independent review panel of qualified scientists.

Relevance of Education Research

The Department prioritizes the needs of education practitioners and policymakers to ensure that we are providing germane information for the improvement of education. In FY 2005, we published relevant research on reliable practices that support learning, improve academic achievement and increase access to educational opportunities for all students; the condition and progress of education in the United States; and the effectiveness of federal and nonfederal education programs.

In FY 2004, the most recent year for which we have data, half of the Department's newly funded research projects were deemed to be of high relevance by an independent review panel of qualified practitioners.

Goal 4: Transform Education Into an Evidence-Based Field

Key Measures

In FY 2005, the Department administered five distinct programs supporting the objectives of Goal 4. Each program established measures and targets to assess its performance. From this master set of measures, the Department identified two key measures that focus on significant areas of performance related to Goal 4.

See p. 58 for an explanation of the documentation fields for key measures.

Quality of Education Research

The Department has elevated the standards and methodologies for Department-sponsored education research. Funding of research proposals is based on clear criteria for research excellence. As in other scientifically based fields, rigorous research methods in education contribute to reliable and valid conclusions, in this case about the best ways to educate our nation's children.

The Department demonstrated a thorough commitment to research quality this year by expanding the use of scientifically based procedures for the evaluation of Department programs, training a new generation of education researchers in rigorous methodologies, and improving the quality of data collections. In 2005, the Department accomplished the following:

- The Department set in place a procedure that would give competitive preference to grant applications that propose experimental or quasi-experimental research designs to evaluate the effectiveness of their programs. This action will expand the number of programs and projects funded by Department programs that are evaluated using the most rigorous research methods.
- The Department created new pre- and postdoctoral research training grant programs in the education sciences to support the development of innovative interdisciplinary training programs for students interested in pursuing careers in applied education research. Together these programs will train a total of 266 fellows.
- Focused projects on data quality contributed to the ongoing improvement of education data issued by the Department. By mapping the relationship of incentives and response rates, we will more effectively use incentives to increase response rates. Also, data on timeliness has resulted in Department-wide efforts to reduce the time frame from the end of data collection to the release of a report.

To measure research quality, the Department requires all research proposals to be reviewed by an independent panel of qualified scientists. In FY 2004, 97 percent of newly funded research proposals were deemed to be of high quality.

4.1 Research, Development, and Dissemination. The percentage of new research proposals funded by the Department's National Center for Education Research that receive an average score of excellent or higher from an independent review panel of qualified scientists.	
Fiscal Year	**Actual**
2003	88
2004	**97**
2005	**100**
We met our 2005 target of 100.	

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

Analysis of Progress. Since data on this measure were first collected in FY 2003, the Department has seen a steady increase in the percentage of proposals for newly funded education research that receive an average score of excellent or higher. In FY 2005, all research funded was deemed to be of high quality with a rating of excellent.

Data Quality. The Department has established a system of peer review that is similar in many ways to the process of peer review at the National Institutes of Health. Independent review panels comprise 12 to 20 leading researchers. Panels evaluate the scientific and technical merit of research proposals.

Target Context. The Department did not establish a target for this measure for FY 2004; the measure was newly established for FY 2005. The target of 100 percent for FY 2005 signifies a continued commitment by the Department to ensure that all newly funded research meets high standards of research quality.

Related Information. More information on the National Center for Education Research, its purpose, and study summaries is available at http://www.ed.gov/about/offices/list/om/fs_po/ies/ncer.html and http://www.ed.gov/about/offices/list/ies/programs.html.

Relevance of Education Research

In addition to a focus on sound methodology, education researchers need to address practical problems in powerful ways. The Department aligns its priorities with the needs of education practitioners and policymakers to ensure that we are providing information that is relevant to the improvement of education. In 2005, we provided parents, educators, students, researchers, policymakers, and the general public with reliable information about practices that support learning, the condition and progress of education in the United States, and the effectiveness of federal and nonfederal education programs.

- The Department operates the What Works Clearinghouse, which collects, screens, and identifies studies of the effectiveness of education interventions. In 2005, the clearinghouse reviewed 76 studies on middle school mathematics curricula, 10 of which met its high standards for credible causal evidence of effectiveness.
- During FY 2005, the Department published the *Condition of Education 2005* and released other publications including the *Digest of Education Statistics*, *Projections of Education Statistics*, and the National Assessment of Educational Progress long-term trend report. By describing all aspects of education in the United States, these reports help inform Americans about the current status of education in the

United States, progress toward improvement, and anticipated trends into the future.

- The Department launched three new program effectiveness studies in 2005. Covering the areas of mentoring, elementary school mathematics curricula, and professional development strategies for mathematics education, these studies will provide scientific evidence on the effectiveness of education programs and practices based on the most rigorous research designs.

The Department ensures the production of relevant education research by having all newly funded research reviewed by an independent panel of qualified practitioners. As the results from Department research projects begin to affect state and federal decisions on discretionary grants and the flow of program funds to schools, we expect that practitioners will want to consider evidence on what works and program developers will produce it. In FY 2004, half of the newly funded research projects were deemed to be of high relevance.

4.2 Research, Development, and Dissemination. The percentage of new research projects funded by the Department's National Center for Education Research that are deemed to be of high relevance to education practice as determined by an independent review panel of qualified practitioners.

Fiscal Year	Actual
2001	21
2002	25
2003	60
2004	**50**
2005	Target is 65.
We met our 2004 target of 50. Data for 2005 are pending.	

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

Analysis of Progress. While FY 2004 results for relevance show a decrease from FY 2003, we met our target that half of all new research projects be deemed as highly relevant.

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

Target Context. The FY 2004 target of 50 percent was based on trend data prior to the availability of actual data for FY 2003 and does not represent an intended decrease in the percentage of new research projects deemed of high relevance. The FY 2005 target of 65 indicates that with time, the Department aims for an increasing majority of funded research projects to be highly relevant to education practice.

Related Information. More information on the National Center for Education Research, its purpose, and study summaries are available at http://www.ed.gov/about/offices/list/om/fs_po/ies/ncer.html and http://www.ed.gov/about/offices/list/ies/programs.html.

Additional Information. Data for FY 2005 will be available in March 2006.

Discontinued Strategic Measures

The following measure was discontinued after FY 2004 but was reported as pending in our *FY 2004 Performance and Accountability Report*. (See p. 23 for a discussion of why we discontinued measures.)

Measure		Fiscal Year	Target	Actual	Status
4.2.1	Percentage of new research projects funded by the Department that are deemed to be of high relevance to educational practice as determined by an independent review panel of qualified practitioners	2004	75	Not available	Data not collected

Source and Note

4.2.1 U.S. Department of Education, Institute of Education Sciences, panel reviews.

This measure was discontinued and replaced with measures that more precisely identify the universe of projects under consideration.

Goal 4: Transform Education Into an Evidence-Based Field

Program Performance Summary

Five of our grant programs most directly support Goal 4. These programs are listed below. In the table, we provide an overview of the results of each program on its program performance measures. (See p. 59 for our 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/2005report/program.html. We also provide both FY 2005 appropriations and FY 2005 expenditures for each of these programs. (See pp. 24-25 for an explanation of why appropriations and expenditures for a given year are not the same and the effect that difference has on the connection between funding and performance.)

Program Name	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
			FY 2005			FY 2004			FY 2003			FY 2002		
	FY 2005 $ in millions	FY 2005 $ in millions	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Indian Education National Activities	5	6												
ESRA: Research, Development and Dissemination	164	111	43	0	57	80	20	0	100	0	0	100	0	0
ESRA: Statistics	91	88				43	57	0	0	0	100			
ESRA: Research in Special Education	83	71	///			/// (not funded)			/// (not funded)			/// (not funded)		
RA: National Institute on Disability and Rehabilitation Research	108	105	13	0	88	0	25	75	43	29	29	50	50	0
Administrative and Support Funding for Goal 4#	9	9	#			#			#			#		
TOTAL	**460**	*** 390**												

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2005 expenditures may include funds from prior years' appropriations.

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

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

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

* Expenditures by program do not include FY 2005 estimated accruals in the amount of $52 million.

ESEA: Elementary and Secondary Education Act

ESRA: Education Sciences Reform Act

RA: Rehabilitation Act

Goal 4: Transform Education Into an Evidence-Based Field

PART Analysis

In preparation for the FY 2005 budget, the Department conducted reviews on the programs listed below using the Office of Management and Budget's Program Assessment Rating Tool (PART). (See p. 60 for a discussion of the PART methodology.) Short summaries of the PART results and follow-up actions are on the following pages. OMB's Web site provides one-page summaries and full detailed PART reviews for all agencies.

National Institute on Disability and Rehabilitation Research

Rating: Results Not Demonstrated

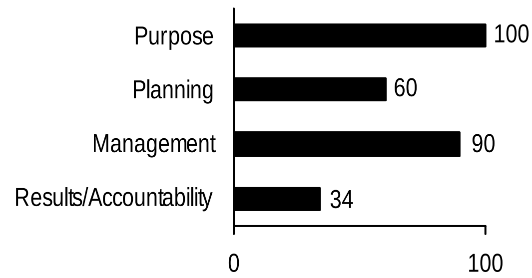
Research in Special Education

Rating: Results Not Demonstrated

National Center for Education Statistics

Rating: Effective

PART Analysis for Programs Reviewed for the FY 2005 Budget



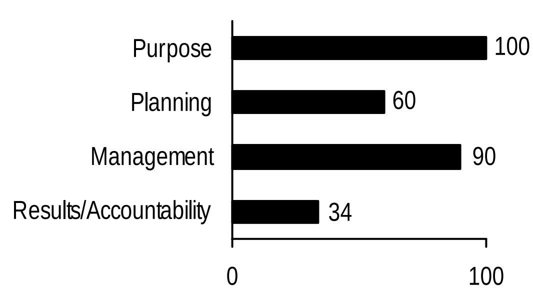
Program: National Institute on Disability and Rehabilitation Research (NIDRR)
Year of Rating: *For FY 2005 Budget*
Rating: *Results Not Demonstrated*
Program Type: *Research and Development*

Recommended Follow-up Action

- Develop strategies to have smaller grant portfolios, such as field-initiated research, reviewed by expert panels starting in 2004.
- Examine its portfolio, using its Long-Range Plan as a guide, to determine whether targeting funds on a smaller number of research priorities would improve the institute's ability to meet its long-term goals.
- Implement a regular schedule for review by an independent organization to assess overall program quality, coordinated with reauthorizations and the Long-Range Plan cycle.
- Articulate substantive long-term research goals that have measurable outcomes as part of its 2004 update of the 2004 to 2008 Long-Range Plan.

Update on Follow-up Action

NIDRR has established long-term goals, with associated performance measures and targets, in response to PART findings and has established procedures for obtaining data to measure progress towards the goals. NIDRR also plans to conduct reviews of additional grant portfolios so that it will have performance data on a larger portion of its grants; the first reviews were held in the fall of 2005. The draft Long-Range Plan for 2005–2009 was published in the *Federal Register* on July 27, 2005. NIDRR is working with other agencies to begin a new independent study by the Institute of Medicine. Another PART is being conducted on NIDRR in 2005 for the 2007 budget.



Program: Research in Special Education
Year of Rating: *For FY 2005 Budget*
Rating: *Results Not Demonstrated*
Program Type: *Research and Development*

Recommended Follow-up Action

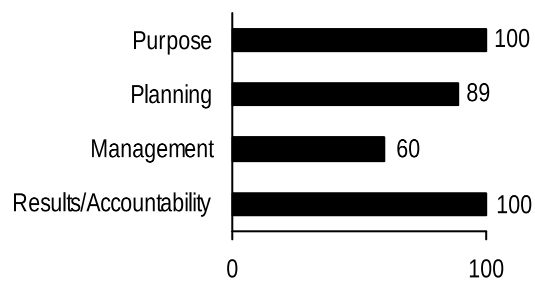
- Implement a regular schedule for review by an independent organization to assess overall program quality, coordinated with the reauthorization cycle.

- Promote better coordination between the Office of Special Education and Rehabilitative Services and the Institute of Education Sciences in the development and implementation of education research priorities aimed at improving education results for children with disabilities, consistent with the proposed transfer of special education research to the institute in 2005.
- Articulate substantive long-term research objectives that have measurable outcomes and goals by 2005.
- Collect grantee performance data and make them available to the public in a transparent and meaningful manner.

Update on Follow-up Action

This program has been transferred to the newly established National Center for Special Education Research in the Institute of Education Sciences, pursuant to amendments made by the Individuals with Disabilities Education Improvement Act of 2004. The Department will consider the best way to conduct an independent evaluation of all education research supported by the Department. The Director of the Institute for Education Sciences recently published a notice in the Federal Register inviting public comments on proposed research priorities, and the institute is working to develop appropriate long-term measures for all of its research programs. New annual measures have been established for the National Center for Special Education Research, and data for these measures will be collected for the first time in 2006.

Program: National Center for Education Statistics (NCES)
Year of Rating: *For FY 2005 Budget*
Rating: *Effective*
Program Type: *Research and Development*



Recommended Follow-up Action

- The Department of Education will focus on improving the timeliness of NCES products and services.

Update on Follow-up Action

The 2005 PART assessment found a weakness in the timeliness of NCES products. In 2005, the Department responded by articulating specific goals for the release of data: in 2006, 90 percent of initial releases of data will occur (a) within 18 months of the end of data collection or (b) with an improvement of two months over the previous time of initial release of data from that survey program if the 18-month deadline is not attainable in 2006. In 2007 through 2010, NCES will reduce by two months each year the deadline for initial release, until the final goal of 12 months is reached.

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

Performance Goals

Postsecondary Enrollment

The Department's programs have contributed to significant improvements in postsecondary access. As of 2003, the overall college-going rate for high school graduates stood at 63.9 percent, with more than 16 million students enrolled at degree-granting postsecondary institutions. Furthermore, college enrollment figures for TRIO Talent Search, a program designed to support the college enrollment of students from disadvantaged backgrounds, surpass the national average for all high school graduates.

Postsecondary Persistence and Completion

The Department provides services to ensure that increasing numbers of Americans gain access to a postsecondary education, persist in school, and complete their college education. Successful completion of postsecondary education increases future employability and wages. The most recent data available for persistence and completion rates for students in the aggregate and for students from disadvantaged backgrounds show general trends of improvement.

Student Financial Assistance Award Accuracy

One of the key determinants for ensuring access, persistence, and completion in postsecondary institutions has been the extensive support of financial aid to low- and middle-income students. The Department administers more than $400 billion in direct loans, guaranteed loans, and grants to postsecondary students and their families. Recent achievements include the removal of student financial assistance programs from the Government Accountability Office's high-risk list in January 2005 and a declining Pell Grant overpayment rate.

Strengthening Institutions That Serve Underrepresented Populations

The Department's institutional aid programs strengthen and improve the quality of programs in hundreds of postsecondary education institutions that serve low-income and minority students, including Historically Black Colleges and Universities, Historically Black Graduate Institutions, Tribal Colleges and Universities, Alaska Native and Native Hawaiian-Serving Institutions, and Hispanic-Serving Institutions. By expanding and enhancing academic quality, institutional management, and financial stability at these institutions, the Department reduces gaps in college access and completion among differing student populations, improves academic attainment, and strengthens accountability.

Vocational Rehabilitation

Over the past year, the Department has made significant progress in improving the timeliness of its vocational rehabilitation data. The FY 2004 Case Service Report database was completed within five months of the close of the fiscal year, a 10-month improvement compared to FY 2002 and prior years. Reviews of state performance data to correct problems and improve services to customers have also been completed more promptly in FY 2005 than in prior years.

The Department measures state vocational rehabilitation agencies' progress by monitoring the percentage of individuals receiving services who achieve employment. In FY 2004, about two-thirds of state vocational rehabilitation agencies achieved the outcome criteria set by regulatory indicators.

Adult Learning

In an age of rapid economic and technological change, lifelong learning can provide benefits for individuals and for society as a whole. New data on adult learners this year show steady increases in the success rates of adults in meeting high school completion goals and in English literacy acquisition.

Expanding Global Perspectives

The Department's international education and graduate fellowship programs have helped thousands of students, particularly at the graduate level, prepare for careers in areas of national need, including foreign languages and area studies. Departmental support for foreign languages, area studies, and international studies at American colleges and universities ensures a steady supply of graduates with expertise in less-commonly taught languages, geographic areas, and international issues. The Department measures progress by the expansion of critical languages taught at National Resource Centers, employment of center Ph.D. graduates in targeted areas, and improved language competency. FY 2005 was the first year in which targets were set for these measures.

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

Key Measures

In FY 2005, the Department administered 44 distinct programs that supported the objectives of Goal 5. Each of these programs established measures and targets to determine its effectiveness. From this master set of measures, the Department identified 20 key measures that focus on significant areas of performance related to Goal 5.

See p. 58 for an explanation of the documentation fields for key measures.

Postsecondary Enrollment

In fall 1980, just over 12 million students were enrolled at degree-granting postsecondary education institutions and the college-going rate for recent high school completers was 49 percent. That rate stood at 63.9 percent in 2003, and more than 16 million students are enrolled at degree-granting postsecondary institutions. The Department's programs have contributed to these significant improvements in postsecondary access.

Increases in the overall enrollment of students in postsecondary education have followed commensurately with the Department's continued commitment to provide financial aid for low- and middle-income Americans. The percentage of full-time undergraduates receiving institutional aid and the average amount awarded increased at both public and private not-for-profit four-year institutions during the 1990s, with students receiving an increasing proportion of federal loans. As the largest source of student financial aid, the Department provides approximately $70 billion annually in grant, loan, and work-study assistance to some 10 million postsecondary students and their families.

A particular focus for the Department is to support students from disadvantaged backgrounds in their enrollment, persistence, and completion of a postsecondary education. The federal TRIO programs, in particular, include discrete outreach and support programs targeted to serve and assist low-income, first-generation college students and students with disabilities to progress from middle school to postbaccalaureate programs. The TRIO name, which constitutes a group of grant programs authorized under the *Higher Education Act*, comes from the 1960s when TRIO consisted of three programs. In FY 2005, the Department continued our concerted effort to make the TRIO programs an integrated service delivery system, which is expected to result in a higher level of success for students who are served by these programs, and which also makes sound fiscal sense.

The Department also promotes enrollment and success in postsecondary education for students from disadvantaged backgrounds through the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), which provides services at high-poverty middle and high schools. GEAR-UP grantees serve an entire cohort of students beginning no later than the seventh grade and continuing through high school. GEAR-UP funds are also used to provide college scholarships to low-income students.

The Department measured immediate postsecondary enrollment for all high school graduates aged 16 through 24, as well as college enrollment for TRIO Talent Search, Educational Opportunity Centers, and Upward Bound participants, to track postsecondary access trends. Recent data indicate that college enrollment for TRIO Talent Search participants surpasses the national average for all high school graduates, while enrollment for the predominantly low-income, first-generation potential college students using the services of the Educational Opportunity Centers fall below the national average. While no recent data are available for Upward Bound participants, data from 2000 show that these students slightly exceeded the national average for college enrollment.

5.1 Student Financial Assistance Programs. The percentage of high school graduates aged 16 through 24 enrolling immediately in college.

Fiscal Year	Actual
1995	61.9
1996	65
1997	67
1998	65.6
1999	62.9
2000	63.3
2001	61.7
2002	**65.2**
2003	**63.9**
2004	Target is 67.
2005	Target is 67.

We exceeded our 2002 target of 63.8.
We did not meet our 2003 target of 64.1.
Data for 2004 and 2005 are pending.

U.S. Department of Education, National Center for Education Statistics, *Condition of Education 2005*, Student Effort and Educational Progress, Table 20-1.

Analysis of Progress. The percentage of high school graduates aged 16 through 24 enrolling immediately in college has fluctuated since 1995, with data for 2002 and 2003 indicating an increase in the percentage of high school graduates enrolled since 2001, which was the last year of data previously reported. In terms of meeting departmental targets, results were mixed in 2002 and 2003, as we exceeded our target for 2002 but did not meet our target for 2003.

This indicator is affected by economic conditions, and so the slight fluctuations can be explained in part by changing economic conditions. Generally, students tend to take jobs rather than go to college when the economy is strong. These economic conditions vary for groups aggregated within the measure—students enrolling in two-year versus four-year institutions, and minority students versus the overall student population.

To support increasing access to postsecondary education, the Department continues to simplify and integrate financial aid systems so as to increase the growth in the use of electronic applications and correspondingly decrease the number of paper applications for federal financial aid, with the goal of making access to financial aid easier. In the long term, No Child Left Behind focuses on raising the achievement levels of elementary and secondary students so that all students will be better prepared for enrollment in postsecondary education.

Three Government Accountability Office evaluations on various aspects of student financial assistance programs have led the Department to respond in several areas of focused improvements in the disbursement of financial aid in relation to tax preferences. See evaluation summaries, p. 170-71, for key findings, recommendations, and the Department's response.

Data Quality. Postsecondary institutions supply data through the National Center for Education Statistics Integrated Postsecondary Education Data System. Institutions certify the accuracy of the data and the National Center for Education Statistics conducts checks for data quality.

Target Context. Each percentage point increase represents a significant increase in the number of students enrolling in college. The target of 67 percent for 2004 and 2005 is ambitious and represents the Department's goal of increasing the percentage of high school graduates that enroll immediately in college.

Related Information. See http://www.ed.gov/offices/OSFAP/Students/student.html for information about the student financial assistance programs. See http://nces.ed.gov/programs/coe/2005/section3/table.asp?tableID=268 for enrollment data from the *Condition of Education 2005*.

Additional Information. Data for FY 2004 will be available in March 2006. Data for FY 2005 will be available in March 2007.

5.2 TRIO Talent Search. The percentage of Talent Search participants enrolling in college.

Fiscal Year	Actual
2000	73
2001	77
2002	78
2003	**73**
2004	Target is 73.5.
2005	Target is 74.
Data for 2004 and 2005 are pending.	

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

Analysis of Progress. Between FY 2000 and FY 2003, about three-fourths of Talent Search participants enrolled in college, above the national average (see measure 5.1). No targets were set for this measure until FY 2004.

The number of Talent Search participants enrolling in college, despite their disadvantaged backgrounds, reflect lessons gained from earlier cohorts of program participants. Effective communications mechanisms and targeted technical assistance have led to sharing best practices and to achieving improvements in program outcomes.

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

Target Context. Targets for FY 2004 and FY 2005 were set before data for FY 2001 through FY 2003 were available.

Related Information. See http://www.ed.gov/programs/triotalent/index.html for information about the Talent Search program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs.

Additional Information. Data for FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

The Talent Search program identifies and assists individuals from disadvantaged backgrounds who have the potential to succeed in higher education. The program provides academic, career, and financial counseling to its participants and encourages them to graduate from high school and continue on to the postsecondary institution of their choice. Talent Search also serves high school dropouts by encouraging them to reenter the educational system and complete their education.

5.3 TRIO Educational Opportunity Centers. The percentage of TRIO Educational Opportunity Centers participants enrolling in college.

Fiscal Year	Actual
2000	57
2003	57
2004	Target is 57.
2005	Target is 57.5.
Data for 2004 and 2005 are pending.	

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

Analysis of Progress. In FY 2003, more than half of all TRIO Educational Opportunity Centers program participants enrolled in college. The first target was set for FY 2004, and data are pending.

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

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

Related Information. See http://www.ed.gov/programs/trioeoc/index.html for information about the Educational Opportunity Centers program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs.

Additional Information. Data for FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

The Educational Opportunity Centers program provides counseling and information on college admissions and financial aid options to qualified adults who want to enter a program of postsecondary education.

5.4 TRIO Upward Bound. The percentage of Upward Bound participants enrolling in college.

Fiscal Year	Actual
2000	65
2004	Target is 65.
2005	Target is 65.
Data for 2004 and 2005 are pending.	

National Evaluation of the Upward Bound program.

5.5 TRIO Upward Bound. The percentage of higher-risk Upward Bound participants enrolling in college.

Fiscal Year	Actual
2000	34
2004	Target is 35.5.
2005	Target is 36.
Data for 2004 and 2005 are pending.	

Analysis of Progress. The 65 percent of Upward Bound participants enrolled in college in 2000 represents a rate higher than the national average for the same year of 16- to 24-year-old high school graduates enrolling immediately in college (see measure 5.1). However, the review under the Program Assessment Rating Tool found that Upward Bound has limited overall effects because it fails to target higher-risk students. The targets for 2004 and 2005 reflect the Department's efforts to target higher-risk students while maintaining the current level of overall college enrollment. Data for these measures, collected by cohort, should be available by 2006.

FY 2004 is the first year for which grantees will be required to report on these measures. New annual performance reports were created to capture the data for this measure. Data for these measures were not collected for FY 2001 through FY 2003, but data for FY 2000 are available from a national evaluation of the Upward Bound program.

Data Quality. It takes roughly five years from the point of service for enrollment data to reflect the program's impact because the program offers services to high school students beginning in their freshman year, and grantees frequently do not submit their final performance report until a year after the student enrolls in college. These data are self-reported by grantees. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted.

Target Context. The program's effectiveness with higher-risk students is expected to increase by one-half of 1 percent for each year, from 2004 until 2010, as a result of improved program management and learning from earlier successes.

Related Information. See http://www.ed.gov/programs/trioupbound/index.html for information about the Upward Bound program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs**.**

Additional Information. Data for FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

Upward Bound provides fundamental support to participants in their preparation for college entrance, with instruction in mathematics, laboratory science, composition, literature, and foreign language. Upward Bound serves high school students from low-income families, high school students from families in which neither parent holds a bachelor's degree, and low-income, first-generation military veterans who are preparing to enter postsecondary education.

Postsecondary Persistence and Completion

The Department provides services to ensure that increasing numbers of Americans gain access to a postsecondary education, persist in school, and complete their college education. Successful completion of postsecondary education increases future employability and wages. In fact, data from the Census Bureau for 2004 show that earnings for workers 18 and over are considerably higher for those workers with a bachelor's degree than those with a high school diploma; on average, earnings are $51,206 and $27,915 a year, respectively. The most recent data available for persistence and completion rates for all students and targeted groups show general trends of improvement.

TRIO Student Support Services and McNair Postbaccalaureate Achievement programs address the challenges that disadvantaged students, many of whom are minority, face in terms of achieving higher rates of postsecondary persistence and completion by providing them with support throughout the postsecondary experience. In FY 2005, performance data for the TRIO Student Support Services and the TRIO McNair Postbaccalaureate Achievement programs showed significant progress in the outcomes of program participants:

- The average cumulative grade point average of the 1998–99 Student Support Services cohort in four-year institutions improved from 2.3 in their freshman year to 2.6 in their senior year.
- The graduation rate of Student Support Services students served in two-year institutions has increased, with about 7 percent of the 2000–01 freshman cohort completing associate's degrees; over 5 percent of the 1998–99 freshman cohort received associate's degrees.
- The percentage of McNair graduates entering graduate school increased each year, from 13 percent in 1998–99 to 39 percent in 2000–01.
- In 2000–01, 93 percent of McNair students who enrolled in graduate school immediately after graduation were still enrolled after one year.

The Department measured completion rates for full-time, degree-seeking students and TRIO Student Support Services students' persistence and completion rates at the same institution. Furthermore, the Department measured enrollment and persistence in graduate school for McNair participants. Completion rates for full-time students hover at 54 percent, and persistence rates for TRIO Student Support Services and McNair participants continue to increase.

5.6 Student Financial Assistance Programs. The percentage of full-time, degree-seeking students completing a four-year degree within 150 percent of the normal time required.	
Fiscal Year	**Actual**
1997	52.5
1998	52.6
1999	53
2000	52.4
2001	54.4
2002	54.4
2003	**54.3**
2004	Target is 55.
2005	Target is 55.
Data for 2004 and 2005 are pending.	

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, Graduation Rate Survey.

Analysis of Progress. Previously published FY 2002 and FY 2003 data show a leveling off of completion rates, remaining relatively constant at 54.4 and 54.3 percent, respectively. A little over half of all full-time, degree-seeking students completed a four-year degree within six years (150 percent of the normal time) in 2001. Trend data for this measure indicate small fluctuations but no increase in postsecondary completion from 1997. There were no targets prior to 2003.

The Department received Graduation Rate Survey data for this measure for FY 2001 through FY 2003 as a single data set. The Department elected to process the most recent policy-relevant information first, so analysis and reporting began with FY 2003 and moved backwards to FY 2002 and then to FY 2001. FY 2001 data are the only previously unpublished data.

Data Quality. Prior to the implementation of the Graduation Rate Survey in 2002, institutions representing 87 percent of four-year students voluntarily submitted data; effective with 2003–04, data submission was mandatory.

Related Information. See http://nces.ed.gov/ipeds/form1997/grsguide.pdf for guidelines for survey respondents for the Graduation Rate Survey. See http://www.ed.gov/offices/OSFAP/Students/student.html for information about the student financial assistance programs.

Additional Information. Data for FY 2004 will be available in March 2006. Data for FY 2005 will be available in March 2007.

5.7 TRIO Student Support Services. The percentage of TRIO Student Support Services participants persisting at the same institution.	
Fiscal Year	**Actual**
1999	67
2000	67
2001	70
2002	**72**
2003	Target is 68.
2004	Target is 68.5.
2005	Target is 69.
Data for 2003, 2004, and 2005 are pending.	

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

Analysis of Progress. There are no new data for this measure. Trend data indicate that persistence rates for TRIO Student Support Services participants have increased from FY 1999 through FY 2002.

Data Quality. The persistence rate reflects the percentage of college freshmen that return as sophomores to the same institution. These data are self-reported by grantees. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted.

Target Context. Targets for FY 2003 through FY 2005 were set before data for FY 2001 or FY 2002 were available.

Related Information. See http://www.ed.gov/programs/triostudsupp/index.html for information about the Student Support Services program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs.

Additional Information. Data for FY 2003 and FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

The Student Support Services program provides opportunities for academic development, assists students with basic college requirements, and serves to motivate students toward the successful completion of their postsecondary education. The program also provides grant aid to current participants who are receiving Federal Pell Grants.

5.8 TRIO Student Support Services. The percentage of TRIO Student Support Services participants completing a degree at the same institution.	
Fiscal Year	**Actual**
1999	**29**
2004	Target is 30.
2005	Target is 30.5.
Data for 2004 and 2005 are pending.	

National Evaluation of the Student Support Services program.

Analysis of Progress. In FY 1999, data from the national evaluation of Student Support Services showed that 29 percent of participants completed a degree at the same institution in which they originally enrolled. Data for these measures were not collected for FY 2001 through FY 2003.

FY 2004 is the first year for which grantees will be required to report on the measure. New annual performance reports were created to capture the data for this measure.

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

Target Context. FY 2004 and FY 2005 targets were set based on FY 1999 actual data.

Related Information. See http://www.ed.gov/programs/triostudsupp/index.html for information about the Student Support Services program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs.

Additional Information. Data for FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

5.9 TRIO McNair Postbaccalaureate Achievement. The percentage of McNair participants enrolling in graduate school.

Fiscal Year	Actual
1999	35
2000	35
2001	40
2002	39
2003	**36**
2004	Target is 36.
2005	Target is 36.
We met our 2003 target of 36. Data for 2004 and 2005 are pending.	

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

Analysis of Progress. In FY 2003, McNair postbaccalaureate enrollment reached our target of 36 percent. Graduate school enrollment is, in part, influenced by economic conditions, and so the slight fluctuations in trend data may be affected by changing economic conditions.

Data Quality. Enrollment refers to immediate enrollment in graduate school of bachelor's degree recipients. These data are self-reported by grantees. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted.

Target Context. The targets for FY 2004 and FY 2005 were established based upon FY 1999 actual performance before actual values for FY 2001 through FY 2003 were available.

Related Information. See http://www.ed.gov/programs/triomcnair/index.html for information on the Ronald E. McNair Postbaccalaureate Achievement program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs.

Additional Information. Data for FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

The McNair Postbaccalaureate Achievement program awards grants to institutions of higher education for projects designed to prepare participants for doctoral studies through involvement in research and other scholarly activities. McNair participants are from disadvantaged backgrounds and have demonstrated strong academic potential.

5.10 TRIO McNair Postbaccalaureate Achievement. The percentage of McNair participants persisting in graduate school.	
Fiscal Year	**Actual**
2003	**78**
2004	Target is 75.
2005	Target is 70.
We exceeded our 2003 target of 75. Data for 2004 and 2005 are pending.	

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

Analysis of Progress. In FY 2003, McNair postbaccalaureate persistence exceeded the target, with over three-quarters of McNair participants persisting in graduate school. However, trend data are not available because the calculation of the measure of persistence was changed in FY 2003.

Data Quality. These data are self-reported by grantees. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted. The 78 percent persistence rate for McNair in FY 2003 is not comparable to that of previous years. Beginning with 2003, the rate was changed to a one-year rate to bring the persistence calculation for McNair more in line with the persistence calculations of other Department programs. The rate for 2003 is a one-year rate that assesses the percentage of McNair recipients who were enrolled at the end of their first year in graduate school in 2001–02, and who were still enrolled at the end of 2002–03.

The previous years' persistence rates measured persistence over the entire graduate school period. Persistence rates fluctuated in past years, from 48 percent in FY 1999 to 65 percent in FY 2002.

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

Related Information. See http://www.ed.gov/programs/triomcnair/index.html for information on the Ronald E. McNair Postbaccalaureate Achievement program. See http://www.ed.gov/about/offices/list/ope/trio/index.html for information about the federal TRIO programs.

Additional Information. Data for FY 2004 will be available in December 2005. Data for FY 2005 will be available in December 2006.

Student Financial Assistance Award Accuracy

One of the key determinants for ensuring access, persistence, and completion in postsecondary institutions has been the availability of extensive financial aid to low- and middle-income students. The Department administers more than $400 billion in direct loans, guaranteed loans, and grants to postsecondary students and their families. Over the past decade, the Department's Office of Federal Student Aid has endeavored to fully modernize the delivery of student aid and increase accountability for taxpayer dollars.

The size and complexity of the Department's student aid programs make them a key focus of the *President's Management Agenda*, and these efforts are bearing fruit. Recent achievements include the removal of the Department's student financial assistance programs from the Government Accountability Office's High Risk List in January 2005.

"The Department's diligence in addressing these real financial integrity and management issues has resulted in sustained, meaningful improvements in our student aid programs—improvements which have a direct and positive impact on the students and taxpayers we serve," said Secretary Margaret Spellings. (See link for full press release: http://www.ed.gov/news/pressreleases/2005/01/01252005a.html.) The declining Pell Grant overpayment rate, used to measure the integrity of Department's student financial assistance award process, represents another improvement in the Department's management of financial performance.

5.11 Student Aid Administration. The percentage of Pell Grant overpayments.	
Fiscal Year	**Actual**
2001	3.4
2002	3.3
2003	3.1
2004	**2.8**
2005	Target is 3.1.
Data for 2005 are pending.	

Analysis of sampled Internal Revenue Service income data compared to data reported on the Department of Education's Free Application for Federal Student Aid reported by the Office of Federal Student Aid and the Common Origination and Disbursement system.

Analysis of Progress. Trend data indicate that the percentage of Pell Grant overpayments has decreased from FY 2001 to FY 2004. This decrease in Pell Grant overpayments can be attributed in part to the increased use of electronic applications for student financial aid, with built-in online edits that decrease the opportunity for erroneous data. The financial aid community benefits from the Department's extensive technical assistance and targeted training. There are no new data for this measure.

Data Quality. The overpayment measure is calculated by dividing the estimated dollar amount of overpayments by the total dollar value of Pell Grants awarded.

Target Context. The target for FY 2005 was set before data for FY 2004 were available.

Related Information. See http://www.whitehouse.gov/omb/memoranda/m03-13-attach.pdf for information on the *Improper Payments Information Act of 2002*.

Additional Information. Data for FY 2005 will be available in July 2006. The capability to match tax return data to student applications for financial assistance would assist the Department in further reducing the percentage of Pell Grant overpayments by enabling us to verify self-reported data that we now use. However, current statutory authority does not allow matching of personal income information with Department data due to privacy restrictions associated with tax information. The Department is working with the Office of Management and Budget to develop alternatives to the matching of tax return data that effectively reduce the Pell Grant program's improper payment rate. Of particular note, the Department will be improving electronic monitoring of Free Applications for Federal Student Aid using a risk-based approach to catch more potential errors in the pre-award rather than the post-award stage. This enhanced monitoring is expected to take effect in 2007.

Strengthening Institutions That Serve Underrepresented Populations

The Department's institutional aid programs strengthen and improve the quality of programs in hundreds of postsecondary education institutions that serve low-income and minority students, including Historically Black Colleges and Universities, Historically Black Graduate Institutions, Tribal Colleges and Universities, Alaska Native and Native Hawaiian-Serving Institutions, and Hispanic-Serving Institutions. By expanding and enhancing academic quality, institutional management, and financial stability at these institutions, the Department reduces gaps in college access and completion among differing student populations, improves academic attainment, and strengthens accountability.

This year, the Historically Black Colleges and Universities (HBCUs) celebrated the 25th anniversary of the signing of the first Presidential Executive Order on HBCUs. HBCUs make a strong and unique contribution to the United States by providing an education to many socioeconomically disadvantaged young people in the nation's African-American and other minority populations. In FY 2005, these institutions benefited from a $1 million grant from the Fund for the Improvement of Postsecondary Education to a consortium of organizations headed by the United Negro College Fund to assist HBCUs with management improvement and leadership development activities.

5.12 Aid for Institutional Development, Titles III and V. The percentage of Title III and Title V project goals relating to the improvement of institutional management and fiscal stability that have been met or exceeded.

Fiscal Year	Actual
2002	78
2003	72
2004	**69**
2005	Target is 81.

We did not meet our 2003 and 2004 targets of 75. Data for 2005 are pending.

5.13 Aid for Institutional Development, Titles III and V. The percentage of Title III and Title V project goals relating to the improvement of student services and student outcomes that have been met or exceeded.

Fiscal Year	Actual
2002	86
2003	81
2004	**77**
2005	Target is 91.

We exceeded our 2003 and 2004 targets of 75. Data for 2005 are pending.

5.14 Aid for Institutional Development, Titles III and V. The percentage of Title III and Title V project goals relating to the improvement of academic quality that have been met or exceeded.

Fiscal Year	Actual
2002	88
2003	80
2004	**76**
2005	Target is 91.

We exceeded our 2003 and 2004 targets of 75. Data for 2005 are pending.

U.S. Department of Education, *Higher Education Act*, Titles III and V Annual Performance Report, grantee submissions.

Note. Titles III and V of the *Higher Education Act* include the following programs: Strengthening Institutions, American Indian Tribally Controlled Colleges and Universities, Alaska Native and Native Hawaiian-Serving Institutions, Strengthening Historically Black Colleges and Universities, Strengthening Historically Black Graduate Institutions, Minority Science and Engineering Improvement, and Developing Hispanic-Serving Institutions.

Analysis of Progress. In FY 2003 and FY 2004, we exceeded our targets for meeting grantee project goals relating to the improvement of student services, student outcomes, and academic quality. During the same time frame, we did not meet grantee targets for meeting project goals relating to the improvement of institutional management and fiscal stability. Goals relating to fiscal stability are among the most important and most difficult to achieve for all institutions. From FY 2002 to FY 2004, overall trends indicate a decrease in the percentage of project goals that were met or exceeded in all areas. Such trends may reflect grantee success in early years in making progress on a subset of more easily achieved goals, while more complex and difficult goals occur later in the project life cycle.

Data Quality. These data are self-reported by grantees. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted. Project reports do not distinguish between the scope and/or effect of the project goals: small and large goals are both counted in the same manner, and institutions' goals change from year to year.

Target Context. The targets for FY 2005 were established before performance data for the prior years were available.

Related Information. See http://www.ed.gov/about/offices/list/ope/idues/index.html for information on the Title III and Title V programs.

Additional Information. FY 2005 data will be available in August 2006. The Department plans to replace these measures for FY 2006 with measures of enrollment, persistence, and completion, which have been developed to provide better accountability for each of the Aid for Institutional Development programs.

Vocational Rehabilitation

The Department's vocational rehabilitation programs help individuals with physical or mental disabilities obtain employment and live more independently by providing grants that support job training and placement, medical and psychological services, and other individualized services. Annually, the Vocational Rehabilitation State Grants program helps over 200,000 individuals with disabilities obtain employment. Over the past year, the Department has made significant progress in improving the timeliness of vocational rehabilitation data and in promoting data use for program improvement.

- The FY 2004 Case Service Report database was completed within five months of the close of the fiscal year, a 10-month improvement compared to data for FY 2002 and prior years. The Department achieved this result by improving the data editing process, including use of an expanded user-friendly state vocational rehabilitation agency computerized edit program, and by dedicating additional staff to analyzing and validating the data early in the fiscal year.
- Reviews of state performance data have also been achieved more promptly in FY 2005 to correct problems faster and to improve customer service. More rapid availability of this data enhances program management and monitoring, particularly for state agencies that are failing or are in jeopardy of failing the program's required standards and performance indicators.

The Department measures state vocational rehabilitation agencies' progress by monitoring the percentage of individuals receiving services that achieve employment. In FY 2004, about two-thirds of vocational rehabilitation agencies achieved the outcome criteria set by regulatory indicators.

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

Fiscal Year	Actual
2001	75
2002	75
2003	66
2004	**66**
2005	Target is 75.
We did not meet our 2004 target of 83. Data for 2005 are pending.	

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

Analysis of Progress. In FY 2001 and FY 2002, 75 percent of agencies achieved at least the 55.8 percent employment rate set by regulatory indicators. The FY 2003 and FY 2004 apparent declines can be attributed to three facts: (1) beginning in FY 2002, extended employment has not been considered an employment outcome in the Vocational Rehabilitation State Grants program; (2) there were challenging labor market conditions; and (3) the program is serving an increasing percentage of individuals with significant disabilities.

The Department has set out to improve results on this measure by retooling the monitoring process, with an increased emphasis on state vocational rehabilitation agency performance leading to high-quality employment outcomes.

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

The accuracy and consistency of state rehabilitation staff report data cannot be guaranteed as counselors' interpretations of the data reported may vary. Timeliness is dependent upon submittal of clean data from 80 grantees, and Rehabilitation Services Administration staff have worked with grantees to improve the accuracy and timeliness of performance report data. The FY 2004 database was available five months after the close of the fiscal year, a significant improvement over previous years.

Related Information. See http://www.ed.gov/programs/rsabvrs/index.html for information on basic vocational rehabilitation services. See http://www.jan.wvu.edu/SBSES/VOCREHAB.HTM for a listing of state vocational rehabilitation offices. See http://www.ed.gov/rschstat/eval/rehab/standards.html for a complete listing of evaluation standards and performance indicators for the Vocational Rehabilitation State Grants program.

Additional Information. Data for FY 2005 will be available in April 2006.

Adult Learning

In an age of rapid economic and technological change, lifelong learning can provide benefits for individuals and for society as a whole. New data on adult learners this year show steady increases in the following measures:

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

5.16 Adult Education State Grants. The percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent.

Fiscal Year	Actual
1996	36
1997	37
1998	33
1999	34
2000	34
2001	33
2002	42
2003	44
2004	**45**
2005	Target is 46.
We exceeded our 2004 target of 42. Data for 2005 are pending.	

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

Analysis of Progress. An increasing percentage of adults with a high school completion goal earned a high school diploma or its recognized equivalent between FY 2001 and FY 2004.The Department attributes this increase in the percentage of adults who earned a high school diploma or its recognized equivalent to technical assistance that focused on grantees setting higher targets for this performance measure. As a result, many states created initiatives to encourage adults to earn their GEDs (General Educational Development, a high school equivalency diploma). For example, some states offered GED recipients a scholarship for the first semester of postsecondary education. In addition, the Department sponsored "train the trainer" professional development activities that equipped teachers to prepare students for the newest GED test, provided technical assistance to states on options for providing distance learning, and encouraged states to offer GED courses online.

Data Quality. As a third-tier recipient of these data, the Department must rely on the states and local programs to collect and report data within published guidelines. The Department has improved the data quality by using standardized data collection methodologies and standards for automated data reporting and data quality review. The Department also provides technical assistance to states to improve the data quality; as a result, in 2003, 38 states provided high-quality assessment data. In 2004, this figure increased to 44 states.

Target Context. Increasing targets reflect the aim of the Adult Education State Grants program to increase the percentage of adults with a high school completion goal who earn a high school diploma or recognized equivalent.

Related Information. Information about adult education and literacy can be obtained at http://www.ed.gov/about/offices/list/ovae/pi/AdultEd/index.html and http://www.ed.gov/about/offices/list/ovae/resource/index.html.

Additional Information. Data for FY 2005 will be available in March 2006.

5.17 Adult Education State Grants. The percentage of adults enrolled in English literacy programs who acquire the level of English language skills needed to complete the levels of instruction in which they enrolled.	
Fiscal Year	**Actual**
1996	30
1997	28
1998	28
1999	49
2000	20
2001	31
2002	34
2003	36
2004	**36**
2005	Target is 45.
We did not meet our 2004 target of 45. Data for 2005 are pending.	

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

Analysis of Progress. An increasing percentage of adults enrolled in English literacy programs acquired the level of English language they needed to advance between FY 2001 and FY 2004. While there is a trend of improvement, we did not meet our target for FY 2004.

To improve grantee performance on this measure, the Department has funded a three-year project called the center for Adult English Language Acquisition, which has completed its first year. The center provides direct technical assistance to states through a series of training sessions for trainers in English as a second language from 23 states. The center also publishes resources and maintains a Web collection of material relating to technical assistance on English language acquisition.

Data Quality. See measure 5.16.

Target Context. Out-year targets have been adjusted because trend data suggest that they were inappropriately projected.

Related Information. Information about adult education and literacy can be obtained at: http://www.ed.gov/about/offices/list/ovae/pi/AdultEd/index.html and http://www.ed.gov/about/offices/list/ovae/resource/index.html.

Additional Information. Data for FY 2005 will be available in March 2006.

Expanding Global Perspectives

The Department's international education and graduate fellowship programs have helped thousands of students, particularly at the graduate level, prepare for careers in areas of national need, including foreign languages and area studies. A long-lasting, productive partnership between the federal government and the nation's universities has created an unparalleled capacity to teach both foreign languages and area studies about societies around the world—covering all continents and more than 100 of the less-commonly taught languages. Departmental support for foreign languages and area and international studies at American colleges and universities ensures a steady supply of graduates with expertise in less-commonly taught languages, geographic areas, and international issues.

In October 2004, Outreach World, a growing online community of educators dedicated to showcasing the achievements of its members and strengthening vital links across the education spectrum and between the United States and the world, launched its Web site. At the core of Outreach World are 120 federally funded National Resource Centers based at 56 universities and focusing on areas involving Africa, Asia, Canada, Europe, Latin America, and the Middle East; Outreach World also comprises 42 Language Resource Centers and Centers for International Business and Education Research based at 45 universities and dedicated to promoting foreign language study and international business.

The Department measures progress in International Education and Foreign Language Studies domestic programs by the expansion of critical languages taught at National Resource Centers, employment of centers Ph.D. graduates in targeted areas, and improved language competency. FY 2005 was the first year for which targets were set for these measures.

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

Fiscal Year	Actual
2003	**56**
2004	**56**
2005	Target is 74.

Data for 2005 are pending.

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

Fiscal Year	Actual
2001	48.5
2002	53.7
2003	55
2004	**72**
2005	Target is 47.5.

Data for 2005 are pending.

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

Fiscal Year	Actual
2003	1.3
2004	**1.2**
2005	**1.2**

We met our 2005 target of 1.2.

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

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

Analysis of Progress. These measures were all new for FY 2005; consequently, no performance targets were set for prior years.

The 56 percent of critical languages taught in FY 2003 and FY 2004 represents 95 languages from a list of 171 less-commonly taught languages. This is a clear increase from 1959, when the initial federally funded foreign language fellowships were awarded to study six languages deemed critical (Arabic, Chinese, Japanese, Hindi-Urdu, Portuguese, and Russian).

Data for FY 2001 through FY 2004 reflect the percentages of National Resource Centers Ph.D. graduates who find employment in higher education, government service, and national security. As an employment indicator, the fluctuation in trend data for this measure may reflect changing economic conditions. Overall, however, the percentage of National Resource Centers graduates who find employment in the areas targeted by the program is increasing. In FY 2004, almost three-quarters of National Resource Centers' employed Ph.D. graduates find employment in targeted fields.

A target value of 1.20 for change over the year reflects an ambitious overall goal for the program, one that was met in FY 2005. Overall change in the language competency self-assessment reflects a mix of different levels of improvement at all stages (beginner, intermediate, advanced) of the three forms of language acquisition the assessment measures (reading, writing, speaking). Beginning language students may be expected to make larger advances over a given time period (and therefore have larger change scores) than more advanced students.

Data Quality. Data are self-reported by institutions for measure 5.18 and by participating fellows for measures 5.19 and 5.20. Program staff employ data quality checks to assess the completeness and reasonableness of the data submitted.

The FY 2003 actual values for these measures and the FY 2004 actual value for measure 5.18 have been revised to correct previous errors in the measure calculations.

The definition of measure 5.19 is the ratio of program graduates employed in the target areas to the number of program graduates employed in any area.

Target Context. The Department set targets for FY 2005 on the basis of historical trends and program experience, before data for FY 2004 were available.

Related Information. See http://www.ed.gov/about/offices/list/ope/iegps/index.html for information on these international programs.

Additional Information. Data for measures 5.18 and 5.20 for FY 2005 will be available in December 2006. Data for measure 5.19 for FY 2005 will be available in October 2006.

Discontinued Strategic Measures

The following measures were discontinued after FY 2004 but were reported as pending in our *FY 2004 Performance and Accountability Report*. We report here our results on those for which we now have data. (See p. 23 for a discussion of why we discontinued measures.)

Measure			Fiscal Year	Target	Actual	Status
5.1.2–5.1.7	The percentage of 16- to 24-year-old high school graduates enrolled in college the October following graduation	White	2002	66.9	68.9	Target met
			2003	67.0	66.2	Target not met
			2004	69.4	Pending	Data expected 08/2006
		Black	2002	59.6	59.4	Target not met
			2003	60.3	57.5	Target not met
			2004	60.8	Pending	Data expected 08/2006
		White-Black Gap	2002	7.3	9.5	Target not met
			2003	6.7	8.7	Target not met
			2004	8.6	Pending	Data expected 08/2006
		Hispanic	2002	50.0	53.3	Target met
			2003	51.5	58.6	Target met
			2004	57.5	Pending	Data expected 08/2006
		White-Hispanic Gap	2002	16.9	15.6	Target met
			2003	15.5	7.6	Target met
			2004	11.9	Pending	Data expected 08/2006
		Low Income	2002	51.5	56.4	Target met
			2003	53.5	52.8	Target not met
			2004	51.0	Pending	Data expected 08/2006
5.1.8 – 5.1.9	The percentage of 16- to 24-year-old high school graduates enrolled in college the October following graduation (continued)	High Income	2002	76.9	78.2	Target met
			2003	77.0	80.1	Target met
			2004	80.0	Pending	Data expected 08/2006
		Income Gap	2002	25.4	21.8	Target met
			2003	23.5	27.3	Target not met
			2004	29.0	Pending	Data expected 08/2006
5.1.11–5.1.15	The national percentage of full-time, bachelor's degree-seeking students who graduate from four-year institutions within six years	White	2004	56.8	Pending	Data expected 12/2005
		Black	2004	37.4	Pending	
		White-Black Gap	2004	19.4	Pending	
		Hispanic	2004	43.2	Pending	
		White-Hispanic Gap	2004	13.6	Pending	
5.1.16–5.1.21	The percentage of full-time, degree- or certificate-seeking students at two-year institutions who graduate, earn a certificate, or transfer from two-year institutions within three years	Overall	2004	34.0	Pending	Data expected 12/2005
		White	2004	34.5	Pending	
		Black	2004	27.3	Pending	
		White-Black Gap	2004	7.2	Pending	
		Hispanic	2004	31.1	Pending	
		White-Hispanic Gap	2004	3.4	Pending	

Measure		Fiscal Year	Target	Actual	Status
5.2.1	The percentage of states and territories submitting *Higher Education Act*, Title II, reports with all data reported using federally required definitions	2004	91	100	Target met
5.3.1	The average national increases in college tuition, adjusted for inflation	2004	5.0%	6.9%	Target not met
5.4.1	The percentage of Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities with a positive fiscal balance	2004	70	78	Target met
5.4.2	The percentage of Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities with evidence of increased technological capacity	2004	50	32	Target not met
5.5.1	The percentage of employed persons served by state vocational rehabilitation agencies who obtain competitive employment	2004	86.8	94.6	Target met
5.6.1	The percentage of international postsecondary consortia projects that are institutionalized after the conclusion of the grant period	2004	44	80	Target met
5.6.3	The percentage of Title VI graduates who find employment in higher education, government service, and national security	2004	Set baseline	72	Target met
5.6.4	The number of comprehensive instructional resources (assessments, publications, curricular materials, etc.) produced at Title VI institutions of higher education	2004	Set baseline	1,367	Target met
5.6.5	The number of K–12 teachers trained through the Title VI and Fulbright–Hays programs	2004	Set baseline	528,543	Target met

Sources and Notes

5.1.2–5.1.9 U.S. Department of Education, National Center for Education Statistics (2003). *The Condition of Education 2003* (NCES 2003–067), table 18-1 and previously unpublished tabulations for 2002–03 (January 2005). U.S. Department of Commerce, Bureau of the Census, Current Population Survey, October Supplement, 1972–2003.

5.1.11–5.1.21 U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, Spring 2004.

5.2.1 U.S. Department of Education, Office of Postsecondary Education, Title II Data System.

5.3.1 U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, Fall Enrollment Survey and Institutional Characteristics Survey.

5.4.1 U.S. Department of Education, National Center for Education Statistics , Integrated Postsecondary Education Data System.

5.4.2 U.S. Department of Education, Institutional Development and Undergraduate Education Service, Annual Performance Report.

5.5.1	U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration 911 Case Service Report.
5.6.1	U.S. Department of Education, Office of Postsecondary Education, Fund for the Improvement of Postsecondary Education, internal data.
5.6.3–5.6.5	U.S. Department of Education, International Education Programs Service, Evaluation of Exchange, Language, and International Area Studies, performance report program data. For 5.6.3, previously reported data for FY 2003 were incorrect; the correct actual value for FY 2003 is 55 percent.

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

Program Performance Summary

Sixty-one of our grant programs most directly support Goal 5. These programs are listed below. In the table we provide an overview of the results of each program on its program performance measures. (See p. 59 for our 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/2005report/program.html. We also provide both FY 2005 appropriations and FY 2005 expenditures for each of these programs. (See pp. 24–25 for an explanation of why appropriations and expenditures for a given year are not the same and the effect of that difference on the connection between funding and performance.)

Program Name	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
AEFLA: Adult Education National Leadership Activities	9	7	0	0	100	0	50	50	50	50	0			
AEFLA: Adult Education State Grants	570	614	0	0	100	40	60	0	60	40	0	60	40	0
AEFLA: National Institute for Literacy	7	5	67	33	0	100	0	0						
ATA: Assistive Technology Alternative Financing	4	6	0	0	100	0	100	0	/// (not funded)			/// (not funded)		
ATA: Assistive Technology Programs	26	29	0	0	100	0	100	0	0	100	0	0	100	0
EDA: Gallaudet University	105	105	43	57	0	43	57	0	42	58	0	42	58	0
EDA: National Technical Institute for the Deaf	55	54	40	50	10	30	70	0	60	40	0	60	40	0
ESEA: Community Technology Centers	5	30	0	0	100	100	0	0	0	0	100			
HEA: AID Developing Hispanic-Serving Institutions	95	88	0	0	100	67	33	0	67	33	0	100	0	0
HEA: AID Minority Science and Engineering Improvement	9	8												
HEA: AID Strengthening Alaska Native and Native Hawaiian Serving Institutions	12	9												
HEA: AID Strengthening Historically Black Colleges and Universities	239	208												
HEA: AID Strengthening Historically Black Graduate Institutions	58	51												
HEA: AID Strengthening Institutions	80	82												
HEA: AID Strengthening Tribally Controlled Colleges and Universities	24	16												

<table>
<tr><th rowspan="3">Program Name</th><th>Appro-pria-tions†</th><th>Expen-ditures‡</th><th colspan="12">Program Performance Results
Percent of Targets Met, Not Met, Without Data</th></tr>
<tr><th rowspan="2">FY 2005 $ in millions</th><th rowspan="2">FY 2005 $ in millions</th><th colspan="3">FY 2005</th><th colspan="3">FY 2004</th><th colspan="3">FY 2003</th><th colspan="3">FY 2002</th></tr>
<tr><th>% Met</th><th>% Not Met</th><th>% No Data</th><th>% Met</th><th>% Not Met</th><th>% No Data</th><th>% Met</th><th>% Not Met</th><th>% No Data</th><th>% Met</th><th>% Not Met</th><th>% No Data</th></tr>
<tr><td>HEA: B.J. Stupak Olympic Scholarships</td><td>1</td><td>2</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>HEA: Byrd Honors Scholarships</td><td>41</td><td>45</td><td>0</td><td>0</td><td>100</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td></tr>
<tr><td>HEA: Child Care Access Means Parents In School</td><td>16</td><td>16</td><td>0</td><td>0</td><td>100</td><td>0</td><td>25</td><td>75</td><td>0</td><td>100</td><td>0</td><td></td><td></td><td></td></tr>
<tr><td>HEA: College Assistance Migrant Program</td><td>16</td><td>16</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>HEA: Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities</td><td>7</td><td>7</td><td>0</td><td>0</td><td>100</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>HEA: Fund for the Improvement of Postsecondary Education</td><td>162</td><td>173</td><td>0</td><td>0</td><td>100</td><td>0</td><td>100</td><td>0</td><td>50</td><td>50</td><td>0</td><td>100</td><td>0</td><td>0</td></tr>
<tr><td>HEA: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)</td><td>306</td><td>306</td><td>0</td><td>0</td><td>100</td><td>71</td><td>29</td><td>0</td><td>86</td><td>14</td><td>0</td><td></td><td></td><td></td></tr>
<tr><td>HEA: Graduate Assistance in Areas of National Need (GAANN)</td><td>30</td><td>29</td><td>0</td><td>0</td><td>100</td><td>83</td><td>0</td><td>17</td><td>100</td><td>0</td><td>0</td><td>67</td><td>33</td><td>0</td></tr>
<tr><td>HEA: Interest Subsidy Grants</td><td>1</td><td>1</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>HEA: International Education and Foreign Language Studies Domestic Programs</td><td>92</td><td>86</td><td rowspan="3">14</td><td rowspan="3">0</td><td rowspan="3">86</td><td>0</td><td>0</td><td>100</td><td>60</td><td>40</td><td>0</td><td>60</td><td>40</td><td>0</td></tr>
<tr><td>HEA: International Education and Foreign Language Studies Institute for International Public Policy</td><td>2</td><td>1</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td></tr>
<tr><td>MECEA: International Education and Foreign Language Studies Overseas Programs</td><td>13</td><td>13</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>HEA: Javits Fellowships</td><td>10</td><td>9</td><td>0</td><td>0</td><td>100</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td></td><td></td><td></td></tr>
<tr><td>HEA: SFA Federal Direct Student Loans</td><td>1,543</td><td>4,853</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">100</td><td rowspan="7">20</td><td rowspan="7">13</td><td rowspan="7">67</td><td rowspan="7">33</td><td rowspan="7">13</td><td rowspan="7">53</td><td rowspan="7">100</td><td rowspan="7">0</td><td rowspan="7">0</td></tr>
<tr><td>HEA: SFA Federal Family Education Loan Program & Liquidating</td><td>11,532</td><td>10,369</td></tr>
<tr><td>HEA: SFA Federal Pell Grants</td><td>12,365</td><td>12,519</td></tr>
<tr><td>HEA: SFA Federal Perkins Loans</td><td>66</td><td>137</td></tr>
<tr><td>HEA: SFA Federal Supplemental Educational Opportunity Grants</td><td>779</td><td>760</td></tr>
<tr><td>HEA: SFA Federal Work-Study</td><td>990</td><td>971</td></tr>
<tr><td>HEA: SFA Leveraging Educational Assistance Partnerships</td><td>66</td><td>60</td></tr>
<tr><td>HEA: Student Aid Administration</td><td>719</td><td>823</td><td>0</td><td>0</td><td>100</td><td>17</td><td>0</td><td>83</td><td>17</td><td>0</td><td>83</td><td>100</td><td>0</td><td>0</td></tr>
<tr><td>HEA: Thurgood Marshall Legal Education Opportunity</td><td>3</td><td>3</td><td colspan="3"></td><td colspan="3">/// (not funded)</td><td colspan="3"></td><td colspan="3"></td></tr>
<tr><td>HEA: TRIO Educational Opportunity Centers</td><td>49</td><td>38</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>HEA: TRIO McNair Postbaccalaureate Achievement</td><td>42</td><td>32</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td></tr>
<tr><td>HEA: TRIO Student Support Services</td><td>275</td><td>208</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td>50</td><td>0</td><td>50</td></tr>
<tr><td>HEA: TRIO Talent Search</td><td>145</td><td>113</td><td>0</td><td>0</td><td>100</td><td>0</td><td>0</td><td>100</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Program Name	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
HEA: TRIO Upward Bound	313	179	0	0	100	0	0	100	0	0	100	0	0	100
HEA: Underground Railroad Program	2	2	0	0	100	100	0	0						
HKNCA: Helen Keller National Center for Deaf-Blind Youths and Adults	11	9	71	29	0	71	29	0				71	29	0
NLA: Literacy Programs for Prisoners	5	5	0	0	100									
RA: Client Assistance State Grants	12	12	0	0	100	50	50	0	100	0	0	100	0	0
RA: Independent Living Centers	98	76	0	50	50	33	67	0	33	67	0	80	20	0
RA: Independent Living State Grants	98	23												
RA: Independent Living Services for Older Blind Individuals	33	32	0	0	100	0	100	0	100	0	0	100	0	0
RA: Migrant and Seasonal Farmworkers	2	2	0	0	100	50	50	0						
RA: Projects with Industry	22	20	0	0	100	67	33	0	33	67	0	100	0	0
RA: Protection and Advocacy of Individual Rights	17	17	0	0	100	100	0	0						
RA: Supported Employment State Grants	37	42	0	0	100	100	0	0	100	0	0	100	0	0
RA: Vocational Rehabilitation Demonstration and Training Programs	26	22	0	0	100	20	80	0	60	40	0	60	40	0
RA: Vocational Rehabilitation Grants for Indians	32	29	0	0	100	33	67	0	100	0	0	100	0	0
RA: Vocational Rehabilitation Program Improvement	1	1												
RA: Vocational Rehabilitation Recreational Programs	3	3	0	0	100	100	0	0						
RA: Vocational Rehabilitation State Grants	2,604	2,352	0	0	100	75	25	0	50	50	0	67	33	0
RA: Vocational Rehabilitation Training	39	40	0	0	100	0	67	33	57	43	0	71	29	0
USC: Howard University	239	235	0	0	100	60	40	0	42	58	0	58	42	0
VTEA: Tribally Controlled Postsecondary Vocational and Technical Institutions	7	1	0	100	0	0	100	0	100	0	0	0	100	0
Administrative and Support Funding for Goal 5#	(59)	5	#			#			#			#		
TOTAL	**34,111**	*** 36,009**												

† Budget for each program represents program budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2005 expenditures may include funds from prior years' appropriations.

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

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

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

* Expenditures by program do not include outlays in the amount of $7 million for prior years' obligations for Goal 5 programs that were not funded in FY 2005 or FY 2005 estimated accruals in the amount of $924 million.

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

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

PART Analysis

In preparation for the FY 2005 budget, the Department conducted reviews on the programs listed below using the Office of Management and Budget's Program Assessment Rating Tool (PART). (See p. 60 for a discussion of the PART methodology.) Short summaries of the PART results and follow-up actions are on the following pages. OMB's Web site provides one-page summaries and full detailed PART reviews for all agencies.

Federal Direct Student Loans

Rating: Adequate

Federal Family Education Loan Program

Rating: Adequate

Federal Pell Grants

Rating: Adequate

Federal Perkins Loans Capital Contributions

Rating: Ineffective

Federal Supplemental Educational Opportunity Grants

Rating: Results Not Demonstrated

Federal Work-Study

Rating: Results Not Demonstrated

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)

Rating: Adequate

Independent Living State Grants and Centers

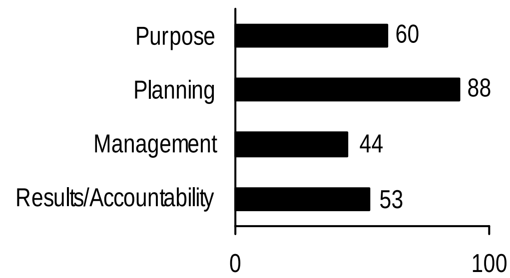
Rating: Results Not Demonstrated

TRIO Talent Search

Rating: Results Not Demonstrated

PART Analysis for Programs Reviewed for the FY 2005 Budget

Program: Federal Direct Student Loans
Year of Rating: *For FY 2005 Budget (Initial)*
For FY 2006 (Revised)
Rating: *Adequate*
Program Type: *Credit*



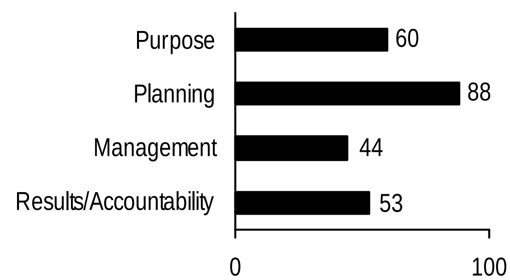
Recommended Follow-up Action

- Seek legislation to direct a greater share of borrower benefits to students in school instead of those who have graduated.
- Maintain variable interest rate structure for borrowers who later consolidate their loans, and provide for an increase in loan limits.

Update on Follow-up Action

The President's FY 2006 Budget included a comprehensive set of loan reform proposals that address concerns raised through the PART process. The Administration is working with the Congress on these proposals as part of the *Higher Education Act* reauthorization process.

Program: Federal Family Education Loan Program
Year of Rating: *For FY 2005 Budget (Initial)*
For FY 2006 (Revised)
Rating: *Adequate*
Program Type: *Credit*



Recommended Follow-up Action

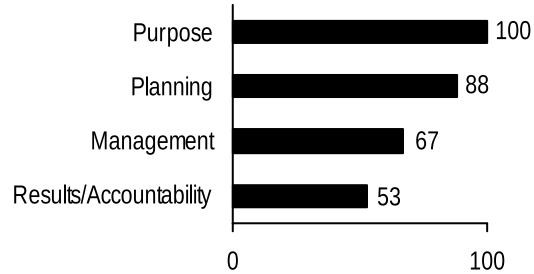
Seek legislation to accomplish the following:

- Reduce unnecessary subsidies to lenders and other Federal Family Education Loan program participants.
- Direct a greater share of borrower benefits to students in school instead of those who have graduated. Notably, the Administration proposes to maintain variable interest rates beyond 2006 for students in school, to adopt the same variable interest rate structure for borrowers who later consolidate their loans, and to provide for an increase in loan limits. Note: Due to the uncertainty that goes into predicting economic trends and student-borrower behavior, these re-estimates often produce significant annual fluctuations in subsidy costs and program funding levels.

Update on Follow-up Action

The President's FY 2006 Budget included a comprehensive set of loan reform proposals that address concerns raised through the PART process. The Administration is working with the Congress on these proposals as part of the *Higher Education Act* reauthorization process.

Program: Federal Pell Grants
Year of Rating: *For FY 2004 Budget (Initial)*
For FY 2005 (Revised)
Rating: *Adequate*
Program Type: *Block/Formula Grant*



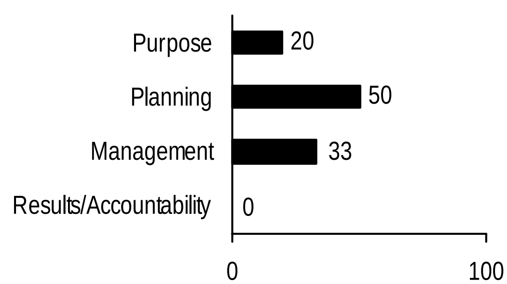
Recommended Follow-up Action

- Develop legislative and administrative strategies to improve performance on the program's annual and long-term measures. Work with the Congress on enacting the legislative strategies as part of the *Higher Education Act* reauthorization.
- In the *Higher Education Act* reauthorization, work with the Congress on proposals to better target Pell funding to the neediest students.
- Re-propose to amend the Internal Revenue Code to allow the Internal Revenue Service to match student aid data and tax data to prevent over-awards (and under-awards) in Pell and other student aid programs.

Update on Follow-up Action

The PART findings for the Pell Grant program primarily required legislative action through the reauthorization of the *Higher Education Act* and amendments to the tax code. The President's FY 2006 Budget reflects the Administration's *Higher Education Act* proposal, including changes to target Pell aid to the neediest students. The Administration proposes to increase the $4,050 Pell maximum award by $100 in FY 2006 and $500 over five years. The Administration also proposes to better target Pell funding by indexing future maximum award increases with corresponding minimum award increases. The Administration is working with the Congress on these proposals as part of the *Higher Education Act* reauthorization process.

Program: Federal Perkins Loan Capital Contributions
Year of Rating: *For FY 2005 Budget*
Rating: *Ineffective*
Program Type: *Credit*



Recommended Follow-up Action

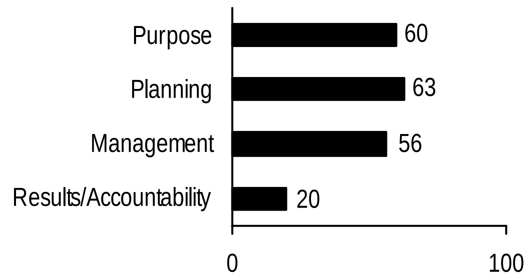
In response to these findings, the Administration will take the following actions:

- Propose to eliminate the funding for this program and redirect funds to more effective student aid programs, such as the Pell Grants program.
- As long as the program exists, implement a new performance measurement approach that tracks program success on student persistence (i.e., staying in school) and graduation. This includes collecting improved program and financial data and developing meaningful efficiency measures.

Update on Follow-up Action

The President's FY 2006 Budget proposed to eliminate the Perkins Loan program. The Administration is working with the Congress on this proposal as part of the *Higher Education Act* reauthorization process. Draft efficiency measures based on the efficiency of program administrative processes were submitted to the Office of Management and Budget in July 2005.

Program: Federal Supplemental Educational Opportunity Grants
Year of Rating: *For FY 2005 Budget*
Rating: *Results Not Demonstrated*
Program Type: *Block/Formula Grant*



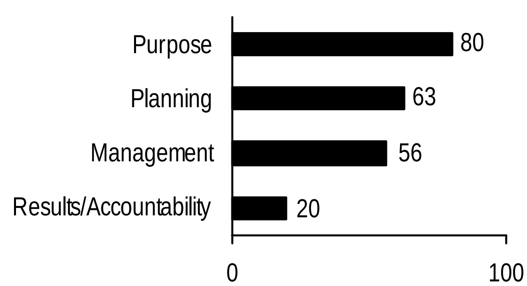
Recommended Follow-up Action

- Correct the funding allocation formula as part of the reauthorization of the *Higher Education Act* by ensuring that funds reach postsecondary institutions with the highest proportion of needy students.
- Begin to collect data for the Supplemental Educational Opportunity Grant program that are sufficient to measure program performance and reconcile financial data. These data should support the Department's new performance measurement approach that tracks program success by improving student persistence and graduation.
- Develop meaningful efficiency measures for this program.

Update on Follow-up Action

The Congress has not yet acted on the reauthorization of the *Higher Education Act*. The President's FY 2006 Budget reflects the Administration's *Higher Education Act* proposal, which includes the above action. In fall 2003, the Department began to examine whether National Student Clearinghouse data could be used to measure student persistence and graduation. Because the Department found problems with this approach, other options are being considered, including a single "unit record" reporting system. The Department has also begun to work on reconciling program financial data. Draft efficiency measures based on the efficiency of program administrative processes were submitted to the Office of Management and Budget in July 2005.

Program: Federal Work-Study
Year of Rating: *For FY 2005 Budget*
Rating: *Results Not Demonstrated*
Program Type: *Block/Formula Grant*



Recommended Follow-up Action

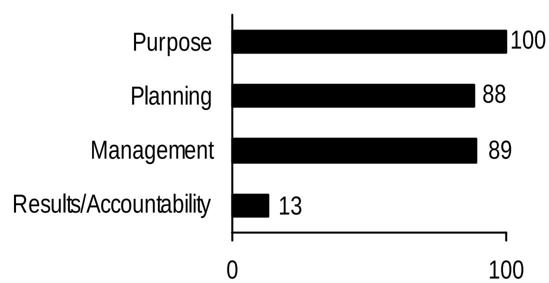
- Begin to collect data for the Work-Study program that are sufficient to measure program performance and reconcile financial data. These data should support the Department's new performance measurement approach that tracks program success by improving student persistence and graduation.

- Develop meaningful efficiency measures for this program.
- In the *Higher Education Act* reauthorization, propose to replace the 7 percent community service requirement with a separate set-aside for community service, equal to 20 percent of the Work-Study appropriation. Schools would apply for these community service funds separate from their regular allocation.
- Propose to correct the funding allocation formula as part of the reauthorization of the *Higher Education Act* by ensuring that funds reach postsecondary institutions with the highest proportion of needy students.

Update on Follow-up Action

In fall 2003, the Department began to examine whether it could use National Student Clearinghouse data to measure student persistence and graduation. Because the Department found problems with this approach, it is exploring other options. The Department has also begun to work on reconciling program financial data. Draft efficiency measures based on the efficiency of program administrative processes were submitted to the Office of Management and Budget in July 2005. The Congress has not yet acted on the *Higher Education Act* reauthorization. The President's FY 2006 Budget reflects the Administration's proposal for the reauthorization of the *Higher Education Act*, which includes the above follow-up actions.

Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)
Year of Rating: *For FY 2005 Budget*
Rating: *Adequate*
Program Type: *Competitive Grant*



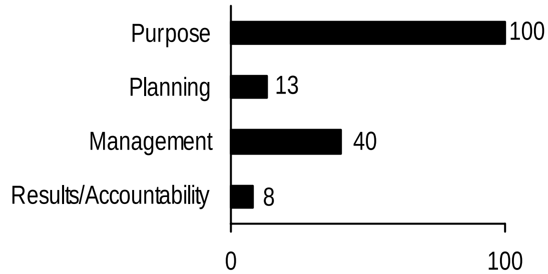
Recommended Follow-up Action

- Collect baseline data for annual measures and work to ensure that appropriate data collection strategies are in place for the program's long-term measures.
- Implement the program's plan for responding to the Office of Inspector General concerns for monitoring program expenditures.
- Develop a meaningful efficiency measure.

Update on Follow-up Action

Since 2003, the Department has made significant progress in measuring GEAR-UP performance. The Department has collected and reported at least two years of data for each annual performance measure, developed a final project performance report, developed an efficiency measure to track the average cost for each GEAR-UP student who successfully enrolls in college immediately after high school, and awarded a contract to assist with data collection and increase the timeliness of data reporting. In response to audit findings, the Department implemented a strategic monitoring plan for GEAR-UP that included more site visits and staff training in project oversight. Additionally, the Department reprogrammed the Grants and Payments System so that important GEAR-UP budget information on project matching contributions can be appropriately monitored.

Program: Independent Living State Grants and Centers
Year of Rating: *For FY 2005 Budget*
Rating: *Results Not Demonstrated*
Program Type: *Competitive Grant*



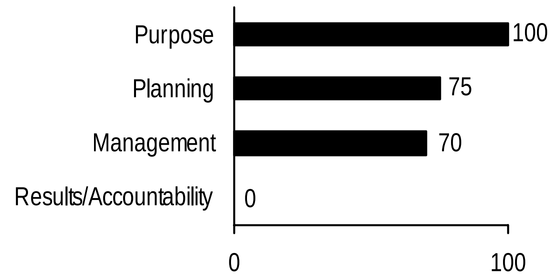
Recommended Follow-up Action

- Devise and implement an improved audit and site visit system to ensure that the Department fulfills statutory oversight requirements.
- Conduct periodic and high-quality evaluations of each of the Independent Living programs.
- Develop at least one efficiency measure for each of the Independent Living programs.
- Develop long-term performance goals and measures that reflect the four core areas of services and the standards and assurances for the Independent Living State Grants and Centers programs.
- Reduce the time needed to collect and analyze grantee performance reports and make the aggregate data available to the public on the Department's Web site in an accessible format.

Update on Follow-up Action

The Department has made progress in addressing the management and program deficiencies identified in the PART assessment of the Independent Living programs. The Department has developed a schedule to ensure the timely posting of performance data, an efficiency measure that is based on cost per successful outcome, and annual and long-term performance measures that capture program objectives. Due to delays in revising the programs' data collection instrument, data will not be available until 2006. The Department has made limited progress in addressing the requirements for a site visit system and in developing a plan for conducting high-quality evaluations; the Department intends to give more attention to these efforts.

Program: TRIO Talent Search
Year of Rating: *For FY 2005 Budget*
Rating: *Results Not Demonstrated*
Program Type: *Competitive Grant*



Recommended Follow-up Action

- Complete program evaluation currently in progress and use its findings to improve program performance.
- Develop a meaningful efficiency measure.
- Explore policies that would open up the Talent Search application process to include more worthy new applicants, while still rewarding high-performing prior grantees.

Update on Follow-up Action

The Department has taken significant steps in response to the Talent Search PART recommendations and, as a result, has reassessed Talent Search in 2005 using the PART. First, the Department completed data collection and analysis for the program evaluation. The Department is reviewing the final evaluation report and plans to use the findings to inform the FY 2006 competition. Second, the Department developed and began implementing an efficiency measure to examine the average annual cost per successful annual outcome—defined as a student who persists toward high school completion or who completes school and enrolls in college. Third, the Department tightened the process for awarding prior experience points to ensure that the competitive preference given to existing grantees is based on demonstrated performance. As part of the *Higher Education Act* reauthorization, the Department continues to examine ways to better link prior experience points to achievement of the key program outcomes.

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

Findings and Recommendations From Program Evaluations, Studies, and Reports

Information that the Department uses to inform management and program improvements comes from many sources, including evaluations, studies, and reports that are Department-sponsored studies and those from the Government Accountability Office (GAO) and the Office of Inspector General (OIG). The following evaluations, studies, and reports were completed during FY 2005.

Audit Follow-up Process for Office of Inspector General Internal Audits in the Office of Postsecondary Education: Final Audit Report **(ED-OIG/A19F0002)**

This Office of Inspector General audit is a part of a review of the Department's internal audit follow-up processes being performed in four departmental offices. Each assistant secretary is responsible for the overall audit follow-up process, determines the financial adjustments to be made to resolve findings in audit reports, and oversees the implementation of audit recommendations. The Office of Inspector General determined that improvements are needed in the Office of Postsecondary Education's internal control over its audit follow-up process. (See p. 172 for a summary of this report.)

Case Management and Oversight's Monitoring of Postsecondary Institutions: Final Audit Report **(ED-OIG/A04-D0014)**

In this report, the Department's Office of Inspector General examined the Office of Federal Student Aid's Case Management and Oversight's use of program reviews and technical assistance and headquarters management controls over regional offices' monitoring of postsecondary institutions. Case Management and Oversight's primary responsibility is to monitor postsecondary institutions' compliance with statutory and regulatory requirements for participation in Title IV programs. The Office of Inspector General identified weaknesses in the Institutional Assessment Model used to identify and select institutions for review, regional office program review and technical assistance processes, and the monitoring of regional office operations. (See p. 173 for a summary of this report.)

Federal Family Education Loan Program: More Oversight Is Needed for Schools That Are Lenders (GAO-05-184)

In FY 2004, lenders made about $65 billion in loans through the Federal Family Education Loan Program to assist students in paying for postsecondary education. This report determined the extent to which schools have participated as program lenders, their characteristics, and federal statutory and regulatory safeguards that are in place to protect borrowers and taxpayers. Under the *Higher Education Act*, Federal Family Education Loan Program lenders must submit annually audited financial statements and compliance audits. As of FY 2004, 10 out of 29 school lenders had not submitted an audit for FY 2002. (See p. 174 for a summary of this report.)

Student Aid and Postsecondary Tax Preferences: Limited Research Exists on Effectiveness of Tools to Assist Students and Families Through Title IV Student Aid and Tax Preferences (GAO-05-684)

Title IV of the *Higher Education Act* provides federal assistance for postsecondary education to students and families through grant and loan programs. While both Title IV and tax preferences provide assistance to students and families, tax preferences differ from Title IV assistance in the areas of timing, distribution, and students' and families' responsibility. This report examines how Title IV assistance compares to that provided through the tax code, the extent to which tax filers effectively use postsecondary tax preferences, and reviews what is known about the effectiveness of federal financial assistance. While tax preferences are of more recent origin than Title IV aid, the number of tax filers using preferences has grown quickly, surpassing the number of students aided under Title IV in 2002. (See p. 175 for a summary of this report.)

Student Financial Aid: Need Determination Could Be Enhanced Through Improvements in Education's Estimate of Applicants' State Tax Payments (GAO-05-105)

Most federal student financial aid is awarded based on the applicant's cost of college attendance less the amount of the student's and/or family's expected contribution. The tax allowance effectively reduces the expected family contribution. This report examines the Department's updating of tax data and the effects the update might have on financial assistance for aid applicants. Had the Department updated the tax allowance annually, the family's expected contribution would have increased for a majority of aid applicants, with 38 percent of applicants either receiving less in Pell grants or becoming ineligible for them. (See p. 176 for a summary of this report.)

Report on Audit Processes in the Department's Office of Postsecondary Education

Report Title

Audit Followup Process for Office of Inspector General Internal Audits in the Office of Postsecondary Education: Final Audit Report (ED-OIG/A19F0002) September 2005.

Overview

This audit report is part of a review of the Department's internal audit follow-up processes being performed in four departmental offices. The Office of Inspector General determined that improvements are needed in the Office of Postsecondary Education's internal control over its audit follow-up process.

Findings

- Although the Office of Postsecondary Education (OPE) certified that corrective action items were completed, the office was unable to document completion of 7 of the 22 corrective action items (32 percent).
- Although OPE maintained audit resolution files, the file documentation did not support completion of 12 of the 22 corrective action items (55 percent).
- The Office of Inspector General was able to validate closure dates for 9 of the 15 supported corrective actions through documentation; OPE reported 3 of 9 action items (33 percent) as completed prior to dates reflected by supporting documentation.

Recommendations

- OPE should ensure audit follow-up documentation clearly supports completion of the stated action item.
- OPE should ensure completion dates reported in the automated tracking system are consistent with dates reflected in supporting documentation.
- OPE should update its automated audit tracking system to reflect the actual completion dates of action items noted in the audit with discrepancies in the reported completion dates and should ensure that changes to agreed upon action items are identified by editing the Action Item field rather than using the Principal Office Comments field.

Department’s Response

- OPE has implemented several changes to improve audit tracking process, which include documenting operating procedures for audit resolution; establishing a database to ensure tracking of audit activities; maintaining electronic files of all audits and supporting documentation; and augmenting contractor support for additional automation of audit processes.
- OPE will conduct training to address action item completion and recommended supporting documentation.
- OPE has taken action to ensure that the Office of Inspector General is notified of any action item changes by correctly entering the information in the automated tracking system.

Report on Monitoring of Postsecondary Institutions

Report Title

Case Management and Oversight's Monitoring of Postsecondary Institutions: Final Audit Report (ED-OIG/A04-D0014) September 2004.

Overview

The Department's Office of Inspector General examined the Office of Federal Student Aid's Case Management and Oversight's use of program reviews and technical assistance and headquarters management controls over regional offices' monitoring of postsecondary institutions for participation in Title IV programs. The Office of Inspector General identified weaknesses in the Institutional Assessment Model used to identify and select institutions for review, the regional office program review and technical assistance processes, and the monitoring of regional office operations.

Findings

- The Institutional Assessment Model is an ineffective tool for identifying at-risk institutions.
- The program review and technical assistance processes are not adequately documented and there is limited follow-up.
- Case Management and Oversight—Headquarters' monitoring of regional office operations needs improvement.

Recommendations

- The Department's Office of Federal Student Aid (FSA) should require Case Management and Oversight—Headquarters to develop and implement management controls to ensure that the data used to identify the most at-risk institutions are complete and accurate; develop a methodology for evaluating the effectiveness of any risk assessment model used to identify institutions presenting the highest risk of loss of Title IV funds; and provide guidance to regional case management teams for identifying institutions for program review and technical assistance.
- FSA should establish policies and procedures over program reviews and the appropriate monitoring actions to be taken based on specific compliance issues and develop quality control processes to ensure compliance with monitoring and enforcement actions.
- FSA should implement policies and procedures for providing technical assistance and follow up for compliance and implement management controls for oversight of Case Management and Oversight operations.

Department's Response

- FSA will revise the procedures as necessary and provide training to case teams; it has identified requirements for a new model for identifying at-risk institutions.
- FSA agreed to strengthen the documentation of the fiscal review process.
- FSA issued new Management Improvement Services (technical assistance) procedures for selecting institutions for technical assistance, using corrective action plans, and ensuring proper documentation and follow-up.
- FSA currently has an appropriate oversight and monitoring process in place but will work continuously to improve processes.

Report on the Federal Family Education Loan Program

Report Title

Federal Family Education Loan Program: More Oversight Is Needed for Schools That Are Lenders (GAO-05-184) January 2005.

Overview

In FY 2004, lenders processed about $65 billion in loans through the Federal Family Education Loan program to assist students in paying for postsecondary education. The Department's Office of Federal Student Aid is responsible for ensuring that lenders comply with program laws and regulations. Questions have arisen as to whether it is appropriate for schools to become lenders, given that they determine eligibility for loans and set the price of attendance. This GAO report determined the extent to which schools have participated as program lenders and their characteristics, the structure of schools' lending operations, benefits for borrowers and schools, and statutory and regulatory safeguards designed to protect taxpayers' and borrowers' interests.

Findings

- The Office of Federal Student Aid has had limited information about how school lenders have complied with Federal Family Education Loan program regulations.
- Under the *Higher Education Act*, program lenders that originate or hold more than $5 million in program loans must annually submit audited financial statements and compliance audits; in October 2004, the Office of Federal Student Aid discovered that 10 out of 29 school lenders that were required to submit an audit for FY 2002 had not done so, and the Office of Federal Student Aid had not conducted program reviews of school lenders.

Recommendations

- The Office of Federal Student Aid needs to enhance oversight of school lenders by ensuring compliance with applicable statutory and regulatory requirements through timely audited financial statements and compliance audits.
- The Office of Federal Student Aid also needs to conduct program reviews.

Department's Response

- The Department's efforts to verify that lenders submitted the required annual compliance audits for FY 2002 were instrumental in ensuring compliance, and all school lenders who were required to submit such audits for FY 2003 have done so.
- The Department has requested additional information of 31 school lenders regarding compliance with regulations on the use of interest income and special allowance payments for need-based grants. The Department is planning to conduct a more thorough review of 10 school lenders.

Report on Student Aid and Postsecondary Tax Preferences

Report Title

Student Aid and Postsecondary Tax Preferences: Limited Research Exists on Effectiveness of Tools to Assist Students and Families Through Title IV Student Aid and Tax Preferences (GAO-05-684) July 2005.

Overview

Title IV of the *Higher Education Act* provides federal assistance to students and families through grant and loan programs to pay for postsecondary education. While both Title IV aid and tax preferences provide assistance to students and families, tax preferences assist students and families saving for and repaying postsecondary costs and require greater responsibility on the part of students and families. In light of the relative newness of tax preferences, the Government Accountability Office reported on the difference between Title IV assistance and that provided through the tax code, the extent to which tax filers effectively use postsecondary tax preferences, and current knowledge about the effectiveness of federal financial assistance.

Findings

- While tax preferences are of more recent origin than Title IV aid, the number of tax filers using preferences has grown quickly, surpassing the number of students aided under Title IV in 2002.
- Some tax filers do not make optimal education-related tax decisions; 27 percent of eligible tax filers did not claim either the tuition deduction or a tax credit.
- Little is known about the effectiveness of Title IV aid or tax preferences in promoting choice, attendance or persistence, and as a result, policymakers do not have information to make the most efficient use of limited federal resources to help students and families.
- Tax preferences differ from Title IV assistance in three key areas: timing, distribution, and students' and families' responsibility for obtaining benefits.

Recommendations

- The report made no new recommendations; instead, it cited a 2002 Government Accountability Office report that recommended the Department sponsor research into key aspects of the effectiveness of Title IV programs, but little progress has been made on that recommendation.
- The Department should make available information about the effectiveness of both tax preferences and Title IV federal grant and loan programs, so that decisionmakers can make efficient use of limited federal resources to help students and families pay for postsecondary education.

Department's Response

The Department disagrees that the Title IV programs have not been adequately studied. The Government Accountability Office analysis failed to cite the more than 60 reports and other publications that the National Center for Education Statistics prepared using data from the sixth National Postsecondary Student Aid Survey, the Survey of Beginning Postsecondary Students Longitudinal Study, and the Baccalaureate and Beyond Student Survey, each repeated four times.

Report on the Need Determination for Student Financial Aid

Report Title

Student Financial Aid: Need Determination Could Be Enhanced Through Improvements in Education's Estimate of Applicants' State Tax Payments (GAO-05-105) January 2005.

Overview

Most federal student financial aid is awarded based on the applicant's cost of college attendance less the amount of the student's and/or family's expected contribution. The tax allowance effectively reduces the expected family contribution. Given the impact of the allowance on the awarding of financial aid, the Government Accountability Office reported on what factors affected the updating of the tax data, the possible effects the 2003 update would have on financial assistance for aid applicants, and limitations in the method for deriving the tax allowance.

Findings

- Although required by law to revise the tax allowance annually, the Department has attempted the updates only twice—in FY 1993 and again in FY 2003.
- The Department did not seek data to update the allowance annually and did not establish effective internal controls to guide the updating process. The Department did not consider alternatives when data were not available.
- Had the update been implemented in 2004-05, the allowance would have decreased in most states, and the family's expected contribution would have increased for a majority of aid applicants.

Recommendations

- The Department should improve procedures to ensure annual receipt of the most current tax data from the Internal Revenue Service.
- The Department should revise the methodology for calculating the allowance to better reflect the varying tax rates paid by students and families in different income groups and use a standard allowance for all aid applicants regardless of state residence.
- The Department should consider collecting tax information directly from student aid applicants and their families.

Department's Response

- Since 2002, the Department has had formal procedures to ensure that it annually requests and obtains the most current tax data from the Internal Revenue Service.
- Replacing Internal Revenue Service file data with an alternative source, applying a uniform allowance to the incomes of all applicants, incorporating different or additional income bands, and collecting information on state and local taxes directly from federal aid applicants would require statutory change.
- The Department is sensitive to the burden that applying for student financial assistance places on families and institutions; collecting state and local tax information directly from families or institutions of higher education would create an unacceptable increase in burden.

Goal 6: Establish Management Excellence

Performance Goals

Financial Integrity and Management

The Department of Education's annual financial statements have earned an unqualified or "clean" opinion for four consecutive years, after having achieved only one clean opinion previously. We demonstrate to the American public that we account accurately for the dollars supporting federal education programs.

Strategic Human Capital Management

The Department is ensuring that a highly skilled work force will carry out the responsibilities of managing federal education programs for years to come through participation in federal activities to speed the hiring process and the implementation of performance standards for employees based on strategic plan objectives. A human capital deployment index established during 2005 sets a robust benchmark against which our future work force development efforts can be measured.

Information Technology Management

The Department is playing a leading role in federal initiatives to extend the use of electronic communication in delivering public services to Americans. These efforts include the increasing use of electronic applications in our discretionary grant competitions.

Customer Service for Student Financial Assistance

The Department is committed to enabling access to a quality education for all Americans, and the provision of financial aid to help millions of citizens complete a postsecondary degree is a particularly important customer service function. We are sustaining previous success in meeting the needs of aid applicants and recipients, and we are preparing improvements to service functions that have not produced expected levels of customer satisfaction.

Budget and Performance Integration

The Department is improving performance measures and management functions in order to demonstrate effectiveness across the majority of Department programs. Our progress on ensuring effectiveness was slower than anticipated for FY 2005, emphasizing the urgency of the task at hand.

Faith-Based and Community Organization Grantees

The emergence of faith-based and community organizations among the pool of grant applicants has reinforced the need for the Department to treat all applicants equitably, regardless of their level of experience in the application process. Novice applicants, many of whom represent these emergent organizations, are proving to be successful in winning grant awards in programs most amenable to their participation.

Goal 6: Establish Management Excellence

Key Measures

The Office of Management and Budget has required all 16 Cabinet-level departments and 10 other major federal agencies to report quarterly on their progress toward demonstrating administrative excellence. The *President's Management Agenda* comprises five major initiatives designed to assure Americans of the efficient use of federal funds and the effective responsiveness of the federal government to their needs.

At the Department, we have identified within our sixth goal, Establishing Management Excellence, nine key measures aligned with the initiatives of the *President's Management Agenda*. Success in meeting challenging targets for these measures ensures management results that maximize value to taxpayers, channel available resources toward high-performing programs, and help students achieve in the classroom.

See p. 58 for an explanation of the documentation fields for key measures.

Financial Integrity and Management

One major initiative of the *President's Management Agenda* is Improved Financial Performance. In December 2003, the Department of Education became the first Cabinet-level agency to achieve the Office of Management and Budget's elite green status score in this initiative. This recognition was based on consecutive unqualified audit opinions in FY 2002 and FY 2003 and the demonstrated ability to provide timely, pertinent program performance and financial stewardship data to senior managers via the monthly internal publication, *Fast Facts.*

The Department has kept green status, earning unqualified opinions in FY 2004 and FY 2005 while remaining free of material weaknesses and maintaining a low number of reportable conditions. During FY 2005, we earned the most prestigious fiscal management honor for federal agencies, the President's Quality Award for Improved Financial Performance, based on our work of the previous year. Additionally, our FY 2003 and FY 2004 Performance and Accountability Reports both won Certificates of Excellence in Accountability Reporting from the Association of Government Accountants.

6.1 The achievement of an unqualified audit opinion.	
Fiscal Year	**Actual**
1999	Qualified
2000	Qualified
2001	Qualified
2002	Unqualified
2003	Unqualified
2004	Unqualified
2005	Unqualified
We met our 2005 target of unqualified.	

Independent Auditors' Financial Statement and Audit Reports, FY 1999 through FY 2005.

Analysis of Progress. Prior to FY 2002, the Department had not received an unqualified or clean audit opinion since FY 1997 and had never received an unqualified opinion from an independent audit firm. The Department has since earned four consecutive clean opinions from independent auditors. We will maintain this status in the future, as unqualified opinions assure the American public of the high quality of our financial management and reporting.

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

Related Information. The Department's annual Performance and Accountability Reports, which can be accessed at http://www.ed.gov/about/reports, contain information on each unqualified audit opinion conferred upon the Department from FY 2002 onward. Look in each report for the "Report of Independent Auditors" section.

Additional Information. Recognition of reliability in financial reporting by independent auditors signifies that the Department produces timely and accurate financial information to the President, the Congress, and the American public. Beyond the scope of the audit, we also demonstrate timeliness and quality in our various financial and program performance reports, ensuring reliable information for our senior officials to assess performance and better allocate resources for effective program management.

Strategic Human Capital Management

"Having the right people, in the right place, doing the right work at the right time" conveys the essence of a second major initiative in the *President's Management Agenda*, Strategic Management of Human Capital. Not only must the federal government compete with the private sector for top talent, but also it faces a potential shortage of experienced staff, as half of current federal employees will by 2010 be eligible either to retire or to seek early retirement. At the Department, we are approaching historic lows in total personnel, while our budget is at an all-time high. Our employees must manage increasing responsibilities while maintaining exemplary performance to guarantee the effective use of federal dollars for the benefit of America's students.

The Department made significant progress in this initiative during FY 2005. Four-fifths of our employees established effective performance standards for their current rating cycle in a timely manner. Additionally, more than 2,500 employee performance plans were reviewed in 2005, and upon completion of the review, over 95 percent of the plans were properly aligned with the goals of the Department's *Strategic Plan 2002–2007*.

Human capital activities also serve a key function in a third major initiative of the *President's Management Agenda*, Competitive Sourcing. During FY 2005, the Department continued the implementation of new organizational structures in human resources and payments processing. These structures resulted from two competitions between private vendors and Department employee teams in which the Department employee team prevailed. Experienced staff oversee the development of more efficient operations in these business sectors, freeing up additional staff for other vital administrative tasks.

6.2 Index of quality human capital performance management activities.	
Fiscal Year	**Actual**
2005	**72**
We established a baseline in 2005.	

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

Analysis of Progress. The Department has initial results in FY 2005 on a new index of human capital performance, based on an average of three equally weighted elements. The first element is the percentage of employee performance plans with effective performance standards entered into the Education Department Performance Appraisal System (EDPAS) prior to the beginning of the new rating cycle, and 79 percent of all required employee plans were so entered. The second element is the percentage of employees subject to EDPAS with documented ratings of record in the Federal Personnel/Payroll System (FPPS) within 30 days after the close of the rating cycle just ended, and 85 percent of employees had documented ratings in FPPS within this time frame. The last element is the percentage of employee performance award dollars paid to employees who received outstanding ratings in the EDPAS cycle most recently completed. As of September 30, 2005, 51 percent of award dollars had been paid to those employees.

With an approach now in place to capture three key components of human capital performance aligned with ongoing work force development efforts, the Department will establish ambitious improvement targets above the baseline in subsequent years.

Data Quality. The Department's Office of Management has expressed concern that the first component of the index is an insufficient indicator, as there is no follow-up verification included in the number to ensure that an employee's performance plan was discussed with management and signed by the employee. New procedures and software support are being put in place to encourage compliance and increase data integrity.

Information Technology Management

Expanded Electronic Government comprises a fourth major initiative of the *President's Management Agenda*. The Department's primary task in this initiative is the migration of discretionary grant competitions from paper to electronic format. We are building the future of our customer transactions on an electronic platform because of the versatility, convenience, speed, and cost efficiency with which public business can be transacted in this medium. To ensure the security of our data, we are nearing the satisfactory completion of certification and accreditation of our information technology systems.

The Department has played a leading role in initiatives to simplify federal government grant application and award processes. We have been recommended as a servicer in the Grants Management Line of Business project, which if approved will establish the Department as a grant administration service center for multiple agencies. We have also actively participated in Grants.gov, an effort to direct all search, application, and reporting functions for federal grants through a single portal.

6.3 The percentage of discretionary grant programs providing online application capability.	
Fiscal Year	**Actual**
2000	5
2001	20
2002	29
2003	57
2004	77
2005	**86**
We exceeded our 2005 target of 78.	

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

Analysis of Progress. In 2005, 120 of 142 discretionary grant competitions provided an electronic method by which interested parties could submit applications. Additionally, 72 Department programs required electronic submission for all applicants, more than double the 2004 total.

The Office of Management and Budget has requested that agencies begin full migration of all discretionary grant competitions to the federal Grants.gov platform to provide a one-stop shop for finding and applying for federal grants. Accordingly, the Department continued to move competitions away from the internal e-Application system and toward Grants.gov, a process begun in 2004. The Department intends to migrate all competitions to Grants.gov by FY 2007, including competitions for programs currently not using electronic means.

Data Quality. The data are based on the 142 competitions held by the Department's discretionary grant programs that held competitions during FY 2005. These programs may elect to use the Department's internal e-Application system or the federal cross-agency Grants.gov platform. Formula grant programs, which include most large grants to states provided under *No Child Left Behind*, are not competed and therefore not included in this measure.

Target Context. The FY 2005 target was an extrapolation of trend data from previous years. Subsequent targets will be aligned with the Department's plan, as approved by the Office of Management and Budget, to compete more discretionary awards via the federal cross-agency Grants.gov initiative.

Related Information. Information regarding e-Application can be accessed at http://e-grants.ed.gov. Information regarding Grants.gov can be accessed at http://www.grants.gov/.

Customer Service for Student Financial Assistance

A major foundation of the *President's Management Agenda* is that government must be focused on the citizens it serves, and student financial assistance programs unquestionably comprise the busiest area of Department customer service activity. In overseeing a student loan portfolio comprising about $400 billion and exceeding 26 million borrowers, and in managing the Pell Grant program that provided more than $15 billion in FY 2005 for low-income postsecondary students, we demonstrate the quality level of our customer service activities before a very large audience. Thus, our customer service performance measures focus on various aspects of service delivery within student financial assistance operations.

The Department's Common Origination and Disbursement System received increased scores in the American Customer Satisfaction Index Survey in FY 2005 over FY 2004. Scores for other student financial assistance services remained relatively unchanged from a year ago, but all our indexed services compare favorably in customer satisfaction with similar governmental and private-sector organizations, often exceeding them. We will draw upon survey results to improve customer satisfaction with our student financial assistance services in FY 2006.

FY 2005 featured the removal of student aid programs from the Government Accountability Office's federal high-risk program list, as well as a green status score in a special *President's Management Agenda* category on eliminating fraud and waste from student aid programs. Additionally, the recently determined FY 2003 national student loan cohort default rate reached an all-time low of 4.5 percent, down from 5.2 percent in FY 2002, a credit to the diligent efforts of Department staff in coordination with postsecondary institutions and loan industry partners to increase student loan repayment.

6.4 Customer service level for Free Application for Federal Student Aid (FAFSA) on the Web.

Fiscal Year	Actual
2003	86
2004	81
2005	**81**
We did not meet our 2005 target of 86.	

FY 2005 American Customer Satisfaction Index Survey.

Analysis of Progress. FAFSA on the Web is the Web-based product that applicants complete to determine their eligibility for federal student aid. While the FY 2005 result falls short of the target, it compares favorably to the national satisfaction trend for similar entities. The latest score from the American Customer Satisfaction Index (ACSI) e-Commerce Index, in December 2004, which includes transactional Web sites much like the FAFSA on the Web, declined from 81 to 79.

FAFSA on the Web continues to deliver outstanding service to the customer. Its score ranks third of all the companies included in the ACSI e-Commerce Index, with only Barnes and Noble (87) and Amazon (84) ahead of it. In addition, the FAFSA on the Web score is higher than the best e-Government's eCommerce sites, which include the Social Security Administration (79), U.S. Mint (76), and Treasury Direct (72).

Customers have become accustomed to world-class Web services and continue to have high expectations in this area. Meeting these expectations is an ongoing challenge. The

Department will use results from the ACSI Survey to inform the development of the new ADvance System platform, which will include enhanced aid application functionality.

Data Quality. The Department's Office of Federal Student Aid annually conducts customer surveys of its most high-profile, highly used products and services by means of the ACSI Survey. This survey, which also provides the satisfaction scores in measures 6.5 through 6.7, is produced annually by a partnership of the National Quality Research Center (at the University of Michigan's Stephen M. Ross School of Business), CFI Group, and the American Society for Quality. The index provides a national, cross-industry, cross-public, and private-sector economic indicator, using a widely accepted methodology to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The Department began tracking the index as a measure of customer service in FY 1999 and has tracked the index each subsequent year except in 2002.

Related Information. Information on the ACSI, which is also applicable for measures 6.5 through 6.7, can be accessed at http://www.theacsi.org/overview.htm.

Additional Information. In FY 2005, nearly 90 percent of the 13.9 million federal financial aid applications were filed electronically, with 96 percent of electronic filers using FAFSA on the Web as their means of transmittal.

6.5 Customer service level for Direct Loan Servicing.

Fiscal Year	Actual
2003	77
2004	78
2005	**76**
We did not meet our 2005 target of 77.	

FY 2005 American Customer Satisfaction Index Survey.

Analysis of Progress. Direct Loan Servicing, the process by which Federal Direct Student Loans are repaid, includes issuing monthly statements, collecting loan balances, and offering customer-service help and Web-based help and information. The ACSI score decline is within the confidence interval from a year ago, such that the difference is statistically insignificant. Likewise, the target is within the 2.5-point confidence interval around the current score, and thus we cannot say conclusively that the target was not met.

The Direct Loan Servicing score compares favorably with the latest ACSI private-sector banking sector average score of 75, and better than most firms in the sector, including Bank of America (72), Wells Fargo (70), and J.P. Morgan (70). The Direct Loan Servicing score is also on par with notable financial services companies like New York Life (76) and Allstate Insurance (76).

The Department will use results from the ACSI Survey to inform the development of the new Common Services for Borrowers platform, which will include enhanced Direct Loan Servicing functionality. As with other student financial assistance platforms, Common Services for Borrowers will have user interfaces via both the World Wide Web and telephone customer service representatives.

Data Quality. See measure 6.4.

Related Information. See measure 6.4.

Additional Information. The Direct Loan Servicer is handling about 6.8 million customer accounts in repayment status with a combined outstanding principal balance of $89.5 million as of September 30, 2005. This represents a 6 percent increase in outstanding balances for Direct Loan Program accounts in repayment status.

6.6 Customer service level for Common Origination and Disbursement.	
Fiscal Year	**Actual**
2003	66
2004	72
2005	**76**
We exceeded our 2005 target of 74.	

FY 2005 American Customer Satisfaction Index Survey.

Analysis of Progress. The Common Origination and Disbursement system is the mechanism that schools use to receive and account for federal funds used in the Federal Direct Student Loan and Pell Grant programs. The ACSI score is reflective of improvements initiated in the Common Origination and Disbursement system to improve customer inquiry handling, as well as a credit to the accuracy and timeliness of information on the system's Web site. The system's score exceeds the average of private-sector organizations operating within the CFI Business to Business Index (68), and is above scores of similar governmental operations like the Export-Import Bank (72), Treasury Direct (72), and GSA Advantage (69).

The Department will use results from the ACSI Survey to inform the development of the new ADvance System platform, which will include enhanced origination and disbursement functionality for both eligible programs.

Data Quality. See measure 6.4.

Related Information. See measure 6.4.

Additional Information. Approximately 5,200 schools participating in either or both eligible programs used the Common Origination and Disbursement system during FY 2005, and $26.8 billion in loans and grants were processed through the system.

6.7 Customer service level for Lender Reporting System.	
Fiscal Year	**Actual**
2003	71
2004	73
2005	**72**
We did not meet our 2005 target of 74.	

FY 2005 American Customer Satisfaction Index Survey.

Analysis of Progress. The Lender Reporting System is the mechanism that lenders and servicers use to receive interest and special allowance payments from the Department on their active Federal Family Education Loan portfolios. The ACSI score decline is within the confidence interval from a year ago, such that the difference is statistically insignificant. Likewise, the target is within the 2.5-point confidence interval around the current score, and thus we cannot say conclusively that the target was not met.

Nonetheless, the Lender Reporting System exceeds the average of private-sector organizations operating within the CFI Business to Business Index (68), and is on par with similar governmental operations like the Export-Import Bank (72), Treasury Direct (72), and GSA Advantage (69).

The Department will use results from the ACSI Survey to inform the development of any new enhancements to the Lender Reporting System. As with other student financial assistance systems, the Lender Reporting System provides user interfaces via both the World Wide Web and telephone customer service representatives.

Data Quality. See measure 6.4.

Related Information. See measure 6.4.

Budget and Performance Integration

A fifth major initiative of the *President's Management Agenda* is Budget and Performance Integration. Simply put, the size of a federal education program's budget should significantly correlate with its efficacy in improving student achievement. If a program works, more funding is justified; if it doesn't, the program either should undergo corrective action or be eliminated.

The 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 both major and minor Department programs. We have 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. In FY 2005, we discovered that much work remains to certify the effectiveness of numerous Department programs.

6.8 The percentage of Department program dollars associated with programs reviewed under the Program Assessment Rating Tool (PART) process that demonstrate effectiveness.

Fiscal Year	Actual
2002	57
2003	47
2004	**47**
2005	Target is 57.

We did not meet our 2004 target of 56.
Data for 2005 are pending.

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

Analysis of Progress. The Department measures progress based upon programs reviewed via the PART. The Department defines effective programs as those ranked effective, moderately effective, or adequate through means of the review. For any given year, the actual data reflect the reviews conducted during or prior to that year, with total appropriations for that given year of effective programs constituting the numerator and total appropriations for that given year of all programs reviewed to date constituting the denominator.

Programs analyzed by the PART that have mandatory funding and are not subject to congressional appropriations, including the Federal Direct Student Loan Subsidies and Federal Family Education Loan Program and Liquidating accounts, are excluded from both the numerator and the denominator in the calculation.

The Department expects to see improvements in program performance information as performance measures are improved, the Department analyzes Consolidated State Performance Reports of elementary and secondary education data, the ED*Facts* analysis tools become operational, and additional program evaluations provide new findings.

Data Quality. The PART analysis began in 2002 and is conducted annually. Results become available in February each year with the release of the President's budget. Upon the release in February 2005 of the analyses completed during FY 2004, 56 Department programs have been reviewed to determine the effectiveness of their purpose, strategic planning, management, and results. These programs represent 67 percent of the FY 2004 budget for the 103 Department programs that either have been or eventually will be analyzed through use of this tool.

Target Context. While the FY 2004 result for this measure has not been presented in a previous Performance and Accountability Report, a score of 56 percent was included for FY 2004 in the Department's FY 2006 Program Performance Plan. This score, however, erroneously included mandatory programs not subject to congressional appropriations, and the 47 percent score shown for FY 2004 properly excludes these programs. In addition, a recalculation of appropriations for FY 2002 and FY 2003 by the Department's Budget Service has resulted in new actual numbers for those years based on the same methodology.

Related Information. Specific information about programs analyzed by the PART is available in the PART section of each goal chapter. General information about the PART can be accessed at http://www.whitehouse.gov/omb/part.

Additional Information. For 35 programs that were analyzed and subsequently received a rating of results not demonstrated, the Department has not yet collected sufficient performance data to ascertain their effectiveness. No conclusion should necessarily be drawn that these programs are ineffective. An additional six programs have received an ineffective rating via the PART, however, and thus fail to meet the Department's standard for effectiveness.

FY 2005 data will be available in February 2006 upon the release of the President's FY 2007 Budget.

Faith-Based and Community Organization Grantees

In addition to the five major *President's Management Agenda* initiatives, the Office of Management and Budget also grades the Department on eliminating improper barriers that hinder faith-based and community organizations from participating in the provision of certain federal social services. The Department has actively encouraged faith-based and community organizations to apply for discretionary grant competitions deemed amenable to their participation. Of particular significance, we developed clear guidance for our program offices on the equal treatment of grant applicants regardless of their organizational background. This effort has had a side benefit of increasing our awareness of the efforts of novice (first-time) applicants other than faith-based and community organizations.

6.9 The difference between the success rate of faith-based and community organizations (FBCOs) and non-FBCOs in receiving federal discretionary grant awards from the Department of Education.	
Fiscal Year	**Actual**
2003	FBCO rate was 1 percentage point less.
2004	**FBCO rate was 5.5 percentage points less.**
2005	**FBCO rate was 1.6 percentage points less.**
We did better than our 2004 target of 10 percentage points less. We did better than our 2005 target of 5 percentage points less.	

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

Analysis of Progress. The Department initially calculated the success rate for faith-based organizations in three discretionary grant programs based on the FY 2003 grant cycle. This calculation indicated that such organizations were successfully awarded grants at a rate only 1 percent less than that of other applicants. Competitions included in this calculation in all years are for programs considered "amenable" by the Department, meaning that the Department determined the programs to be both open by statute and suitable to participation by faith-based and community organizations.

The amenable program base for FY 2004 and FY 2005 consisted of the Community Technology Centers Program, the Physical Education Program, and the Mentoring Program. All three programs held new competitions and made grant awards from these competitions in FY 2004. In FY 2005, all three programs made awards further down the slate to eligible applicants who had not been awarded funding in FY 2004. Given this explanation, award success rates for individual programs are as follows:

- For the Community Technology Centers Program, faith-based and community organizations had a 4 percent award success rate in FY 2004 compared to 10 percent for other entities; the success rate for faith-based and community organizations in FY 2005 was 4 percent compared to 2 percent for other entities.
- For the Physical Education Program, faith-based and community organizations had a 12 percent award success rate in FY 2004 compared to 20 percent for other entities; the success rate for faith-based and community organizations in FY 2005 was 5 percent compared to 9 percent for other entities.
- For the Mentoring Program, faith-based and community organizations had a 10 percent award success rate in FY 2004 compared to 13 percent for other entities; the success rate for faith-based and community organizations in FY 2005 was 6 percent compared to 8 percent for other entities.

Data Quality. The rate of success for faith-based and community organizations is computed as the percentage of such applicants who win discretionary grant awards via competitions. The rate of success for other applicants is computed in the same way. The target specifies the maximum rate by which faith-based and community organizations can be less successful in winning awards than other entities. The Department intends that all grant proposals be appraised on their merits without regard to the applicant's organizational identity.

Target Context. The targets for FY 2004 and FY 2005, which were established before the final FY 2003 number was known, were lower than the FY 2003 actual number, which was not tied to a target.

The established target was based on the overall federal goal to provide equal opportunity to faith-based and community organizations. However, the measure for FY 2003 only addresses the success of faith-based organizations, as community organizations were not included due to resource limitations. Community organizations are included in the count beginning in FY 2004.

Related Information. Information about grant opportunities for faith-based and community organizations can be accessed at http://www.ed.gov/fund/grant/apply/newapplicant.html.

Discontinued Strategic Measures

The following measures were discontinued after FY 2004 but were reported as pending in our *FY 2004 Performance and Accountability Report*. We report here our results. (See p. 23 for a discussion of why we discontinued measures.)

Measure		Fiscal Year	Target	Actual	Status
6.1.5	The percentage of erroneous payments	2004	Less than 2.5	0.3	Met
6.4.8	The number of material weaknesses and reportable conditions in FSA financial statements audit	2004	1	2	Not Met
6.7.1	President's Quality Award	2004	Apply for and win the award	Applied for and won the award	Met

Sources and Notes

6.1.5 U.S. Department of Education, Office of the Chief Financial Officer, contracted analysis performed by the U.S. Department of Energy's Oak Ridge National Laboratory in December 2004.

The 0.3 percent rate is the estimated grand average rate of questioned costs determined by Oak Ridge as a percentage of total expenditures for FY 2004, applying the methodology used for actual expenditures in FY 2000 through FY 2003. The methodology is based on data available from the Federal Audit Clearinghouse, the Department's Audit Accountability and Resolution Tracking System, and the Department's Grant Administration and Payment System. The scope of this project is limited to grants and excludes all federal student financial assistance programs; therefore, the 0.3 percent questioned cost rate applies in the aggregate to all Department programs outside the student financial assistance sector.

The Department's Office of Inspector General questioned parts of the Oak Ridge methodology in an April 29, 2005, memorandum. As a result, the Office of the Chief Financial Officer has extended the Oak Ridge contract both to reanalyze the data with respect to major findings of the Office of Inspector General memorandum and to perform an analysis of new information in the audit databases. The revised analysis is expected to be complete in January 2006.

The Department is performing ongoing work to reduce improper payments in risk-susceptible programs; this work is described in detail in the section of the *Performance* *and Accountability Report* that summarizes the Department's compliance with the *Improper Payments Information Act of 2002*.

6.4.8 Independent Auditors' FY 2004 Federal Student Aid Financial Statement Audit Report.

In January 2005, the Office of Federal Student Aid was removed from the Government Accountability Office's list of government programs at high risk for fraud, waste, abuse, and mismanagement. This removal enabled the Department to earn a green status score in March 2005 on a program-specific initiative of the *President's Management Agenda* category, Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management. The independent auditors reported no material weaknesses and two reportable conditions in their FY 2004 Office of Federal Student Aid financial statement audit. These conditions were the same as those reported by the independent auditors in their Department of Education financial statement audit for FY 2004. Additionally, the *FY 2004 Performance and Accountability Report* incorrectly reported the number of actual material weaknesses or reportable conditions in the Office of Federal Student Aid financial statement audits for FY 2002 and FY 2003; the actual numbers were 3 and 2, respectively.

6.7.1 U.S. Department of Education, Office of Management and Office of the Chief Financial Officer.

The Department received the President's Quality Award in FY 2004 for exemplary work in the Improved Financial Performance category of the *President's Management Agenda*. The President's Quality Award is the highest honor available to federal agencies that demonstrate outstanding achievement in various internal management activities.

Goal 6: Establish Management Excellence

Performance Summary

The Department attributes the accounts below to Goal 6. In the table we provide an overview of the results of the two offices on their performance measures. (See p. 59 for our methodology of calculating the percentage of targets met, not met, and without data.) Individual performance reports are available at http://www.ed.gov/about/reports/annual/2005report/program.html. We also provide both FY 2005 appropriations and FY 2005 expenditures for each of these accounts. (See pp. 24-25 for an explanation of why appropriations and expenditures for a given year are not the same and the effect that difference has on the connection between funding and performance.)

Program Name	Appro-pria-tions†	Expen-ditures‡	Program Performance Results Percent of Targets Met, Not Met, Without Data											
	FY 2005 $ in millions	FY 2005 $ in millions	FY 2005			FY 2004			FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
Office for Civil Rights	89	86	50	0	50	100	0	0	100	0	0	100	0	0
Office of Inspector General	47	50	33	67	0							54	31	15
Program Administration #	419	420		#			#			#			#	
TOTAL	**555**	*** 556**												

† Budget for each account represents function budget authority.

‡ Expenditures occur when recipients draw down funds to cover actual outlays. FY 2005 expenditures may include funds from prior years' appropriations.

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

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

* Expenditures by program do not include FY 2005 estimated accruals in the amount of $9 million.

Goal 6: Establish Management Excellence

Findings and Recommendations from Program Evaluations, Studies, and Reports

Information that the Department uses to inform management and program improvements comes from many sources, including Department-sponsored evaluations and Government Accountability Office (GAO) reports. The following evaluation was completed during FY 2005.

Department's Compliance with the Prompt Payment Act

The *Prompt Payment Act* requires federal agencies to pay their bills on a timely basis, pay interest penalties when payments are made late, and take discounts only when payments are made by the discount date. The objectives of this audit by the Department's Office of Inspector General audit were to determine the Department's compliance with the provisions of the *Prompt Payment Act* and the adequacy of its internal controls. (See p. 192 for a summary of this report.)

Report on the Department's Compliance with the Prompt Payment Act

Report Title

Department of Education's Compliance with the Prompt Payment Act: Final Audit Report (ED-OIG/A17-E0008) September 2005.

Overview

The *Prompt Payment Act*, Public Law 97-177, requires federal agencies to pay their bills on a timely basis, pay interest penalties when payments are made late, and take discounts only when payments are made by the discount date. The objectives of the audit were to determine (1) the Department's compliance with the provisions of the *Prompt Payment Act* and (2) the adequacy of its internal controls to ensure compliance with the act. The audit disclosed that (1) incorrect receipt dates were used to calculate invoice payment due dates, (2) adjustments to the payment process are needed, and (3) annual quality control procedures need to be developed and reviews need to be conducted. The auditors project that about 3,100 invoice payments during the review period, January 1, 2004, through September 30, 2004, had underpaid interest. The auditor's estimate of the total amount of interest underpayments during the review period was no less than $175,135 and no more than $353,055.

Recommendations

- The Department should develop a special use report and prepare a written reminder to procurement staff regarding the requirements for properly annotating the date of receipt of invoices. The Department should cease combining current and overdue invoices and should strengthen controls over the invoice approval process to ensure timely request of payment.
- Prior to implementation of Oracle 11i, the Department should develop a process that would monitor and correct the recording and paying of invoices. The Department should also develop policy and procedures to ensure that an annual quality control validation review is performed.

Department's Response

- The Department concurred with most recommendations but determined that modification to the present Oracle system would not be economically practical.
- The Department will update current operating procedures to address the proper annotation of receipt of invoices.
- The Department will place greater emphasis on monitoring the timeliness of invoice payments.
- The Department will establish formal policy and procedure to ensure that prompt payment processes are validated no less frequently than annually.

Data Quality and Timeliness

The Quality of the Department's Performance Data

Complete, accurate, and reliable data are essential for effective decision-making. The Department has had a consistent focus on improving the quality of the data we use to administer our programs and to develop policy. More, see p. 194.

EDEN

The Performance-Based Data Management Initiative is a collaborative effort among the Department, state educational agencies, and industry partners to improve the quality and timeliness of education information. It has built the Education Data Exchange Network (EDEN) repository that consolidates K-12 education data. More, see p. 196.

Data Improvement Strategies at the Program Level

Virtually every program office within the Department is improving the quality, timeliness, and reliability of the information used within the Department.

Detailed examples from three program offices are highlighted. More, see p. 199.

The Quality of the Department's Performance Data

Complete, accurate, and reliable data are essential for effective decisionmaking. State and local educational agencies have historically provided education performance data that do not meet our information quality standards. Since the passage of the *No Child Left Behind Act*, the accuracy of state and local education performance data has become even more crucial. Funding decisions are made and management actions are taken on the basis of this performance information. Reliable information is a prerequisite for effective management and essential for implementing the requirements of laws and governmentwide standards for dissemination of information.

Ensuring that data are high quality is not solely the responsibility of our grantees that report data to us. The Department is responsible for accurate definitions of requested data, efficient systems to gather it, and technical assistance to data providers. The Department itself also develops and uses data. One of the most visible areas in which this occurs is the annual budget development process. The central focus of our budget process is to align goals, objectives, performance measures, and program funding levels to develop a performance budget. One of the five governmentwide elements of the *President's Management Agenda* is the integration of budget and performance, which focuses on making budget decisions based on results.

The Department, facing the opportunities provided by both the *No Child Left Behind Act* and the integrated performance-based budget process, recognizes that we need to improve the accuracy, reliability, and completeness of our data.

Although immediate connections between specific grantee performance and funding levels are sometimes challenging to make, the Department is building systems to yield reliable performance data to inform budget and policy decisions. These systems will enhance our budget process and increase the accuracy and reliability of the information we receive from state and local educational agencies.

Chief among these efforts is the Education Data Exchange Network (EDEN), the Department's centralized K-12 data management repository. Other data quality improvement efforts include those supported by the Office of Vocational and Adult Education, the National Center for Education Statistics, and the Office of Safe and Drug-Free Schools.

In addition to these efforts, the Department is also working with states to address systemic issues in improving the reliability and accuracy of states' data. During Title I compensatory education state monitoring visits, for example, Department staff collect evidence on whether a state has established clear criteria and quality control mechanisms for collecting data from schools and school districts that are used for accountability purposes.

The Department has recently initiated a contract task order to develop data quality guidelines for states and school districts that will provide guidance and suggestions for improving states' internal quality control systems to reduce errors and increase reliability, as well as to improve data quality monitoring procedures. The Department will disseminate this guide to states along with training material to accompany the guide.

The performance data in this Performance and Accountability Report, the best data we have, are only as accurate as what is reported to us by our grantees. Our evolving management controls are not yet able to fully describe the accuracy of these data. However, the Department has had a consistent focus on improving the quality of the data we use to administer our programs and to develop policy. Each year the data we report are more accurate and more reliable than those of prior years.

Major hurdles must be overcome before the states and the Department have the data systems that will yield timely, reliable, accurate, high-quality data. Among them are improving the timeliness and accuracy of performance information; building and maintaining the technical infrastructure of hardware, software, and networks; and securing the services of staff who are able to work with these systems. We are no longer working to build a single data system; our goal is an integrated system of systems. We welcome this challenge.

EDEN
The Education Data Exchange Network: Improving Data Quality and Timeliness in the Near Future

The Department's Performance-Based Data Management Initiative (PBDMI) has been a collaborative effort among the Department, state educational agencies, and industry partners to establish a process for states to directly submit elementary and secondary education data from the state, district, and school levels to the Department by electronic means. Funded in 2003 and operational by 2004, this initiative has built a currently operational Education Data Exchange Network (EDEN)—a central repository that consolidates K–12 information collected from states, districts, and schools. Through EDEN the Department is improving data quality and reducing the paperwork burden for state and local education partners. Through its data collections, EDEN will collect and manage the following types of educational data: achievement and performance statistics, school characteristics, demographics; and program financial data.

The Department is now developing ED*Facts,* which will allow Department staff, state education officials, and the public to access the EDEN data repository. State educational agencies, as well as federal program offices, will find ED*Facts* useful for benchmarking and for identifying best practices.

Data collected will be used to evaluate the effectiveness and efficiency of federal education programs. It will provide the business intelligence required to track and improve program management, including the budgetary focus on the federal education programs that provide the best outcomes for the students and their families.

Since EDEN data will be used to help determine which federal programs are working and to monitor the status of states in meeting the mandates of the *No Child Left Behind* legislation, the need for accurate and complete data is crucial. Confidence in the EDEN data starts with data quality. There are two major areas of focus to ensure the quality of EDEN data:

- Outside EDEN—Before submission to EDEN, data collection that occurs at the school, district, and state levels needs well-organized, methodologically rigorous data-collection techniques. The Department is providing intensive technical assistance to states through their participation in EDEN, and through the National Center for Education Statistics, and individual program offices.
- Inside EDEN—After the data files have been submitted by the state educational agencies, data will be screened and validated through electronic and human subject-matter expert review processes.

The data quality control procedures and checkpoints ensure that the data and the reports produced by EDEN are both accurate and timely. The quality control procedures and associated data business rules include standards for data acceptance; documenting the criteria for all edit, validation, and reasonability checks; developing meaningful data alerts to state educational agencies (for missing or erroneous data); and developing standards for data certification and validations. Quality control standards and procedures also will be established in accordance with regulations to help ensure compliance with audit requirements.

EDEN is currently undergoing a rigorous assessment to determine the best course of development and implementation of data quality control processes. Once this assessment has been completed and the recommended options are selected, the data quality procedures will be refined and enhanced. In general, the system will do the following:

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

The future state of data quality consists of the following:

- An organization responsible for data quality throughout the information management life cycle.
- The ability for state educational agencies to view and resolve data submission errors via a user-friendly Web interface.
- A centralized data certification system and process.
- A single data repository for data usage.
- Most importantly, wide availability of the data through ED*Facts* and its use for budget decisions and program accountability will increase attention to the quality of the data.

These processes and controls will ensure that data quality is maintained during the collection and transmission stages and the Department's data are complete, accurate, and valid.

A recent report by the Office of the Inspector General indicates that PBDMI has achieved success in a number of areas:

- The PBDMI Decision Support System Pilot successfully collected large amounts of education data (i.e., over 2,200 files containing 63 different file types) from 50 state educational agencies via the Internet.
- The EDEN Submission System has received education data submissions from 50 states.
- EDEN has definitions for over 140 common data elements that will be used by the program managers and state educational agencies for collecting and reporting education information.

The following challenges remain a focus of the project:

- Providing guidance to state and local educational agencies in developing effective data input controls (i.e., edit checks, business processes) to verify the quality of education data at the source level and to ensure that data quality is maintained during the collection and data transmission process.
- Implementing comprehensive requirements and configuration management controls to develop EDEN integrated systems that will meet system functionality and performance requirements.
- Developing a comprehensive approach to define, collect, and standardize a complete listing of standard data elements and definitions.
- Developing comprehensive training programs and guidance to assist state educational agencies in reducing ongoing data submission errors with the EDEN Submission System.
- Coordinating with the Department's Enterprise Chief Architect to adopt a PBDMI metadata dictionary as part of the Department's Enterprise Architecture to define standard data elements, data definitions, and the business rules associated with collecting those data elements.

The Department has moved to address each of these recommendations contained within the Office of Inspector General's report.

Data Improvement Strategies at the Program Level

National Center for Education Statistics

The work of the National Center for Education Statistics (NCES) has been guided by written standards since 1988. As part of the congressionally mandated governmentwide Information Quality Guidelines activity of 2002, NCES standards underwent a substantial revision. NCES requires that all of its products meet the specifications identified in the 2002 Statistical Standards. The Statistical Standards are built on the basic tenets of quality, utility, and integrity. They cover the range of activities for which NCES has been given responsibility—from research and procurement plans, sampling, data collection, and processing to evaluation of the data, protecting confidentiality, analysis, report writing, data set preparation, and dissemination. NCES reports and data products must also pass an extensive technical quality review, including both internal review and a "blind" external review conducted by the Office of the Institute of Education Sciences Deputy Director for Science.

NCES continues to monitor the implementation of the statistical standards and center-sponsored data collections by documenting the use of incentives, response rates, timeliness, and utility of all data collections. These efforts contribute to the ongoing improvement of NCES data. By documenting the interaction between the use of incentives and the resulting response rates, NCES staff can make more effective decisions concerning where incentives are most useful in improving response rates and what types and levels of incentives are most effective with different types of respondents. Monitoring the use of incentives provides a basis for promulgating shared best practices across data collections. Finally, the data collected on timeliness serve as a baseline for newly developed performance standards intended to decrease the time period from the end of data collection to the release of the first report.

NCES is also charged with the responsibility of working with other components of the Department and with state and local educational institutions to improve the quality of education data. To this end, NCES conducted research that provided the basis for the Department's selection of the average freshman graduation rate, and anticipates publishing that report and related data this fall. This rate is the most reliable among a number of possible alternatives and will be used by the Department on an interim basis until the data required for individual states to compute a true cohort graduation rate are available. Related to this, NCES is responsible for a grant program that provides funding to states for the development of high-quality longitudinal student information systems that are needed to compute a true cohort graduation rate.

Through its Cooperative Systems, NCES encourages improved quality in the data collected at the elementary/secondary and postsecondary levels. At the elementary/secondary level, NCES recently released a *Cooperative System Guide to Building a Culture of Data Quality*, aimed at schools and school districts. At the postsecondary level, NCES has redesigned the Integrated Postsecondary Education Data System from a paper system to an online data collection. The combination of built-in edits and the shortened time to release has served to improve the quality of these data, while at the same time increasing their utility.

Office of Vocational and Adult Education

Federal and state officials are in agreement that all states must have valid and reliable accountability systems. Through a number of activities, the Office of Vocational and Adult Education (OVAE) and states have significantly improved the quality of state adult education performance data over the last several years as states have implemented the National Reporting System for adult education. Our joint efforts have paid dividends: state adult education programs' performance is now measured on the basis of participant learning gains that are determined by standardized assessments.

OVAE has enhanced states' capacity to provide high-quality assessment data by developing state data quality standards that identify the policies, processes, and materials that states and local programs should have in place to collect valid and reliable data. OVAE uses these standards when conducting onsite monitoring of states. If a state does not meet one or more of the standards, OVAE identifies the deficiencies in the monitoring report and requires the state to address them through a corrective action plan.

OVAE also provides ongoing training and technical assistance to states to promote compliance with the NRS requirements, the collection of valid and reliable data, and the use of data to improve program performance. OVAE also provides guidebooks and training to state teams, as well as materials states can use in training local providers on the following topics:

- Developing an individual student record system that can be used for accountability and program improvement purposes.
- Setting local program performance standards, monitoring local program performance, and using performance data to help local programs improve student outcomes.
- Using NRS data for program management and improvement.
- Data collection guidelines and procedures.

OVAE also offers online tutorials on these topics for local program staff.

To improve the quality of outcome data, OVAE has promoted the use of unemployment insurance wage records to identify the employment outcomes of adult education participants, consistent with the requirements of the *Family Educational Rights and Privacy Act*. Unemployment insurance wage records are a more accurate and less expensive way of identifying employment outcomes than follow-up student surveys. Nearly half of the states are now using state unemployment insurance wage records, and more are planning to begin using them in the next year.

Office of Special Education Programs

For the past eight years, the Office of Special Education Programs (OSEP) has implemented a data-dependent accountability system (Continuous Improvement and Focused Monitoring System-CIFMS) that has focused on state performance on a number of performance measures and regulation-based compliance requirements. In support of CIFMS, the office has provided the following ongoing technical assistance and data reviews to support states' efforts to provide valid, reliable and accurate data related to the implementation of the *Individuals with Disabilities Education Act*:

- Conducting onsite verification visits to examine state systems for the collection of valid, reliable, and accurate data and providing follow-up technical assistance as needed.
- Providing individual state-tailored technical assistance through Westat, OSEP's data collection contractor.
- Providing ongoing technical assistance and support to states on sampling and the development of measurable and rigorous targets.
- Creating the General Supervision Enhancement Grant program, using Part D (National Activities) of the act's technical assistance funds to provide funds to states for the development of outcome indicators and measurement systems. Projects have included such activities as creating web-based data systems, creating individual student identifier record systems, and creating new systems to allow data from different agencies to "talk" to each other.

Section 616 of the reauthorized *Individuals with Disabilities Education Act* requires state educational agencies and lead agencies for Part C (Infants and Toddlers Program) to develop State Performance Plans with indicators established by the Department and targets set by the states, and to use those targets and indicators in reporting annually to the Secretary on the performance of the state. States must also use those targets and indicators to report annually to the public on the performance of each local educational agency and local early intervention service provider in the state.

The Department recognized that many state and local educational agencies lacked methods to collect and analyze outcome indicator data and, therefore, the capacity to collect sufficient data to determine the impact of early intervention and special education services. Section 616(i) of the reauthorized *Individuals with Disabilities Education Act* created a new funding authority and required the Secretary to provide technical assistance, where needed, to improve the capacity of states to meet the data collection requirements for all children, including infants and toddlers with disabilities.

The General Supervision Enhancement Grant Program, funded under Special Education Technical Assistance on State Data Collection at $4.5 million, has as its focus developing or enhancing state outcome indicators and methods to collect and analyze outcome indicator data.

Project proposals are expected to support states in their efforts to ensure that required data submissions are valid, reliable, and accurate. OSEP expects to make grant awards in January 2006.

Improving Data Systems—Office of Safe and Drug-Free Schools

The Department's Office of Safe and Drug-Free Schools is improving state data systems and linking those improvement activities to the Performance-Based Data Management Initiative. The *No Child Left Behind Act* requires that each state collect certain school crime and safety data elements and report the data collected to the public. Under the statute, states must create a system for collecting and disseminating information for several data elements, including truancy and the incidence of violence and drug-related offenses leading to suspension and expulsion.

The Grants to States to Improve Management of Drug and Violence Prevention Program provides support to states to explore strategies that will address the challenges they face in collecting and using data, including the following:

- Lack of standardized collection instruments and definitions both within and across states.
- Lack of expertise related to collecting data about youth drug use and violence.
- Lack of time and other resources to support high-quality data collection and analysis in these areas.

Improved data collection systems that result from this program will allow state, district, and school administrators to develop, expand, and/or enhance the capacity of state and local educational agencies to collect, analyze, and use data to improve the quality of drug and violence prevention programs. In addition, these systems will be able to identify the needs of students and assess progress in addressing these important problems.

Project proposals are expected to adhere to the following requirements:

- Be consistent with the state's Performance-Based Data Management Initiative strategy and produce data that can be transmitted to the Department via its Education Data Exchange Network.
- Include validation and verification activities at the state and substate recipient levels designed to ensure the accuracy of data collected and reported.

The first projects funded under this program were awarded in September 2004. Additional projects were awarded funds in September 2005.

Financial Details

Financial Summary

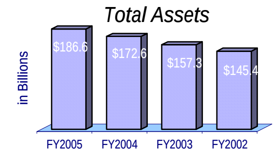
(Dollars in Millions)

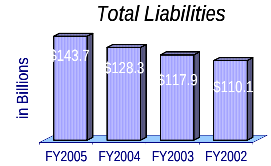
At End of Year	% Change 2005 / 2004	FY2005	FY2004	FY2003	FY2002
Condensed Balance Sheet Data					
Fund Balance with Treasury	+ 17%	$ 77,569	$ 66,371	$ 57,908	$ 52,116
Credit Program Receivables	+ 3%	107,937	104,966	97,965	91,706
Accounts Receivable	- 9%	141	155	183	265
Other	- 18%	920	1,117	1,202	1,280
Total Assets	+ 8%	$ 186,567	$ 172,609	$ 157,258	$ 145,367
Treasury Debt for Loan Program	+ 8%	$ 104,597	$ 96,649	$ 92,018	$ 89,782
Other Intragovernmental Liabilities	+ 2%	6,146	6,051	8,250	6,089
Liabilities for Loan Guarantees	+ 31%	30,611	23,329	15,432	11,679
Other Liabilities	+ 6%	2,371	2,246	2,124	2,534
Total Liabilities	+ 12%	143,725	128,275	117,824	110,084
Unexpended Appropriations	+ 0%	47,288	47,285	43,931	39,121
Cumulative Results of Operations	+ 51%	(4,446)	(2,951)	(4,497)	(3,838)
Total Net Position	- 3%	42,842	44,334	39,434	35,283
Total Liabilities and Net Position	+ 8%	$ 186,567	$ 172,609	$ 157,258	$ 145,367

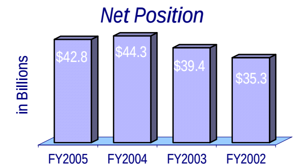
For the Year	% Change 2005 / 2004	FY2005	FY2004	FY2003	FY2002[1]
Statement of Net Cost					
Total Cost	+ 17%	$ 82,204	$ 70,187	$ 65,327	$ 55,923
Earned Revenue	+ 6%	(6,965)	(6,564)	(6,523)	(6,157)
Total Net Cost of Operations	+ 18%	$ 75,239	$ 63,623	$ 58,804	$ 49,766
Net Cost by Strategic Goal[2]					
Goal 2 Improve Student Achievement	+ 11%	$ 36,415	$ 32,687	$ 29,679	N/A
Goal 3 Develop Safe Schools and Strong Character	+ 16%	877	756	776	N/A
Goal 4 Transform Education into Evidenced-Based Field	- 5%	442	467	490	N/A
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	+ 24%	36,940	29,713	27,859	N/A
Goal 6 Management Excellence		565	-	-	N/A
	+ 18%	$ 75,239	$ 63,623	$ 58,804	$ -
Net Cost Percentages by Strategic Goal					
Goal 2 Improve Student Achievement	- 6%	48.40%	51.38%	50.47%	
Goal 3 Develop Safe Schools and Strong Character	- 2%	1.17%	1.19%	1.32%	
Goal 4 Transform Education into Evidenced-Based Field	- 19%	0.59%	0.73%	0.83%	
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	+ 5%	49.09%	46.70%	47.38%	
Goal 6 Management Excellence		0.75%	N/A	N/A	

[1] *The Department's Strategic Goals were developed in fiscal year 2002. Net costs by Strategic Goal were not readily available at that time*

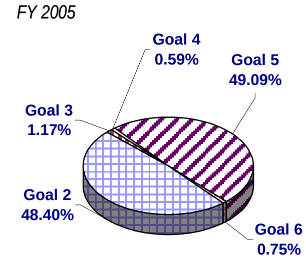
[2] *In fiscal year 2004 Goal 6 was not included in this summary*

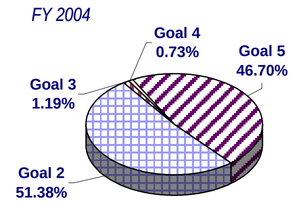






Net Cost by Strategic Goal





Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for fiscal years 2005 and 2004 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 (GAAP) 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.

Message from the Chief Financial Officer

The Department of Education continued its high standard of financial management and reporting during fiscal year (FY) 2005. In this part of the *Performance and Accountability Report*, I have the pleasure of presenting to the President and the American people the financial details on the Department's stewardship and management of the public funds to which we have been entrusted.

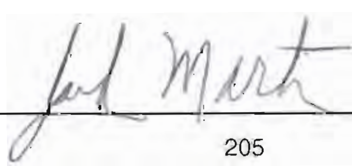
The Department's impressive record of excellence in financial management has been a joint effort of our managers, employees, and business partners who make it a priority to ensure that the highest quality financial data is reported. Highlights of these successful efforts over the last year are as follows:

- Earned an unqualified opinion on the principal financial statements for the fourth year in a row, demonstrating a clear pattern of financial accountability.
- Provided unqualified assurance for the requirements of the *Federal Manager's Financial Integrity Act*.
- Awarded Presidential Award for Management Excellence in December 2004 for recognition of improved financial performance.
- Maintained a "green" status in Financial Management on the President's Management Scorecard for the second year in a row.
- Awarded the prestigious Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for the second year in a row.
- Continued to have no material weaknesses identified as part of our Report on Internal Control for the third year in a row.

The Department furthered its efforts to correct its two reportable conditions identified by the auditors in the Report on Internal Controls. To address the reportable condition regarding the credit reform estimation and financial reporting processes, the Department further refined the credit reform estimation processes. The Department also continued to address the other reportable condition regarding controls surrounding information systems. Specifically, the Department has ensured all systems and applications have undergone a thorough and rigorous certification and accreditation process. Furthermore, the Department established a team of technology and security experts to conduct independent verification and validation on all information systems findings in prior audits. We look forward to an even greater reliance upon our controls as a result of implementing these initiatives.

In looking forward to FY 2006, the Department established a Senior Assessment Team and specifically tasked working groups to address the expanded requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*. The opportunities that this examination will present for us to further review and improve upon our internal controls will continue to ensure the greatest integrity in our financial management and reporting.

Jack Martin
Chief Financial Officer
November 15, 2005



Principal Financial Statements

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2005 and 2004

(Dollars in Millions)

	Fiscal Year 2005		Fiscal Year 2004	
Assets:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	77,569	$	66,371
Accounts Receivable (Note 5)				3
Other Intragovernmental Assets		12		17
Total Intragovernmental		77,581		66,391
Cash and Other Monetary Assets (Note 3)		888		1,040
Accounts Receivable, Net (Note 5)		141		152
Credit Program Receivables, Net (Note 4)		107,937		104,966
General Property, Plant and Equipment, Net (Note 6)		19		21
Other Assets		1		39
Total Assets	**$**	**186,567**	**$**	**172,609**
Liabilities:				
Intragovernmental:				
Accounts Payable	$	12	$	14
Treasury Debt (Note 7)		104,597		96,649
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 3)		888		1,040
Payable to Treasury (Note 8)		5,166		4,993
Other Intragovernmental Liabilities (Note 9)		80		4
Total Intragovernmental		110,743		102,700
Accounts Payable		684		485
Accrued Grant Liability (Note 11)		1,328		1,361
Liabilities for Loan Guarantees (Note 4)		30,611		23,329
Federal Employee and Veterans' Benefits (Note 10)		17		19
Other Liabilities (Note 9)		342		381
Total Liabilities (Note 10)	**$**	**143,725**	**$**	**128,275**
Commitments and Contingencies (Note 18)				
Net Position:				
Unexpended Appropriations (Note 12)	$	47,288	$	47,285
Cumulative Results of Operations (Note 12)		(4,446)		(2,951)
Total Net Position	**$**	**42,842**	**$**	**44,334**
Total Liabilities and Net Position	**$**	**186,567**	**$**	**172,609**

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, 2005 and 2004
(Dollars in Millions)

	Fiscal Year 2005	Fiscal Year 2004
Program Costs		
Program A (Enhancement of Postsecondary and Adult Education)		
Intragovernmental Gross Costs	$ 7,141	$ 6,376
Less: Intragovernmental Earned Revenue	2,140	1,627
Intragovernmental Net Costs	5,001	4,749
Gross Costs with the Public	35,210	28,167
Less: Earned Revenues from the Public	4,730	4,812
Net Costs with the Public	30,480	23,355
Program A Total Net Cost	$ 35,481	$ 28,104
Program B (Creation of Student Achievement, Culture of Achievement and Safe Schools)		
Intragovernmental Gross Costs	$ 186	$ 174
Less: Intragovernmental Earned Revenue	76	103
Intragovernmental Net Costs	110	71
Gross Costs with the Public	24,278	21,933
Less: Earned Revenues from the Public		
Net Costs with the Public	24,278	21,933
Program B Total Net Cost	$ 24,388	$ 22,004
Program C (Transformation of Education)		
Intragovernmental Gross Costs	$ 82	$ 77
Less: Intragovernmental Earned Revenue	3	4
Intragovernmental Net Costs	79	73
Gross Costs with the Public	1,138	578
Less: Earned Revenues from the Public	14	14
Net Costs with the Public	1,124	564
Program C Total Net Cost	$ 1,203	$ 637
Program D (Special Education and Program Execution)		
Intragovernmental Gross Costs	$ 94	$ 34
Less: Intragovernmental Earned Revenue	2	4
Intragovernmental Net Costs	92	30
Gross Costs with the Public	14,075	12,848
Less: Earned Revenues from the Public		
Net Costs with the Public	14,075	12,848
Program D Total Net Cost	$ 14,167	$ 12,878
Total Program Net Costs	**$ 75,239**	**$ 63,623**
Net Cost of Operations (Note 17)	**$ 75,239**	**$ 63,623**

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, 2005 and 2004
(Dollars in Millions)

	Fiscal Year 2005		Fiscal Year 2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	**$ (2,951)**	**$ 47,285**	**$ (4,496)**	**$ 43,931**
Budgetary Financing Sources				
Appropriations Received		77,033		72,091
Other Adjustments (+/-)	(3)	(1,312)		(981)
Appropriations Used	75,718	(75,718)	67,756	(67,756)
Nonexpenditure Financing Sources - Transfers-Out	(33)		(4)	
Other Financing Sources				
Imputed Financing	31		32	
Adjustments to Financing Sources (+/-)	(1,969)		(2,616)	
Total Financing Sources	$ 73,744	$ 3	$ 65,168	$ 3,354
Net Cost of Operations (+/-)	**$ (75,239)**	**$ -**	**$ (63,623)**	**$ -**
Net Change	(1,495)	3	1,545	3,354
Ending Balances (Note 12)	**$ (4,446)**	**$ 47,288**	**$ (2,951)**	**$ 47,285**

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, 2005 and 2004

(Dollars in Millions)

	Fiscal Year 2005		Fiscal Year 2004	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Budget Authority :				
Appropriations Received	$ 76,981	$ 3	$ 72,090	$ 1
Borrowing Authority		32,209		22,483
Unobligated Balance:				
Beginning of Period	2,245	15,128	5,329	9,766
Spending Authority From Offsetting Collections:				
Earned				
Collected	3,198	49,536	5,250	37,716
Receivable From Federal Sources	(3)	(2)		4
Change in Unfilled Customer Orders				
Advance received (collected)	64		(34)	
Without advance from Federal sources	(68)	34	(5)	
Subtotal	$ 3,191	$ 49,568	$ 5,211	$ 37,720
Recoveries of Prior Year Obligations	1,536	1,973	1,587	3,047
Permanently Not Available	(4,047)	(24,692)	(6,575)	(18,893)
Total Budgetary Resources (Note 14)	**$ 79,906**	**$ 74,189**	**$ 77,642**	**$ 54,124**
Status of Budgetary Resources:				
Obligations Incurred: (Note 14)				
Direct	$ 77,677	$ 51,372	$ 75,306	$ 38,996
Reimbursable	92		91	
Subtotal	$ 77,769	$ 51,372	$ 75,397	$ 38,996
Unobligated Balance:				
Apportioned	526		655	948
Unobligated Balance Not Available	1,611	22,817	1,590	14,180
Total Status of Budgetary Resources	**$ 79,906**	**$ 74,189**	**$ 77,642**	**$ 54,124**
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	$ 48,147	$ 7,788	$ 42,419	$ 8,399
Obligated Balance, Net, End of Period:				
Accounts Receivable			(3)	(2)
Unfilled customer orders from Federal Sources	(3)	(34)	(71)	
Undelivered Orders	46,493	10,472	46,468	7,666
Accounts Payable	1,720	330	1,753	124
Outlays:				
Disbursements	76,251	46,389	68,087	36,557
Collections	(3,264)	(49,536)	(5,217)	(37,716)
Subtotal	$ 72,987	$ (3,147)	$ 62,870	$ (1,159)
Less: Offsetting Receipts	32		51	
Net Outlays (Note 14)	**$ 72,955**	**$ (3,147)**	**$ 62,819**	**$ (1,159)**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Financing
For the Years Ended September 30, 2005 and 2004

(Dollars in Millions)

	Fiscal Year 2005	Fiscal Year 2004
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred (Note 14)	$ (129,141)	$ (114,393)
Less: Spending Authority from Offsetting Collections & Recoveries	56,268	47,565
Obligations Net of Offsetting Collections and Recoveries	(72,873)	(66,828)
Less: Offsetting Receipts	(32)	(51)
Net Obligations	$ (72,905)	$ (66,879)
Other Resources		
Imputed Financing From Costs Absorbed by Others	(31)	(32)
Net Other Resources Used to Finance Activities	(31)	(32)
Total Resources Used to Finance Activities	**$ (72,936)**	**$ (66,911)**
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 (+/-)	$ (3,197)	$ (4,809)
Resources that Fund Expenses Recognized in Prior Period (Note 15)	(1,610)	213
Budgetary offsetting collections and receipts that do not affect net cost of operations	2	
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	46,891	35,339
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in the Current or Prior Period	(39,977)	(31,145)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ 2,109**	**$ (402)**
Total Resources Used to Finance the Net Cost of Operations	**$ (75,045)**	**$ (66,509)**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods (Note 15)		
Increase in Annual Leave Liability	$ (28)	$ (30)
Upward/Downward Re-estimates of Credit Subsidy Expense	(2,789)	(1,559)
Increase in Exchange Revenue Receivable from the Public	1,163	1,070
Other (+/-)	15	41
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	$ (1,639)	$ (478)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	$ 1,442	$ 1,797
Other (+/-) (Note 15)	3	1,567
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	$ 1,445	$ 3,364
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**$ (194)**	**$ 2,886**
Net Cost of Operations (Note 17)	**$ (75,239)**	**$ (63,623)**

The accompanying notes are an integral part of these statements.

Notes to Principal Financial Statements

For the Years Ended September 30, 2005 and 2004

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

The Department administers the Federal Direct Student Loan Program (Direct Loan), the Federal Family Education Loan Program (FFEL), the Pell Grant Program and the Campus-Based Student Aid Program. The Direct Loan Program, authorized by the *Student Loan Reform Act of 1993,* enables the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. The FFEL Program, authorized by the *Higher Education Act of 1965*, as amended *(HEA)*, cooperates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. The Pell Grant Program and the Campus-Based Program provide educational grants and other financial assistance to eligible applicants.

The Department also administers numerous grant programs and the Facilities Loan Programs. Grant programs include grants for elementary and secondary education, special education and rehabilitative services, and educational research and improvement, along with grants for needs of the disadvantaged. Through the Facilities Loan Programs, the Department administers low-interest loans to institutions of higher learning for the construction and renovation facilities.

Organization and Structure of Education

The statements consolidate 230 discrete appropriations comprising 64 fund accounts within the following 10 reporting groups:

- Federal Student Aid
- Office of Elementary and Secondary Education
- Office of Special Education and Rehabilitative Services
- Office of Vocational and Adult Education
- Office of Postsecondary Education
- Institute of Education Sciences
- Office of English Language Acquisition
- Office of Safe and Drug-Free Schools
- Office of Innovation and Improvement
- Department Management

Basis of Accounting and Presentation

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and financing 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 and Office of Management and Budget (OMB) Circular No. A-136 (Revised), *Financial Reporting Requirements*. Generally accepted accounting principles (GAAP) for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. 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 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.

Use of Estimates

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

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 were prepared. Minor adjustments to any of these assumption components may create significant changes to the estimate.

The Department recognizes the sensitivity of the changes in assumptions and the impact that the projections can have on estimates. Management has attempted to mitigate these fluctuations by using trend analysis to project future cash flows. The assumptions used for the September 30, 2005 and 2004, financial statements are based on the best information available at the time the estimate was derived.

Changes in assumptions could significantly affect the amounts reflected in these statements. For example, a long-term change in the projected interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount.

The Student Loan Model (SLM) and estimating methods used are updated periodically to reflect changing conditions. The SLM was the official estimating model of the Department as of

September 30, 2005 and 2004, and was used to calculate the subsidy re-estimates recorded in these financial statements.

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 for fiscal years 2005 and 2004 included (1) unobligated balances of resources from prior years, (2) recoveries of obligations in prior years, and (3) new resources—appropriations, authority to borrow from the U.S. Department of Treasury (Treasury), and spending authority from collections. Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior-year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end may have new obligations placed against them, as well as net upward adjustments of prior-year obligations.

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

Fund Balance with Treasury

The fund balance with Treasury includes appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes the cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of Treasury. (See Note 2.)

Cash and Other Monetary Assets

Cash and other monetary assets consist of Guaranty Agency reserves and deposits in transit. Guaranty Agency reserves represent the Department's interest in the net assets of the FFEL Program Guaranty Agencies. Guaranty Agency reserves are classified as non-entity assets with the public (see Note 3) 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 purchased out of reserve funds.

Section 422A of the *HEA* required FFEL Guaranty Agencies to establish a Federal Student Loan Reserve Fund (the "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 as a result, in whole or in part with federal funds, are the property of the United States. However, such ownership by the Department is independent of the actual control of the assets.

The Department disburses funds to the Guaranty Agency through the Federal Fund to pay lender claims and default aversion fees of a Guaranty Agency. The Operating Fund is the property of the Guaranty Agency except for funds an agency borrows from the Federal Fund (under Section 422A of the *HEA*). The Operating Fund is used by the Guaranty Agency to fulfill its responsibilities.

These responsibilities include repaying money borrowed from the Federal Fund, default aversion and collection activities.

Accounts Receivable

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public typically result from such items as disputed costs resulting from audits of educational assistance, whereas amounts due from other federal agencies result from agreements entered into by the Department with these agencies for various goods and services. Accounts receivable are recorded at cost less an allowance for uncollectible amounts. The estimate of the allowance for loss on uncollectible accounts is based on experience in the collection of receivables and an analysis of the outstanding balances. (See Note 5.)

Credit Program Receivables and Liabilities for Loan Guarantees

The financial statements at September 30, 2005 and 2004 reflect the Department's estimate of the long-term cost of direct and guaranteed loans in accordance with the *Federal Credit Reform Act of 1990*. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of the amounts not expected to be recovered and thus having to be subsidized—called "allowance for subsidy." The difference is the present value of the cash flows to and from the Department that are expected from the receivables over their expected 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 (primarily defaults) is net of recoveries, interest supplements, and offsetting fees. The Department records all credit program loans and loan guarantees at their present values.

Components of subsidy costs involved with loans and guarantees include defaults, net of recoveries, contractual payments to third-party private loan collectors who receive a set percentage of amounts they collect, and, as an offset, application and other fees to be collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to target groups is also subsidized (or may provide an offset to subsidy if the Department's rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to buy down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and are re-estimated each year. (See Note 4.)

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. (See Note 6.) Internal Use Software (IUS) meeting the above cost and useful life criteria is also capitalized. IUS is software purchased off the shelf, internally developed, or contractor developed solely to meet the agency's internal needs.

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

Major Classes of Depreciable Property and Equipment	Years
Information Technology (IT), Internal Use Software (IUS) and Telecommunications equipment	3
Furniture and Fixtures	5

Liabilities

Liabilities represent actual and estimated amounts likely to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without an appropriation or other collection of revenue for services provided. 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 Departmental liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority enacted as of year-end.

Treasury Debt

The amount shown for the liability to Treasury from borrowings represents unpaid principal owing on the loans at year-end associated with the Department's loan activities. The Department repays the loan principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury, with such rates generally fixed based on the rate for 10-year securities. As discussed in Note 4, the interest received by the Department from borrowers will vary from the rate paid to the Treasury. Principal and interest payments are made annually. (See Note 7.)

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 receiving grant funds for the expenditures. The amount is estimated using statistical sampling techniques. (See Note 11.)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances of appropriations, except those 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 12.)

Personnel Compensation and Other Employee Benefits

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

Retirement Plans and Other Retirement Benefits. Employees participate either in 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 50 percent of contributions between 3 percent and 5 percent of basic pay. For FERS employees, the Department also contributes the employer's share of Medicare.

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

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

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

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs. Labor determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the Office of Management and Budget 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.

Labor evaluates the estimated projections to ensure that the resulting projections were reliable. The analysis includes three tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments; (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection; and (3) a comparison of the incremental paid losses (the medical component in particular) in congressional budget year 2005 (by injury cohort) to the average pattern observed during the prior three charge back years.

Intragovernmental Transactions

The Department's financial activities interact with and are dependent upon the financial activity of the centralized management functions of the federal government. The Department is subject to financial regulation and management control by the Office of Management and Budget and Treasury. As a result of this relationship, operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity. Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheet.

Other Intragovernmental Assets

Other intragovernmental assets represent interagency agreements between the Department and the National Science Foundation. As of September 30, 2005 and 2004, other intragovernmental assets totaled $12 million and $17 million, respectively. This amount represents unexpended balances for interagency agreements with the Department.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2005 and 2004, consisted of the following:

(Dollars in Millions)	2005	2004
Appropriated Funds	$ 49,455	$ 49,353
Revolving Funds	28,104	17,010
Other Funds	10	8
Total Fund Balance with Treasury	**$ 77,569**	**$ 66,371**

Status of Fund Balance with Treasury

(Dollars in Millions)	2005	2004
Unobligated Balance		
Available	$ 526	$ 1,603
Unavailable	23,540	14,738
Obligated Balance, Not Yet Disbursed	53,493	50,022
Other Funds	10	8
Total Status of Fund Balance with Treasury	**$ 77,569**	**$ 66,371**

Fund Balance with Treasury is an entity asset maintained with Treasury. The monies are available to pay current liabilities and finance loan programs. The Department has the authority to disburse funds to agencies and institutions participating in its programs through the Treasury, which processes cash receipts and disbursements on its behalf.

A portion of the appropriated funds included at September 30, 2005 and 2004, was funded in advance by multi-year appropriations for expenditures anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity do not require annual appropriations. Their fund balance comes from other federal entities and the public collections and from borrowings. Other funds primarily consist of suspense, 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 reimbursements and other income earned, undelivered orders and unpaid expended authority.

Note 3. Cash and Other Monetary Assets

Cash and Other Monetary Assets consisted of Guaranty Agency reserves (non-entity assets) and deposits in transit as of September 30, 2005 and 2004.

	2005		
(Dollars in Millions)	**Guaranty Agency Reserves**	**Deposits in Transit**	**Total**
Beginning Balance, September 30	$ 1,040	$ -	$ 1,040
Current Year Activity	(152)	-	(152)
Ending Balance, September 30	**$ 888**	**$ -**	**$ 888**

	2004		
(Dollars in Millions)	**Guaranty Agency Reserves**	**Deposits in Transit**	**Total**
Beginning Balance, September 30	$ 1,107	$ 1	$ 1,108
Current Year Activity	(67)	(1)	(68)
Ending Balance, September 30	**$ 1,040**	**$ -**	**$ 1,040**

Guaranty Agency reserves are held on behalf of the U.S. government, a liability due to Treasury and considered intragovernmental liabilities. These balances represent the federal government's interest in the net assets of state and nonprofit FFEL Program Guaranty Agencies. (See Note 1.)

On September 30, 2005 and 2004, Guaranty Agencies held in the Federal Fund approximately $888 million and $1,040 million in federal assets, respectively. The agencies use the funds to pay lender claims, primarily for loan defaults and discharges. Consistent with Section 422A (e) of the *HEA*, these funds are considered property of the United States and are reflected in the *Budget of the United States Government.*

Note 4. Credit Program Receivables and Liabilities for Loan Guarantees

The Department operates the William D. Ford Direct Student Loan Program (Direct Loan) and Federal Family Education Loan Program (FFEL) to help students finance the costs of higher education. Under the programs, the Department makes loans directly or guarantees all or a portion of loans made by participating lending institutions to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education—public and private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents receive loans regardless of income or credit rating. Student borrowers who demonstrate financial need also receive federal interest subsidies.

Under the Direct Loan Program, the federal government makes loans directly to students and parents through participating schools. Loans are originated and serviced through contracts with private vendors. Under the FFEL Program, more than 3,200 financial institutions make loans directly to students and parents. FFEL loans are guaranteed by the federal government against default, with 35 state or private nonprofit Guaranty Agencies acting as intermediaries in administering the guarantees. Beginning with loans first disbursed on or after October 1, 1993, financial institutions became responsible for 2 percent of the cost of each default. Guaranty Agencies also began paying a portion of the cost (in most cases, 5 percent) of each defaulted loan from federal funds they hold in trust. FFEL lender participants receive statutorily set federal interest and special allowance subsidies. Guaranty Agencies receive fee payments as set by statute. In most cases, loan terms and conditions under the two programs are identical.

The *Federal Credit Reform Act of 1990 (the Act of 1990)* 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 Act of 1990, subsidy costs for loans obligated beginning in fiscal year 1992 are the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually through the re-estimate process.

The Department estimates all future cash flows associated with Direct Loans and FFEL. Projected cash flows are used to develop subsidy estimates. Subsidy costs can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy is recorded as the initial amount of the loan guarantee liability when guarantees are made (the loan liability) and 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 Direct Loan and guaranteed FFEL programs. Cash flows are projected over the life of the loan, 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 2006 Mid-Session Review, a governmentwide exercise required annually by the Office of Management and Budget (OMB). Assumptions regarding the volume of loan consolidations and their impact on newly repaid loans were updated after the Mid-Session Review to account for significant subsequent increases in activity. These estimates are the most current available to the Department at the time the financial statements are prepared. Department management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of these changes as appropriate.

In recent years, the consolidation of existing loans into new direct or guaranteed loans has increased significantly. Under the *Federal Credit Reform Act of 1990* and requirements provided by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the retirement of loans being consolidated is considered a receipt of principal and interest; this receipt is offset by the disbursement related to the newly created consolidation loan. The underlying direct or guaranteed loans, whether performing or nonperforming, in any given cohort are paid off in their original cohort, and new loans are opened in the cohort in which consolidation activity occurs. This consolidation activity is taken into consideration in establishing the subsidy rate for defaults.

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

The Department disbursed approximately $27.5 billion in direct loans to eligible borrowers in fiscal year 2005 and approximately $20 billion in fiscal year 2004. Loans typically disburse 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 the fiscal year. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

As of September 30, 2005 and 2004, total principal balances outstanding of guaranteed loans held by lenders were approximately $289 billion and $245 billion, respectively. As of September 30, 2005 and 2004, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $288 billion and $240 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 funds. Payments by Guaranty Agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies but owned by the federal government.

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

As previously noted, borrowers may prepay and close out existing loans without penalty from capital raised through the disbursement of a new consolidation loan. The loan liability and net receivables include estimates of future prepayments of existing loans; they do not reflect costs associated with anticipated future consolidation loans.

Due to the nature of the loan commitment process in which schools establish a loan commitment with the filing of an aid application, which may occur before a student has been accepted by the school or begins classes, approximately 7 percent of loan commitments are never disbursed. For direct loans committed in fiscal year 2005, an estimated $1.6 billion will not be disbursed; for guaranteed loans committed in fiscal year 2005, an estimated $7.1 billion will not be disbursed. Direct loan schools may originate loans through a cash advance from the Department, establishing a loan receivable, or by advancing their own funds in anticipation of reimbursement from the Department.

Loan Consolidations

Variable student loan interest rates were reset on July 1, 2005, increasing nearly two percentage points from 3.37 percent for academic year 2004-05 to 5.30 percent for academic year 2005-06. In anticipation of this increase, private lenders, schools, and others encouraged borrowers to consolidate their existing variable rate loans into fixed rate loans. This resulted in an unprecedented surge in loan consolidations, leading to substantially higher volume than the previous fiscal year.

Direct loan consolidation disbursements for fiscal year 2005 were $15.3 billion compared to $7.7 billion for fiscal year 2004. The effect of new consolidations is reflected in subsidy expense for the 2005 cohort, while the effect on prior cohorts of the pay-offs of underlying loans is reflected in re-estimate expense.

Based on current estimates, the prepayment of the underlying FFEL loans produces significant savings through the elimination of future special allowance payments. New consolidations are reflected in the 2005 cohort resulting in increased prepayments of underlying loans from prior cohorts. The effect of new consolidations is reflected in subsidy expense for the 2005 cohort, while the effect on prior cohorts is reflected in the re-estimate.

Credit Program Receivables, Net

The Credit Program Receivables, Net consisted of the following program loans:

(Dollars in Millions)	2005	2004
Direct Loan Program Loan Receivables, Net	$ 95,696	$ 93,747
FFEL Program Loan Receivables, Net	11,712	10,671
Perkins Program Loan Receivables, Net	194	194
Facilities and Other Loan Receivables, Net	335	354
Credit Program Receivables, Net	**$ 107,937**	**$ 104,966**

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

Direct Loan Program Receivables

(Dollars in Millions)	2005	2004
Principal Receivable	$ 94,707	$ 89,245
Interest Receivable	3,121	2,858
Receivables	**97,828**	**92,103**
Less: Allowance for Subsidy	2,132	(1,644)
Credit Program Receivables, Net	**$ 95,696**	**$ 93,747**

Of the $97.8 billion in Direct Loan receivables as of September 30, 2005, $7.2 billion in loan principal was in default and held at the Department's Borrowers Services Collections Group. As of September 30, 2004, $6.3 billion in loan principal was in default and held at the Department's Borrowers Services Collections Group out of a total receivable of $92.1 billion.

FFEL Program Receivables

	2005			2004		
(Dollars in Millions)	Pre-1992	Post-1991	Total	Pre-1992	Post-1991	Total
Principal Receivable	$ 9,306	$ 8,567	$ 17,873	$ 10,324	$ 7,247	$ 17,571
Interest Receivable	595	1,691	2,286	857	1,580	2,437
Receivables	**9,901**	**10,258**	**20,159**	**11,181**	**8,827**	**20,008**
Less: Allowance for Subsidy	6,736	1,711	8,447	7,921	1,416	9,337
Credit Program Receivables, Net	**$ 3,165**	**$ 8,547**	**$ 11,712**	**$ 3,260**	**$ 7,411**	**$ 10,671**

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)	2005	2004
Beginning Balance, Allowance for Subsidy	**$ (1,644)**	**$ 657**
Components of Subsidy Transfers		
Interest Rate Differential	(238)	(1,276)
Defaults, Net of Recoveries	355	390
Fees	(401)	(401)
Other	1,286	1,117
Current Year Subsidy Transfers	**1,002**	**(170)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	1,703	(1,526)
Technical and Default Re-estimates	2,457	1,153
Subsidy Re-estimates	**4,160**	**(373)**
Components of Teacher Loan Forgiveness Modification		
Loan Modification Costs	49	-
Modification Adjustment Transfers	(1)	-
Teacher Loan Forgiveness Modification	**48**	**-**
Activity		
Fee Collections	461	450
Loan Cancellations[2]	(110)	(92)
Subsidy Allowance Amortization	(1,454)	(1,815)
Other	(331)	(301)
Total Activity	**(1,434)**	**(1,758)**
Ending Balance, Allowance for Subsidy	**$ 2,132**	**$ (1,644)**

[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.

FFEL Program Reconciliation of Liabilities for Loan Guarantees

Liabilities for Loan Guarantees represent the present value of all future projected cash outflows from the Department, net of inflows such as fees, and collection of principal and interest on defaulted guaranteed loans assumed for direct collection.

The FFEL Program Liability for Loan Guarantees reconciliation is associated with the FFEL Program loans guaranteed in the financing account. The FFEL liquidating account liability for loan guarantees is included in the total Liabilities for Loan Guarantees.

(Dollars in Millions)	2005	2004
Beginning Balance, Liability for Loan Guarantees	**$ 23,214**	**$ 15,310**
Components of Subsidy Transfers		
Interest Supplement Costs	12,562	10,087
Defaults, Net of Recoveries	865	888
Fees	(5,554)	(4,230)
Other[1]	2,500	2,151
Current Year Subsidy Transfers	**10,373**	**8,896**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(72)	70
Technical and Default Re-estimates	(586)	(1,449)
Subsidy Re-estimates	**(658)**	**(1,379)**
Components of Teacher Loan Forgiveness Modification		
Loan Modification Costs	148	-
Modification Adjustment Transfers	(3)	-
Teacher Loan Forgiveness Modification	**145**	**-**
Activity		
Interest Supplement Payments	(5,077)	(2,345)
Claim Payments	(3,716)	(2,803)
Fee Collections	3,060	2,588
Interest on Liability Balance	565	436
Other[2]	2,594	2,511
Total Activity	**(2,574)**	**387**
Ending Balance, Liability for Loan Guarantees	**30,500**	**23,214**
FFEL Liquidating Account Liability for Loan Guarantees	111	115
Total Liabilities for Loan Guarantees	**$ 30,611**	**$ 23,329**

[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.

Teacher Loan Forgiveness Modification of Subsidy Cost

The *Taxpayer-Teacher Protection Act of 2004* (P.L. 108-409) increased the maximum amount of loan cancellation from $5,000 to $17,500 at the end of the fifth year of teaching for certain teachers who were new student loan borrowers between October 1, 1998 and October 1, 2005, as described in Dear Colleague letter GEN-04-14. According to OMB Circular No. A-11, Section 185.3, any government action that differs from actions assumed in the baseline estimate of cash flows and changes the estimated cost of an outstanding direct loan or any outstanding loan guarantee is defined as a modification. The FFEL Program recognized $148 million and the Direct Loan Program recognized $49 million in modification costs in fiscal year 2005.

Separate amounts are calculated for modification costs and modification adjustment transfers. Modification adjustment transfers are required to adjust for the difference between cohort discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue. The FFEL Program recognized a net modification adjustment transfer gain of $3 million, while the Direct Loan Program recognized a net gain of $1 million.

Direct Loan Financing Account Interest Expense and Revenue

The Direct Loan Financing Account borrows from Treasury to fund the unsubsidized portion of its lending activities and, as required, calculates and pays Treasury interest at the end of each year. Interest is earned on the outstanding Direct Loan portfolio during the year. The Financing Account is paid interest by Treasury on its weighted average fund balance with Treasury at year-end. Subsidy amortization is calculated, as required in Statement of Federal Financial Accounting Standards No. 2 (SFFAS 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.

Direct Loan Financing Account Interest Expense and Revenue

(Dollars in Millions)	2005	2004
Interest Expense on Treasury Borrowing	$ 6,171	$ 5,761
Interest Expense	**$ 6,171**	**$ 5,761**
Interest Revenue from the Public	$ 3,242	$ 2,946
Amortization of Subsidy	1,454	1,815
Interest Revenue on Uninvested Funds	1,475	1,000
Interest Revenue	**$ 6,171**	**$ 5,761**

Subsidy Expense

Direct Loan Program Subsidy Expense

(Dollars in Millions)	2005	2004
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ (238)	$ (1,276)
Defaults, Net of Recoveries	355	390
Fees	(401)	(401)
Other	1,286	1,117
Current Year Subsidy Transfers	**1,002**	**(170)**
Subsidy Re-estimates	4,160	(373)
Loan Modification Costs	49	-
Direct Loan Subsidy Expense	**$ 5,211**	**$ (543)**

In the 2005 re-estimates, Direct Loan subsidy expense was increased by $4.2 billion. Changes in assumptions for variables (such as assumed term and maturity, loan volume and prepayment rates) increased subsidy expense by $4.0 billion. The remaining $195 million increase is related to changes in actual and forecasted interest rates. A 1 percent increase in projected borrower base rates would reduce projected Direct Loan costs by $1.1 billion. In the 2004 re-estimates, Direct Loan subsidy expense was reduced by $373 million. Changes in actual and forecasted interest rates reduced subsidy expense by $847 million. The re-estimate related to changes in assumptions for other variables increased subsidy expense by $474 million.

FFEL Program Loan Guarantee Subsidy Expense

(Dollars in Millions)	2005	2004
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ 12,562	$ 10,087
Defaults, Net of Recoveries	865	888
Fees	(5,554)	(4,230)
Other	2,500	2,151
Current Year Subsidy Transfers	**10,373**	**8,896**
Subsidy Re-estimates	(658)	(380)
Loan Modification Costs	148	-
FFEL Loan Guarantee Subsidy Expense	**$ 9,863**	**$ 8,516**

In the 2005 re-estimates, FFEL subsidy expense was decreased by $658 million. An increase of $932 million was caused by changes in actual and forecasted interest rates. Changes in assumptions for variables (such as assumed term and maturity, loan volume and prepayment rates) decreased subsidy expense by $1.6 billion. A 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $6.4 billion. In the 2004 re-estimates, FFEL subsidy expense was reduced by $380 million, of which changes in actual and forecasted interest rates reduced subsidy expense by $352 million. The re-estimate related to changes in assumptions for other variables reduced subsidy expense by $28 million.

Subsidy Rates

The subsidy rates applicable to the 2005 loan cohort year were as follows:

Subsidy Rates—Cohort 2005

	Interest Differential	Defaults	Fees	Other	Total
Direct Loan Program	(.60%)	1.16%	(1.33%)	4.24%	3.47%
	Interest Supplements	**Defaults**	**Fees**	**Other**	**Total**
FFEL Program	13.66%	.93%	(6.01%)	2.67%	11.25%

These subsidy rates cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The subsidy expense for new direct or guaranteed loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when direct loans are disbursed by the Department or third-party lenders disburse guaranteed loans.

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. Governmentwide interest rate projections are developed by the President's Office of Management and Budget.

Administrative Expenses

The administrative expenses for Direct Loan and FFEL programs were as follows:

	2005		2004	
(Dollars in Millions)	**Direct Loan**	**FFEL**	**Direct Loan**	**FFEL**
Operating Expense	$ 401	$ 268	$ 409	$ 281
Other Expense	17	8	10	-
Total Administrative Expenses	**$ 418**	**$ 276**	**$ 419**	**$ 281**

Perkins Loan Program

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In fiscal year 2004, new federal capital contributions of $99 million were provided to make loans to eligible students through participating schools at 5 percent interest. No new federal capital contributions were appropriated in fiscal year 2005. In some statutorily defined cases, funds are provided to schools so that student loans may be cancelled. For certain defaulted loans, the Department reimburses the originating school and collects from the borrowers. These collections are transferred to the Treasury. At September 30, 2005 and 2004, loans receivable, net of an allowance for loss, were $194 million. These loans are valued at historical cost.

Facilities Loan Programs

The Department administers the College Housing and Academic Facilities Loan Program (CHAFL), the College Housing Loan Program (CHL), and the Higher Education Facilities Loan Program (HEFL). 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. Since 1998, no new loans have been authorized.

The Department also administers the Historically Black Colleges and Universities Capital Financing Program (HBCU). 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.

The credit program receivables were as follows:

(Dollars in Millions)	2005	2004
Principal Receivable	$ 427	$ 452
Interest Receivable	6	6
Receivables	**433**	**458**
Less: Allowance for Subsidy	98	104
Credit Program Receivables, Net	**$ 335**	**$ 354**

Note 5. Accounts Receivable

Accounts receivable consisted of the following at September 30, 2005 and 2004:

(Dollars in Millions)	2005 Gross Receivables	2005 Allowance	2005 Net Receivables
Intragovernmental	$ -	$ -	$ -
With the Public	318	(177)	141
Total Accounts Receivable	**$ 318**	**$ (177)**	**$ 141**

(Dollars in Millions)	2004 Gross Receivables	2004 Allowance	2004 Net Receivables
Intragovernmental	$ 3	$ -	$ 3
With the Public	377	(225)	152
Total Accounts Receivable	**$ 380**	**$ (225)**	**$ 155**

Accounts receivable represent balances due from recipients of grant and other financial assistance programs, and reimbursable agreements from other federal agencies. They are recorded at their estimated net realizable value. Estimates for the allowance for loss on uncollectible accounts are based on historical data.

Note 6. General Property, Plant and Equipment

General property, plant and equipment consisted of the following at September 30, 2005 and 2004:

(Dollars in Millions)	2005 Asset Cost	2005 Accumulated Depreciation	2005 Net Asset Value
IT Equipment and Software	$ 86	$ (68)	$ 18
Furniture and Fixtures	3	(2)	1
Total General Property, Plant and Equipment	**$ 89**	**$ (70)**	**$ 19**

(Dollars in Millions)	2004 Asset Cost	2004 Accumulated Depreciation	2004 Net Asset Value
IT Equipment and Software	$ 76	$ (57)	$ 19
Furniture and Fixtures	3	(1)	2
Total General Property, Plant and Equipment	**$ 79**	**$ (58)**	**$ 21**

Information Technology (IT) equipment consists of computer hardware and related software. The majority of the fiscal year 2005 and 2004 costs represent the acquisition and implementation of the financial management system, and additional information technology and communications improvements. Furniture and fixtures and building improvements are related to renovating and furnishing new quarters for FSA and PCP.

Leases

The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, but expensed as incurred. Estimated future minimum lease payments for privately owned buildings as of September 30, 2005 and 2004, were as follows:

2005 (Dollars in Millions) Fiscal Year	Lease Payment	2004 (Dollars in Millions) Fiscal Year	Lease Payment
2006	$ 43	2005	$ 46
2007	49	2006	55
2008	51	2007	61
2009	52	2008	63
2010	53	2009	64
After 2010	54	After 2009	66
Total	**$ 302**	**Total**	**$ 355**

Note 7. Treasury Debt

The Department's Debt to the Treasury and the Federal Financing Bank (FFB) as of September 30, 2005, consists of the following:

	2005				
	Treasury				
(Dollars in Millions)	Direct Loans	Facilities Loans	Total	FFB	Total
Beginning Balance	$ 96,421	$ 110	$ 96,531	$ 118	$ 96,649
Accrued Interest	(2)	-	(2)	-	(2)
New Borrowing	31,299	-	31,299	10	31,309
Repayments	(23,346)	(10)	(23,356)	(3)	(23,359)
Ending Balance	**$ 104,372**	**$ 100**	**$ 104,472**	**$ 125**	**$ 104,597**

The Department's Debt to the Treasury and FFB as of September 30, 2004, consisted of the following:

	2004				
	Treasury				
(Dollars in Millions)	Direct Loans	Facilities Loans	Total	FFB	Total
Beginning Balance	$ 91,787	$ 151	$ 91,938	$ 80	$ 92,018
Accrued Interest	1	-	1	2	3
New Borrowing	21,191	-	21,191	53	21,244
Repayments	(16,558)	(41)	(16,599)	(17)	(16,616)
Ending Balance	**$ 96,421**	**$ 110**	**$ 96,531**	**$ 118**	**$ 96,649**

Funds were borrowed to provide funding for direct loans to students and facilities loan programs. In addition, the FFB holds bonds issued by the Department on behalf of the HBCU Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest as a payable to the FFB.

The level of repayments on borrowings to Treasury is derived from many factors:

- Beginning-of-the-year cash balance, collections, interest collections, disbursements, and interest payments have an impact on the available cash to repay Treasury.
- Cash is held to cover future liabilities, such as contract collection costs and disbursements in transit.

Note 8. Payable to Treasury

At September 30, 2005 and 2004, Payable to the Treasury for estimated liquidating fund future cash inflows in excess of outflows and for downward re-estimates of subsidy is shown in the table below:

(Dollars in Millions)	2005	2004
Future Liquidating Account Collections, Beginning Balance	$ 3,491	$ 3,761
Valuation of Pre-1992 Loan Liability and Allowance	851	847
Capital Transfers to Treasury	(931)	(1,117)
Future Liquidating Account Collections, Ending Balance	**3,411**	**3,491**
FFEL Downward Subsidy Re-estimate	1,755	1,502
Total Payable to Treasury	**$ 5,166**	**$ 4,993**

In accordance with the *Federal Credit Reform Act of 1990*, the liquidating fund pays monies to Treasury each year based on available fund balances, and the FFEL financing fund pays the liability related to downward subsidy re-estimates upon budget execution.

Note 9. Other Liabilities

Other liabilities include current liabilities for contractual services, administrative services, deferred credits, liability for deposit funds, contingent liabilities, custodial liabilities, and the liability for unfunded accrued annual leave. Additionally, the noncurrent liabilities include accrued unfunded FECA. Other liabilities consisted of the following at September 30, 2005 and 2004:

(Dollars in Millions)	2005	2004
Intragovernmental		
Accrued Unfunded FECA Liability	$ 3	$ 3
Liability for Deposit Funds	(11)	(21)
Advances From Others	88	22
Total Intragovernmental	**80**	**4**
With the Public		
Accrued Payroll and Benefits	15	15
Accrued Unfunded Annual Leave	30	30
Custodial Liability	204	206
Deferred Credits	1	1
Liability for Deposit Funds	21	30
Other	71	99
Total With the Public	**342**	**381**
Total Other Liabilities	**$ 422**	**$ 385**

Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities on the Department's Balance Sheet as of September 30, 2005 and 2004 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 consisted of the following:

(Dollars in Millions)	2005	2004
Intragovernmental		
Accrued Unfunded FECA Liability	$ 3	$ 3
Total Intragovernmental	3	3
With the Public		
Custodial Liability	204	206
Accrued Unfunded Annual Leave	30	30
Federal Employee and Veterans' Benefits	17	19
Total With the Public	251	255
Liabilities Not Covered by Budgetary Resources	**254**	**258**
Liabilities Covered by Budgetary Resources	**143,471**	**128,017**
Total Liabilities	**$ 143,725**	**$ 128,275**

Note 11. Accrued Grant Liability

The accrued grant liability by reporting groups are shown in the table below. (See Note 1.)

(Dollars in Millions)	2005	2004
Federal Student Aid	$ 635	$ 637
Office of Elementary and Secondary Education	248	207
Office of Special Education and Rehabilitative Services	90	158
Office of Vocational and Adult Education	35	39
Office of Postsecondary Education	167	242
Institute of Education Sciences	70	10
Office of English Language Acquisition	20	30
Office of Safe and Drug-Free Schools	41	3
Office of Innovation and Improvement	22	35
Total Accrued Grant Liability	**$ 1,328**	**$ 1,361**

Note 12. Net Position

The nature of the Department's net position was discussed in Note 1, and the components are set forth in the Statement of Changes in Net Position. The table below reports the composition of appropriations that have not been used to fund goods and services received or benefits provided as of September 30, 2005 and 2004:

(Dollars in Millions)	2005	2004
Unobligated Balances		
Available	$ 526	$ 619
Not Available	380	280
Undelivered Orders	46,382	46,386
Total Unexpended Appropriations	**$ 47,288**	**$ 47,285**

Undelivered orders and unobligated balances for federal credit financing and liquidating funds, and trust funds are not included in the chart above because they are not funded through appropriations. As a result, unobligated and undelivered order balances in the chart above will differ from these balances in the Combined Statement of Budgetary Resources.

The Department had Cumulative Results of Operations of ($4,446) million as of September 30, 2005, and ($2,951) million as of September 30, 2004. Cumulative Results of Operations consists mostly of purchases of capitalized assets and unfunded expenses, including upward subsidy re-estimates for loan programs.

Note 13. Interest Revenue and Expense

For the Direct Loan Program, interest revenue is earned on the individual loans in the loan portfolio, while federal interest is earned on the uninvested fund balances with Treasury. For the Direct Loan Program, interest expense is recognized on the Department's borrowings from Treasury. For the FFEL Program, federal interest revenue is earned on the uninvested fund balance with Treasury in the financing fund. Program A, on the Statement of Net Cost, Enhancement of Postsecondary and Adult Education, includes the Direct Loan Program and the FFEL Program.

The interest revenues and expenses attributable to the Direct Loan Program, the FFEL Program, and other remaining programs are summarized below as of September 30, 2005 and 2004:

	Direct Loan Program		FFEL Program		Other Programs		Total	
(Dollars in Millions)	2005	2004	2005	2004	2005	2004	2005	2004
Interest Revenue:								
Federal	$ 1,475	$ 1,000	$ 565	$ 436	$ -	$ -	$ 2,040	$ 1,436
Non-federal	4,696	4,761	-	-	26	50	4,722	4,811
Total Interest Revenue	**$ 6,171**	**$ 5,761**	**$ 565**	**$ 436**	**$ 26**	**$ 50**	**$ 6,762**	**$ 6,247**
Interest Expense:								
Federal	$ 6,171	$ 5,761	$ 565	$ 436	$ 15	$ 16	$ 6,751	$ 6,213
Non-federal	-	-	-	-	-	(3)	-	(3)
Total Interest Expense	**$ 6,171**	**$ 5,761**	**$ 565**	**$ 436**	**$ 15**	**$ 13**	**$ 6,751**	**$ 6,210**

Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2005, budgetary resources were $154,095 million and net outlays were $69,808 million. As of September 30, 2004, budgetary resources were $131,766 million and net outlays were $61,660 million.

Apportionment Categories of Obligations Incurred

The Department receives apportionments of its resources from the Office of Management and Budget (OMB). 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.

The apportionment categories of obligations incurred as of September 30, 2005 and 2004, are summarized below:

(Dollars in Millions)	2005	2004
Direct:		
Category A	$ 1,308	$ 1,279
Category B	127,489	112,970
Exempt from Apportionment	252	53
	129,049	114,302
Reimbursable:		
Category A	4	1
Category B	3	4
Exempt from Apportionment	85	86
	92	91
Total Apportionment Categories of Obligations Incurred	**$ 129,141**	**$ 114,393**

Permanent Indefinite Budget Authority

The Federal Direct Loan Program and the Federal Family Education Loan Program were granted 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*, pertains to the existence, purpose, and availability of this permanent indefinite budget authority.

Reauthorization of Legislation

Funds for most Department of Education 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.

Unused Borrowing Authority

The Department is given authority to draw funds from the Treasury to help finance the majority of its direct lending activity. Unliquidated 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. Unused Borrowing Authority as of September 30, 2005 and 2004, was determined as follows:

(Dollars in Millions)	2005	2004
Beginning Balance, Unused Borrowing Authority	$ 5,952	$ 6,978
Current Year Borrowing Authority	32,209	22,483
Funds Drawn From Treasury	(31,309)	(21,244)
Prior Year Unused Borrowing Authority Cancelled	(1,326)	(2,265)
Other	(45)	-
Ending Balance, Unused Borrowing Authority	**$ 5,481**	**$ 5,952**

Comparison to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7 (SFFAS No. 7), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources, and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government (President's Budget)*. However, the *President's Budget* has not yet been published. The *President's Budget* is scheduled for publication in February 2006 and will be available through OMB. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements. There were no material differences between the Fiscal Year 2004 column on the Statement of Budgetary Resources and the fiscal year 2004 actual amounts reported in the *President's Budget*.

Note 15. Statement of Financing

The Statement of Financing (SOF) provides information on the total resources used by an agency, both those received through budgetary resources and those received through other means during the reporting period. The statement reconciles these resources with the net cost of operations by (1) removing resources that do not fund net cost of operations, and (2) including components of net cost of operations that did not generate or use resources during the year.

The SOF is presented as a consolidated statement for the Department and its major programs. Net interagency eliminations are presented for proprietary amounts. The budgetary amounts are reported on a combined basis as presented in the Statement of Budgetary Resources. Accordingly, net interagency eliminations for budget amounts are not presented.

The difference between the amounts reported as liabilities not covered by budgetary resources on the Balance Sheet and amounts reported as other components requiring or generating resources in future periods on the Statement of Financing represents a decrease in custodial liability activities.

Components Not Requiring or Generating Resources primarily result from the subsidy expense recognized for financial statement re-estimate purposes as required by the Statement of Federal Financial Accounting Standards No. 2 (SFFAS No. 2), *Accounting for Direct Loans and Loan Guarantees*. Re-estimates published in the *President's Budget* generate or require resources.

Note 16. Cost and Earned Revenue by Budget Function

The Department's gross costs and revenue, by budget function for September 30, 2005 and 2004, are presented below:

	2005			2004		
(Dollars in Millions)	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	$ 82,068	$ (6,965)	$ 75,103	$ 70,062	$ (6,564)	$ 63,498
Administration of Justice	136	-	136	125	-	125
Total	**$ 82,204**	**$ (6,965)**	**$ 75,239**	**$ 70,187**	**$ (6,564)**	**$ 63,623**

The Department's intragovernmental gross costs and revenue, by budget function for September 30, 2005 and 2004, are presented below:

	2005			2004		
(Dollars in Millions)	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	$ 7,367	$ (2,221)	$ 5,146	$ 6,536	$ (1,738)	$ 4,798
Administration of Justice	136	-	136	125	-	125
Total	**$ 7,503**	**$ (2,221)**	**$ 5,282**	**$ 6,661**	**$ (1,738)**	**$ 4,923**

Note 17. Program Costs by Segment

Effective fiscal year 2006, Office of Management and Budget (OMB) Circular No. A-136 (Revised), *Financial Reporting Requirements*, changes the presentation format of the Consolidated Statement of Net Cost. Early implementation is permitted but not required for fiscal year 2005. The Department has chosen not to implement these changes and will follow the guidance provided in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements.* Specifically, responsibility segments were aligned with the major goals of the Department of Education's *Strategic Plan 2002–2007*, as required by the *Government Performance and Results Act (GPRA)*.

Reporting groups were aligned with the following Strategic Goals:

- Enhance the quality and access to postsecondary and adult education,
- Create a culture of achievement,
- Improve student achievement,
- Develop safe schools and strong character, and
- Transform education into an evidence-based field.

The importance of special education was highlighted by maintaining a separate responsibility segment on the Statement of Net Cost.

Program A on the Statement of Net Cost relates directly to Strategic Goal 5: Enhance the quality of and access to postsecondary and adult education. It combines the reporting groups of Federal Student Aid, the Office of Vocational and Adult Education, and the Office of Postsecondary Education. Program B relates directly to Strategic Goals 1, 2, and 3: Create a culture of achievement, Improve student achievement, and Develop safe schools and strong character. Program B combines the Office of Elementary and Secondary Education, the Office of English Language Acquisition, and the Office of Safe and Drug-Free Schools. Program C relates to Strategic Goal 4: Transform education into an evidenced-based field, and includes the Institute of Education Sciences and Office of Innovation and Improvement. Finally, Program D relates to "special education and program execution" and includes the Office of Special Education and Rehabilitative Services.

Note 18. Contingencies

Guaranty Agencies

The Department can assist Guaranty Agencies experiencing financial difficulties by advancing funds or by other means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of Guaranty Agencies because the likelihood of such occurrences is uncertain and cannot be estimated with sufficient reliability.

Perkins Loan Reserve Funds

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In fiscal year 2005, the Department provided funding of 84.6 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 15.4 percent of program funding. For the latest academic year ended June 30, 2005, approximately 779,129 loans were made, totaling approximately $1.6 billion at 1,653 institutions, averaging $2,069 per loan. The Department's share of the Perkins Loan Program was approximately $6.4 billion as of June 30, 2005.

In fiscal year 2004, the Department provided funding of 84.8 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 15.2 percent of program funding. For the academic year ended June 30, 2004, approximately 750,420 loans were made, totaling $1.6 billion at 1,700 institutions, averaging $2,161 per loan. The Department's share of the Perkins Loan Program was approximately $6.5 billion as of June 30, 2004.

Perkins Loan borrowers who meet statutory eligibility requirements—such as service as a teacher in low-income areas, as a Peace Corps or VISTA volunteer, in the military or in law enforcement, in nursing, or in family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances, a contingency is deemed to exist. The Department may be required to compensate Perkins Loan institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Hurricanes Katrina and Rita

On August 29, 2005, Hurricane Katrina struck the Gulf Coast, resulting in widespread catastrophic damage to the coastal regions of Louisiana, Mississippi and Alabama. Hurricane Katrina is expected to be the costliest natural disaster in U.S. history. Immediately following Katrina, Hurricane Rita struck the Gulf Coast, adding Texas to the states already catastrophically damaged and hindering recovery efforts. The death toll, property damage, dislocation of families, and destruction of the infrastructure of the communities and economies of the Gulf Coast represent a humanitarian crisis that will affect these areas for many years to come.

To begin the reconstruction of the education process, the Department of Education has been asked by the White House to render all appropriate assistance to the region's loan applicants, students, borrowers, guaranty agencies, educational institutions and other program participants. It is impossible at this time to accurately estimate the impact of Hurricanes Katrina and Rita on the education systems, educational facilities, teachers, students, and financial institutions of the affected areas, or the demands or costs that this impact will place on the Department of Education. Any potential financial impact will relate to a future period rather than the current period.

Other Matters

Some portion of the current year financial assistance expenses (grants) may include funded recipient expenditures that were 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.

Required Supplementary Stewardship Information

Investment in Human Capital

The U.S. Department of Education executes programs under the Education, Training, Employment, and Social Services function established by the Congress in the *Budget Act of 1974*. This report presents Human Capital activity related to the execution of the Department's congressionally approved budget and programs.

The Department's mission is to ensure equal access to education and to promote educational excellence throughout the nation. To carry out this mission, the Department works in partnership with states, schools, communities, institutions of higher education, and financial institutions—and through them, with students, teachers and professors, families, administrators, and employers. Key functions of the partnership are as follows:

- Leadership to address critical issues in American education.
- Grants to education agencies and institutions to strengthen teaching and learning and to prepare students for citizenship, employment in a changing economy, and lifelong learning.
- Student loans and grants to help pay for the costs of postsecondary education.
- Grants for literacy, employment, and self-sufficiency training for adults.
- Monitoring and enforcement of civil rights to ensure nondiscrimination by recipients of federal education funds.
- Support for statistics, research, development, evaluation, and dissemination of information to improve educational quality and effectiveness.

Human Capital Programs

Federal investment in Human Capital comprises those expenses for general public education and training programs that are intended to increase or maintain national economic productive capacity. The Department of Education's Human Capital programs are administered by the following offices: Elementary and Secondary Education, Safe and Drug-Free Schools, Innovation and Improvement, Postsecondary Education, Federal Student Aid, Special Education and Rehabilitative Services, Institute of Education Sciences, English Language Acquisition, and Vocational and Adult Education. A list of key programs for each office is outlined below.

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 maintenance and improvement of preschool, elementary, and secondary education. Programs administered by this office include the following:

- **Improving the Academic Achievement of the Disadvantaged Programs (Title I)** provide financial assistance to state and local educational agencies and other institutions to support services for children in high-poverty schools, institutions for neglected and delinquent children, homeless children, and certain Indian children.
- **The Impact Aid Program** provides financial assistance for the maintenance and operations of school districts in which the federal government has acquired substantial real property. It provides direct assistance to local educational agencies that educate substantial numbers of federally connected pupils (children who live on or whose parents work on federal property).
- **Migrant Education Programs** support high-quality comprehensive educational programs for migratory children and youth to address disruptions in schooling and other problems that result from repeated moves.
- **Improving Teacher Quality State Grants Program (Title II)** provides funds, on a formula basis, to increase the academic achievement of students by ensuring that all teachers are highly qualified to teach.

Office of Safe and Drug-Free Schools

The Office of Safe and Drug-Free Schools supports efforts to create safe schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well-being of students, and teach students good citizenship and character. Programs administered by this office include the following:

- **Health, Mental Health, and Physical Education programs** promote the health and well-being of students and families as authorized under Part D of Title V of the *Elementary and Secondary Education Act of 1965*, as amended by the *No Child Left Behind Act of 2001*.
- **Drug and Violence Prevention—State and National Programs** provide support to state and local educational agencies, community-based organizations, and other public and non-public entities to prevent youth drug use and violence and create safe, disciplined, and drug-free learning environments. These funds are also used to provide support to local educational agencies to prepare for and respond to crisis situations, and support training and technical

assistance activities in these areas. Finally, these funds support information development and dissemination activities, data collection activities and a variety of interagency initiatives.

- **Character, Civic, and Correctional Education programs** provide support for a variety of activities, including character and civic education programs in elementary and secondary schools, and correctional education initiatives in state and local correctional institutions. These programs also support various leadership activities including technical assistance to state and local education officials, as well as information development and dissemination.
- **Policy and Cross-Cutting programs** staff administer certain discretionary grant initiatives authorized by Title IV, *Safe and Drug-Free Schools and Communities Act* National Programs, including programs that emphasize coordinated, collaborative responses to developing and maintaining safe, disciplined, and drug-free learning environments.

Office of Innovation and Improvement

The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools, and community and nonprofit organizations. The office leads the movement for greater parental options and information in education. Programs administered by this office include the following:

- **The Charter Schools Program** supports the planning, development, and initial implementation of charter schools. Charter schools provide enhanced parental choice and are exempt from many statutory and regulatory requirements. In exchange for increased flexibility, charter schools are held accountable for improving student academic achievement.
- **Teaching American History Program** is designed to raise student achievement by improving teachers' knowledge and understanding of and appreciation for traditional U.S. history. Grant awards will assist local educational agencies (LEA), in partnership with entities that have content expertise, to develop, document, evaluate, and disseminate innovative and cohesive models of professional development. By helping teachers to develop a deeper understanding and appreciation of U.S. history as a separate subject matter within the core curriculum, these programs improve instruction and raise student achievement.

Office of Postsecondary Education

The Office of Postsecondary Education formulates policy and coordinates programs that assist postsecondary educational institutions and students pursuing a postsecondary education. Programs and functions administered by this office include the following programs:

- **The Fund for the Improvement of Postsecondary Education** provides grants to colleges and universities to promote reform, innovation, and improvement in postsecondary education.
- **The Higher Education Programs (HEP)** provide discretionary funds and support services that improve student access to postsecondary education and foster excellence in institutions of higher education. Specifically, under HEP, the TRIO programs allow for increased access to and completion of postsecondary education by disadvantaged students; the Aid for Institutional Development programs strengthen the capacity of colleges and universities that serve a high percentage of minority and disadvantaged students; the Teacher and Student Development programs provide teacher and student development resources to strengthen

teaching; and the International programs promote international education and foreign language studies and research.

- **The Accreditation and State Liaison (ASL)** staff administers the accrediting agency recognition process and coordinates activities with states that impact institutional participation in the federal financial assistance programs. ASL prepares a list of postsecondary educational institutions and programs accredited by accrediting agencies and state approval agencies recognized by the Department.

Office of Federal Student Aid

The Office of Federal Student Aid administers need-based financial assistance programs for students pursuing postsecondary education. The Department makes available federal grants, loans, and work-study funding to eligible undergraduate and graduate students. The Department's two major loan programs are as follows:

- **The Federal Family Education Loan Program** operates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students.
- **The William D. Ford Direct Student Loan Program** is a direct lending program in which loan capital is provided to students by the federal government through borrowings from the U.S. Treasury.

Office of Special Education and Rehabilitative Services

The Office of Special Education and Rehabilitative Services supports programs that assist in educating children with special needs. It provides for the rehabilitation of individuals with disabilities and supports research focused on improving their lives. This office includes three components:

- **The Office of Special Education Programs** administers programs and projects relating to the education of all children, youth, and adults with disabilities from birth through age 21 by providing leadership and financial support to assist states and local districts. The largest program is the Grants to States under the *Individuals with Disabilities Education Act*.
- **The Rehabilitation Services Administration** oversees programs and projects related to vocational rehabilitation and independent living of individuals with disabilities to increase their employment, independence, and integration into the community. The largest program is the Vocational Rehabilitation State Grants.
- **The National Institute on Disability and Rehabilitation Research** provides leadership and support for a comprehensive program of research related to the rehabilitation of individuals with disabilities.

Institute of Education Sciences

The Institute of Education Sciences is the main research arm of the Department. It compiles statistics; funds research, evaluations, and dissemination; and provides research-based guidance to further evidence-based policy and practice. Its four operational divisions are as follows:

- **The National Center for Education Research (NCER)** supports research that contributes to the solution of significant education problems in the United States. Through its research initiatives and the national research and development centers, NCER supports research activities that examine the effectiveness of educational programs, practices, and policies, including the application of technology to instruction and assessment. The goal of its research programs is to provide scientific evidence of what works, for whom, and under what conditions.

- **The National Center for Special Education Research (NCSER)** supports comprehensive programs of research designed explicitly to examine empirically the full range of issues facing children and individuals with disabilities, parents of children with disabilities, school personnel, and others. Through its grants and contracts, NCSER supports research to improve the quality of life and educational outcomes for infants, toddlers, and children with disabilities and works to develop and sustain the most rigorous programs of research in special education and related services.
- **The National Center for Education Evaluation and Regional Assistance** is responsible for conducting evaluations of the impact of federal programs and disseminating information from evaluation and research, and for providing technical assistance to improve student achievement. The National Library of Education, established within the center, is the largest federally funded library devoted entirely to education and provides services in three areas: reference and information services, collection and technical services, and resource sharing and cooperation.
- **The National Center for Education Statistics** is responsible for collecting, analyzing, and reporting education information and statistics on the condition and progress of education at the preschool, elementary, secondary, postsecondary, and adult levels, including data related to education in other nations. Among its data collection efforts is the National Assessment of Educational Progress.

Office of English Language Acquisition

The Office of English Language Acquisition administers programs designed to enable students with limited English proficiency to become proficient in English and meet challenging state academic content and student achievement standards. Programs from this office include the following:

- **The State Formula Grant Program** is designed to improve the education of limited English proficient children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program provides enhanced instructional opportunities for immigrant children and youths.
- **The National Professional Development Program** provides grants to institutions of higher education in partnership with local or state educational agencies to improve classroom instruction for English language learners and to improve the qualifications of teachers of English language learners and other educational personnel.
- **The Native American and Alaska Native Children in School Program** provides grants to eligible entities that support language instruction educational projects for limited English proficient (LEP) children from Native American, Alaska Native, native Hawaiian and Pacific Islander backgrounds. The program is designed to ensure that LEP children master English and meet the same rigorous standards for academic achievement that all children are expected to meet, including meeting the challenging state academic content and student

academic achievement standards, and to support, to the extent possible, the native language skills of such children.

- **The Foreign Language Assistance Program** provides grants to pay for the federal share of the cost of innovative model programs providing for the establishment, improvement, or expansion of foreign language study for elementary and secondary school students.

Office of Vocational and Adult Education

The Office of Vocational and Adult Education provides funds for vocational-technical education for youth and adults. Most of the funds are awarded as grants to state educational agencies. This office administers the following and other programs:

- **Perkins Vocational and Technology Education State Grants** help state and local schools offer programs to develop the academic, vocational, and technical skills of students in high schools, community colleges, and regional technical centers.
- **Adult Education and Literacy State Grants** provide educational opportunities for adults over the age of 16, not currently enrolled in school, who lack a high school diploma or the basic skills to function effectively as parents, workers, and citizens.

Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 78 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitative services. While 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, including Impact Aid, Vocational Education, Special Education, Pell Grants, Research, and Statistics.

Program Outputs

Education, in the United States, is primarily a state and local responsibility. States and communities, as well as 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. Of the estimated $909 billion being spent nationwide on education at all levels for school year 2004–05, about 90 percent comes from state, local, and private sources. The federal contribution to national education expenditures is about $90.9 billion. The federal contribution includes education expenditures not only from the Department, but also from other federal agencies such as the Department of Health and Human Services' Head Start Program and the Department of Agriculture's School Lunch Program. The Department's $73.0 billion appropriation is about 8.0 percent of total education expenditures and about 2.9 percent of the federal government's $2.5 trillion budget in fiscal year 2005.

The Department currently administers programs affecting every area and level of education. The Department's elementary and secondary programs annually serve 14,600 school districts and more than 54 million students attending over 94,000 public schools and more than 27,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 9.9 million postsecondary students.

While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. The Department's staff of approximately 4,454 is nearly 41 percent below the 7,528 employees who administered federal education programs in 1980, when the Department was created. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to less than 2 percent of the Department's budget. This means 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)	2005	2004	2003	2002	2001
Federal Student Aid Expense					
Direct Loan Subsidy	$ 5,211	$ (543)	$ 4,716	$ 877	$ 1,307
Guaranteed Loan Subsidy	9,863	8,516	2,509	3,988	(314)
Grant Programs	15,070	14,943	13,836	12,256	10,812
Salaries & Administrative	164	186	179	207	249
Subtotal	**30,308**	**23,102**	**21,240**	**17,328**	**12,054**
Other Departmental					
Elementary and Secondary Education	22,940	21,188	19,493	16,127	13,851
Special Education & Rehabilitative Services	13,995	12,687	11,529	9,906	8,590
Other Departmental Programs	6,067	5,160	4,828	4,531	3,893
Salaries & Administrative	486	448	395	472	341
Subtotal	**43,488**	**39,483**	**36,245**	**31,036**	**26,675**
Grand Total	**$73,796**	**$62,585**	**$57,485**	**$48,364**	**$38,729**

Program Outcomes

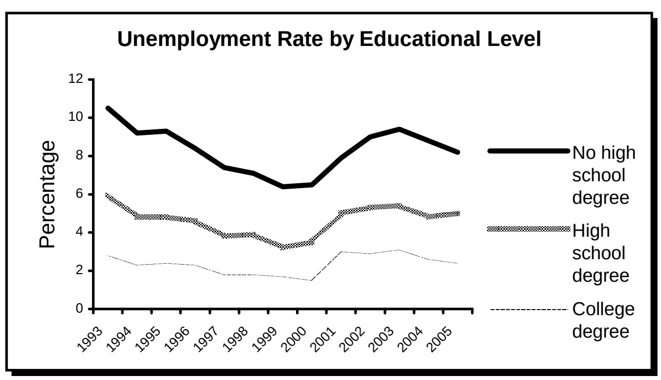
Education is the stepping-stone to higher living standards for American citizens. Education is key to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children 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. Recently, 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. Persons with lower levels of educational attainment were more likely to be unemployed than those who had higher levels of educational attainment. The 2005 unemployment rate for adults (25 years old and over) who had not completed high school was 8.2 percent compared with 5.0 percent of those with four years of high school and 2.4 percent for those with a bachelor's degree or higher. Younger people with high school diplomas tended to have higher unemployment rates than persons 25 and over with similar levels of education.



Annual Income. As of September 2005, the annualized median income for adults (25 years and over) varied considerably by education level. Men with a high school diploma earned $33,800, compared with $60,736 for men with a college degree. Women with a high school diploma earned $25,532, compared with $45,448 for women with a college degree. Men and women with college degrees earned 77.3 percent more than men and women with high school diplomas. Earnings for workers with college degrees have increased in the past year by 2.8 percent for women and 4.0 percent for men. These returns of investing in education directly translate into the advancement of the American economy as a whole.

Required Supplementary Information

Intragovernmental Assets

Intragovernmental assets at September 30, 2005, consisted of the following:

(Dollars in Millions)	Fund Balance with Treasury	Other Assets
Trading Partner		
Department of the Treasury	$ 77,569	$ -
National Science Foundation	-	12
Grand Total	**$ 77,569**	**$ 12**

Intragovernmental Liabilities

Intragovernmental liabilities at September 30, 2005, consisted of the following:

(Dollars in Millions)	Accounts Payable	Treasury Debt	Guaranty Agency Federal and Restricted Funds Due to Treasury	Payable to Treasury	Other Liabilities
Trading Partner					
Department of the Treasury	$ 1	$ 104,597	$ 888	$ 5,166	$ -
Department of Labor	-	-	-	-	3
General Printing Office	1	-	-	-	(1)
General Services Administration	2	-	-	-	(4)
Department of Commerce	3	-	-	-	-
Department of Interior	-	-	-	-	(1)
Department of Health and Human Services	3	-	-	-	81
Office of Personnel Management	-	-	-	-	2
Department of Agriculture	-	-	-	-	2
Department of Homeland Security	-	-	-	-	(1)
National Science Foundation	2	-	-	-	-
Other	-	-	-	-	(1)
Grand Total	**$ 12**	**$ 104,597**	**$ 888**	**$ 5,166**	**$ 80**

Intragovernmental Earned Revenues and Related Costs

The Department's intragovernmental earned revenues are not reported by "trading partner" because they are below the Office of Management and Budget threshold of $500 million.

United States Department of Education

Combining Statement of Budgetary Resources

For the Year Ended September 30, 2005

(Dollars in Millions)

	Combined		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services	
	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:								
Budget Authority :								
Appropriations Received	$ 76,981	$ 3	$ 31,813	$ 1	$ 22,003		$ 15,024	
Borrowing Authority		32,209		32,170				
Net Transfers					(4)			
Unobligated Balance:								
Beginning of Period	2,245	15,128	1,567	15,128	267		101	
Spending Authority From Offsetting Collections:								
Earned								
Collected	3,198	49,536	3,073	49,510	17		2	
Receivable From Federal Sources	(3)	(2)		(2)				
Change in Unfilled Customer Orders								
Advance received (collected)	64				(13)		(1)	
Without advance from Federal sources	(68)	34		34	(4)		1	
Subtotal	$ 3,191	$ 49,568	$ 3,073	$ 49,542	$ -		$ 2	
Recoveries of Prior Year Obligations	1,536	1,973	1,024	1,973	342		29	
Permanently Not Available	(4,047)	(24,692)	(3,507)	(24,678)	(246)		(123)	
Total Budgetary Resources	**$ 79,906**	**$ 74,189**	**$ 33,970**	**$ 74,136**	**$ 22,362**	**$ -**	**$ 15,033**	**$ -**
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	$ 77,677	$ 51,372	$ 32,541	$ 51,319	$ 22,048		$ 14,950	
Reimbursable	92						3	
Subtotal	$ 77,769	$ 51,372	$ 32,541	$ 51,319	$ 22,048		$ 14,953	
Unobligated Balance:								
Apportioned	526		31		221		67	
Unobligated Balance Not Available	1,611	22,817	1,398	22,817	93		13	
Total Status of Budgetary Resources	**$ 79,906**	**$ 74,189**	**$ 33,970**	**$ 74,136**	**$ 22,362**	**$ -**	**$ 15,033**	**$ -**
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	$ 48,147	$ 7,788	$ 9,800	$ 7,778	$ 20,156		$ 10,101	
Obligated Balance, Net, End of Period:								
Unfilled customer orders from Federal Sources	(3)	(34)		(34)			(1)	
Undelivered Orders	46,493	10,472	8,413	10,433	18,510		10,817	
Accounts Payable	1,720	330	812	330	313		118	
Outlays:								
Disbursements	76,251	46,389	32,092	46,364	23,044		14,092	
Collections	(3,264)	(49,536)	(3,072)	(49,510)	(4)		(1)	
Subtotal	$ 72,987	$ (3,147)	$ 29,020	$ (3,146)	$ 23,040		$ 14,091	
Less: Offsetting Receipts	32		32					
Net Outlays	**$ 72,955**	**$ (3,147)**	**$ 28,988**	**$ (3,146)**	**$ 23,040**	**$ -**	**$ 14,091**	**$ -**

United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2005

(Dollars in Millions)

	Office of Vocational & Adult Education		Office of Postsecondary Education		Institute of Education Sciences		Office of English Language Acquisition	
	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:								
Budget Authority :								
Appropriations Received	$ 2,027		$ 2,376	$ 2	$ 527		$ 681	
Borrowing Authority	0		0	39	0		0	
Net Transfers	0		0		4		0	
Unobligated Balance:								
Beginning of Period	220		40		8		13	
Spending Authority From Offsetting Collections:								
Earned								
Collected	0		28	26	3		0	
Receivable From Federal Sources	0		0		0		0	
Change in Unfilled Customer Orders								
Advance received (collected)	0		0		1		0	
Without advance from Federal sources	0		0		(1)		0	
Subtotal	$0		$28	$26	$3		$0	
Recoveries of Prior Year Obligations	8		58		29		34	
Permanently Not Available	(23)		(67)	(14)	(35)		(18)	
Total Budgetary Resources	**$ 2,232**	**$ -**	**$ 2,435**	**$ 53**	**$ 536**	**$ -**	**$ 710**	**$ -**
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	$ 2,094		$ 2,352	$ 53	$ 504		$ 674	
Reimbursable	(0)		(0)		3		(0)	
Subtotal	$ 2,094		$ 2,352	$ 53	$ 507		$ 674	
Unobligated Balance:								
Apportioned	136		26		25		9	
Unobligated Balance Not Available	2		57		4		27	
Total Status of Budgetary Resources	**$ 2,232**	**$ -**	**$ 2,435**	**$ 53**	**$ 536**	**$ -**	**$ 710**	**$ -**
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	$ 1,636		$ 2,865	$ 10	$ 602		$ 964	
Obligated Balance, Net, End of Period:								
Unfilled customer orders from Federal Sources	(0)		(0)		(0)		(0)	
Undelivered Orders	1,712		2,690	39	497		915	
Accounts Payable	43		180		124		22	
Outlays:								
Disbursements	1,967		2,290	25	461		667	
Collections	(0)		(29)	(26)	(4)		(0)	
Subtotal	$ 1,967		$ 2,261	$ (1)	$ 457		$ 667	
Less: Offsetting Receipts	(0)		(0)		(0)		(0)	
Net Outlays	**$ 1,967**	**$ -**	**$ 2,261**	**$ (1)**	**$ 457**	**$ -**	**$ 667**	**$ -**

United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2005

(Dollars in Millions)

	Office of Safe & Drug-Free Schools		Office of Innovation & Improvement		Department Management	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:						
Budget Authority :						
Appropriations Received	$ 868		$ 1,101		$ 561	
Borrowing Authority	0		0		0	
Net Transfers	0		0		0	
Unobligated Balance:						
Beginning of Period	8		1		20	
Spending Authority From Offsetting Collections:						
Earned						
Collected	59		14		2	
Receivable From Federal Sources	(2)		0		(1)	
Change in Unfilled Customer Orders						
Advance received (collected)	77		0		0	
Without advance from Federal sources	(66)		0		2	
Subtotal	$ 68		$ 14		$ 3	
Recoveries of Prior Year Obligations	1		0		11	
Permanently Not Available	(7)		(9)		(12)	
Total Budgetary Resources	**$ 938**	**$ -**	**$ 1,107**	**$ -**	**$ 583**	**$ -**
Status of Budgetary Resources:						
Obligations Incurred:						
Direct	$ 861		$ 1,091		$ 562	
Reimbursable	69		14		3	
Subtotal	$ 930		$ 1,105		$ 565	
Unobligated Balance:						
Apportioned	7		1		3	
Unobligated Balance Not Available	1		1		15	
Total Status of Budgetary Resources	**$ 938**	**$ -**	**$ 1,107**	**$ -**	**$ 583**	**$ -**
Relationship of Obligations to Outlays:						
Obligated Balance, Net, Beginning of Period	$ 827		$ 1,041		$ 155	
Obligated Balance, Net, End of Period:						
Unfilled customer orders from Federal Sources	(0)		(0)		(2)	
Undelivered Orders	1,244		1,567		128	
Accounts Payable	47		28		33	
Outlays:						
Disbursements	534		552		552	
Collections	(137)		(14)		(3)	
Subtotal	$ 397		$ 538		$ 549	
Less: Offsetting Receipts	(0)		(0)		(0)	
Net Outlays	**$ 397**	**$ -**	**$ 538**	**$ -**	**$ 549**	**$ -**

Report of Independent Auditors

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 15 2005

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 2005 and 2004, 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, 2005 and 2004, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or on compliance with laws and regulations.

Ernst & Young is responsible for the attached auditor's report and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,

John P. Higgins, Jr.

Enclosures

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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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Report of Independent Auditors

To the Inspector General
U.S. Department of Education

We have audited the accompanying consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing 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. 01-02*, Audit Requirements for Federal Financial Statements*. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Department's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations 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

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Report of Independent Auditors
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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 2, 2005, 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 2, 2005

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Report on Internal Control

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheet of the U.S. Department of Education (the Department) as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 2, 2005. 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. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

In addition, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal control, determined whether internal control had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on internal control. Accordingly, we do not provide an opinion on such controls.

With respect to internal controls related to performance measures reported in the Management's Discussion and Analysis of the Department's consolidated and combined financial statements, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

However, as a result of the procedures we did perform, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below.

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Report on Internal Control
Page 2

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described below is a material weakness.

REPORTABLE CONDITIONS

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 were made over the last several years, we noted that the management controls surrounding the calculation and reporting of the loan liability activity and subsidy estimates should be further refined and implemented earlier in the process to ensure that appropriate estimates are prepared. OMB Circular A-123, *Management Accountability and Control*, defines management controls as "the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making."

During fiscal year (FY) 2005, we noted that the Department continued to make progress on this reportable condition. The Credit Reform Workgroup (CRW), which was created in FY 2004 and consists of managers from the Office of the Chief Financial Officer (OCFO), Federal Student Aid (FSA), and Budget Service, met twice in FY 2005. The primary purpose of the CRW was to inform the appropriate parties of key internal issues related to credit reform, and to manage the development of improved processes, procedures, and sources of information to enhance the credit reform estimation process.

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Report on Internal Control
Page 3

The CRW has made progress in many areas, although the work is still ongoing. A primary focus for the upcoming fiscal year is on monitoring activities for credit reform estimates. In addition, assumption and business process subgroups will focus on efforts to ensure accurate cohort accounting within the Department's systems. The end objective continues to be a well-defined process, which includes appropriate and robust checks and edits, as well as documentation of key decisions and rationales.

However, after identifying the key improvements made or currently being made by the Department, during our testing of loan guarantees, allowance for subsidy, and subsidy cost estimates, we noted the following items that indicate management controls and analysis should be strengthened:

- The long-term cost for the credit programs is reflected in the financial statements through periodic charges for subsidy costs, adjustments or re-estimates to those subsidy costs, and loan activity, which is all recognized in the allowance for the direct loan (DL) receivable and liability for the guaranteed loan (FFEL) program. The Department uses a computer-based cash flow projection model (i.e., Student Loan Model, or SLM) and OMB calculator to calculate subsidy estimates related to the loan programs that are then recorded in the allowance for subsidy or liability account. The model uses multiple sources of loan data and hundreds of assumptions. In order to perform a check of estimates resulting from the SLM and OMB calculator, the Department prepares a backcast, which compares the model's estimates to actual activity for the current and prior fiscal years. The SLM for the prior year also produces a forecast of the expected cash flows in the current year for the outstanding loans. Rigorous comparisons of actual cash flows to the forecast prepared in the prior year (adjusted for new loans), to the backcast, 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. The Department's efforts in this regard are evolving, and do not capture the full value of the SLM in providing a basis for robust budget to actual comparisons, or facilitate CRW participant assessments of the validity of the estimates derived by the SLM and OMB calculator. As a check, the Department should be able to reconcile the total amounts in the forecast to the allowance for subsidy and liability for loan guarantees and apply high-level analytics to assess the output.

- The early phase of the loan estimation process includes the development of the assumptions, which are used to populate the SLM with data that, in turn, feeds into the OMB calculator, which arrives at the actual cost re-estimates. In order to develop a majority of the assumptions, the Department utilizes the National Student Loan Database System (NSLDS) to extract a sample of loan data, which is known as the Statistical Abstract (STAB). The Department then executes internally developed computer programs to arrive at the assumption data that is entered into the SLM. While we understand some improvements have been made, we were informed that the

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programming language was not fully documented to explain the procedures executed by the programs. As a result, a review of the logic of these programs cannot be performed by someone unfamiliar with the code, which could have the potential of allowing undetected errors to exist in the development of the assumption data. Particularly in areas that have relatively less predictive capability in the existing model, we continue to advocate considering use of reasonable simplified assumptions in estimate development, which can result in simpler programs, thus establishing transparency and limiting the potential for errors.

- FFEL program receivables are classified as pre-1992 loans (liquidating account loans) and post-1991 loans (financing account loans). The Department records certain collections on each of these loan categories using an estimation process (splitter process), as this information cannot be obtained directly from cash collections. The allocation of collections between liquidating and financing loans ultimately affects the liability account for loan guarantees and accounts payable to Treasury. Currently, the Department relies primarily on the output of the credit reform model to record the net value of the pre-1992 loans. The Department should investigate methods to better evaluate whether the resulting split is occurring properly on an overall basis. The SLM develops cohort-level data and credit reform estimates, and the STAB and splitter process provide an estimate of cohort activity. The Department's financial systems are not configured to account for cash flows on a rigorous cohort level. We understand that creation of this functionality will be considered in FY 2006 by the CRW. Transition to such an approach is increasingly important to ensure that estimates in the subsidy models are appropriately adjusted as cohorts from the early 1990s wind down, and cash flows from default activities create temporary demands for cash that are currently funded on an aggregate basis across cohorts. The process may ultimately help resolve the splitter issues discussed above. In the interim, the development of additional analytical tools in this area could provide additional assurance as to whether the model is operating as intended.

<u>Recommendations:</u>

We recommend that the Department of Education perform the following:

1. Continue to improve the analytical tools used for the loan estimation process. Ensure that all analytical tools reconcile with one another to allow for their use as detect controls for loan program cost estimates.

2. Document in detail the programs written to develop the assumptions for the SLM.

3. The Department, including Budget Service, should continue to develop detailed operating procedures for the loan estimation process, which would include the step-by-step procedures that take place during the various phases of the process.

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4. Efforts to more fully implement cohort reporting should continue. Analytical tools should be developed to assure that the splitter process is operating as intended and that remaining credit reform estimates for each cohort are appropriate in relation to the remaining outstanding loans for such cohorts.

2. Controls Surrounding Information Systems Need Enhancement (Modified Repeat Condition)

In connection with the annual audit of the Department's FY 2005 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.

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, GAO 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 made progress in strengthening controls over information technology processes and has made improvements in the implementation of its Certification and Accreditation initiatives during FY 2005, our audit work and audit reports prepared by the Office of Inspector General (OIG) identify certain repeated control weaknesses over information technology security and systems that need to be addressed. Audit resolution activity related to prior findings has generally been effective over time in addressing specific instances noted, and less so in applying lessons learned across other systems which may share similar attributes. This leads to a pattern of identifying similar findings as efforts are applied to different systems on a rotational cycle, rather than a holistic resolution of issues across all platforms.

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More specifically, the Department should (1) consistently apply updates, virus/data integrity protection packages, and security patches to mission-critical systems; (2) enforce the use of complex passwords in all systems across the organization; (3) strengthen access controls to protect mission-critical systems (e.g., user provisioning process, periodic access revalidation, timely removal of user access); (4) 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; and, (5) 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. The numerous repeat conditions noted in audit reports indicate that the control environment and monitoring components of internal control at the Department regarding information technology merit continued focus.

Recommendation:

1. Audit resolution activity has traditionally been focused around addressing the immediate security weaknesses identified by audit reports rather than a detailed evaluation of the root cause for the identified weaknesses, which is indicative of the number of repeat findings. We recommend that the Department continue its efforts to address security weaknesses disclosed in audit reports with an emphasis on identifying and addressing the root cause of the security weakness, which should decrease the likelihood of a similar security weakness 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 audit performance-based contracting with vendors providing system support services to the Department.

STATUS OF PRIOR YEAR FINDINGS

In the reports on the results of the FY 2004 audit of the Department of Education's financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:

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Summary of FY 2004 Reportable Conditions

Issue Area	Summary Control Issues	FY 2005 Status
Improvements of Credit Reform Estimation and Financial Reporting Processes are Needed (Reportable Condition)	Management controls and analysis need to be strengthened over credit reform estimation and financial reporting processes.	Improvements Noted – Modified Repeat Condition Reportable Condition
Controls Surrounding Information Systems Need Enhancement (Reportable Condition)	Improvements are needed in overall information technology security management.	Improvements Noted – Modified Repeat Condition Reportable Condition

We have reviewed our findings and recommendations with Department management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to the OIG in accordance with applicable Department directives.

In addition to the reportable conditions described above, we noted certain other matters involving internal control and its operations that were reported to management in a separate letter dated November 2, 2005.

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 2, 2005

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Report on Compliance with Laws and Regulations

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheet of the U.S. Department of Education (the Department) as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 2, 2005. 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. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Department is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Department.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02. We noted certain other matters involving compliance with laws and regulations that were reported to management in a separate letter dated November 2, 2005.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with certain requirements discussed in the preceding paragraph. We have identified the following instance of noncompliance:

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Report on Compliance with Laws and Regulations
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While the Department has made progress in strengthening controls over information technology processes and has made improvements in the implementation of its Certification and Accreditation initiatives during fiscal year 2005, our audit work and audit reports prepared by the Office of Inspector General (OIG) identify certain repeated control weaknesses over information technology security and systems that need to be addressed. More specifically, the Department should (1) consistently apply updates, virus/data integrity protection packages, and security patches to mission-critical systems; (2) enforce the use of complex passwords in all systems across the organization; (3) strengthen access controls to protect mission-critical systems (e.g., user provisioning process, periodic access revalidation, timely removal of user access); (4) 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; and (5) 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.

The Report on Internal Control includes additional information related to the financial management systems that were found not to comply with the requirements of FFMIA relating to information technology security and controls. It also provides information on the responsible parties, relevant facts pertaining to the noncompliance with FFMIA, and our recommendations related to the specific issues. We have reviewed our findings and recommendations with management of the Department. Management concurs with our recommendations and, to the extent findings and recommendations were noted in prior years, has provided a proposed action plan to the OIG in accordance with applicable Department directives.

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 2, 2005

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-________

NOV - 8 2005

MEMORANDUM

TO: John P. Higgins, Jr.
Inspector General

FROM: Jack Martin
Chief Financial Officer

Michell Clark
Acting Assistant Secretary for Management and
Acting Chief Information Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2005 and 2004 Financial Statement Audit
U.S. Department of Education
ED-OIG/A17F0004

Please convey my sincere thanks and appreciation to everyone on your staff who worked diligently on this financial statement audit. The Department has reviewed the draft Fiscal Years 2005 and 2004 Financial Statement Audit Reports. Without exception, we concur and agree with the Internal Control Report and the Auditor's Opinion. We also concur and agree with the report on Compliance with Laws and Regulation.

We will share the final audit results with responsible senior officials, other interested program managers, and staff. At that time we will also request that they prepare corrective action plans to be used in the resolution process.

Again, please convey my appreciation to everyone on your staff whose efforts permitted the Department to complete the audit within the accelerated timeframe. Please contact Gary Wood at 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

Other Accompanying Information Overview

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MEMORANDUM

TO: Secretary Margaret Spellings

FROM: John P. Higgins, Jr.

RE: Management Challenges for Fiscal Year 2006

DATE: October 26, 2005

Pursuant to the Reports Consolidation Act of 2000, we provide the attached management challenges for the Department for Fiscal Year 2006. We look forward to continuing to work with the Department to address these challenges and improve the efficiency and integrity of the Department's programs and operations.

Attachment
cc: Senior Officers

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.

Management Challenges for Fiscal Year 2006

2005 marks the 25th anniversary of the U.S. Department of Education (Department), with its mission to ensure equal access to education and to promote educational excellence throughout the nation, as well as to improve the management, efficiency, and accountability of federal education programs and activities. The U.S. Congress has entrusted the Department with increasing sums of taxpayer dollars to fulfill this mission. The Department's funding has grown five-fold, from approximately $14 billion for fiscal year (FY) 1981 to over $71 billion for FY 2005. The Department exercises stewardship over these taxpayer dollars and has an obligation to carry out this responsibility with diligence. America's taxpayers and students require and deserve nothing less.

For nearly a quarter of a century, effective financial management of its programs and operations has been a fundamental challenge for the Department. In the 1990s, the Government Accountability Office (GAO) cited the Department's student financial assistance programs as "high risk," noting their significant vulnerability to waste, fraud, and abuse.

Since 2002, the Department has made noteworthy progress in improving its financial management systems and information technology (IT) security. The Department received a clean audit opinion for FY 2002, FY 2003, and FY 2004. In 2004, the Department won the President's Quality Award for Financial Management, and received a "green" score on financial management from the Office of Management and Budget, signifying that it had satisfied the requirements of the *President's Management Agenda* for that area. In January 2005, GAO removed the student financial assistance programs from its "high risk" list. These are achievements for which the Department should be commended. However, additional steps should be taken for continuous improvement of the Department's financial management accountability.

While the Department's improved systems are helping it to identify a number of problem areas and possible misappropriations of federal funds, the Department has much to do to fully achieve effective oversight, accountability, and enforcement throughout its programs and operations. To improve its stewardship of the taxpayer dollars with which it has been entrusted, the Department must increase its diligence to prevent waste, fraud, and abuse. For example, the Office of Inspector General (OIG) has recently found:

- Widespread improper payments in the Migrant Education Program, which has distributed more than $1.5 billion in federal funds since FY 2000.
- Although a Department internal review found that between fiscal years 2001 and 2004, $25.6 million was awarded to potentially ineligible Hispanic-Serving Institutions, the Department has not yet taken immediate action to fix the problem or recover misappropriated funds.
- Failure to appropriately monitor the expenditure of grant funds in various instances to ensure that grantees comply with federal statutes and regulations.
- Failure to provide required oversight to some Department contracts and contractors, including inability to account for contract deliverables.
- Ongoing deficiencies in internal and external audit follow-up processes leave the Department susceptible to risks that related programs are not being effectively managed and Department funds are not being used as intended.

To correct these problems, the Department has implemented numerous actions since the last reporting period. It has established a new Internal Control and Evaluation staff group to assist in the review of the monitoring of programs, continues with initiatives and corrective action plans to identify high-risk grantees, implemented a procurement training program for Contracting Officer's Representatives, implemented data mining techniques to identify improper payment risks, and adapted program monitoring procedures. While these are positive actions, the Department still lacks an overall strategy to improve accountability.

The *Reports Consolidation Act of 2000* requires OIG to annually 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. This report summarizes those key areas where effective stewardship is warranted. While this report discusses the progress the Department is making, it is evident that additional focus, attention, and emphasis are needed.

The Department must continue to make the goal of effective stewardship of taxpayer dollars a priority. It must establish effective accountability of its grantees, its program participants, its contractors, and its employees. Only by emphasizing oversight and enforcement can the Department provide effective stewardship over the hundreds of billions of dollars supporting its programs and operations.

Following are some specific areas in which the Department faces the challenge of effective accountability of its programs and operations.

Program Accountability

The Challenge—Student Financial Assistance

The Department's student financial assistance programs are large and complex. The loan and grant programs rely upon over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, and many contractors. The size and scope of the programs have increased greatly in recent years, with total program dollars doubling in the last 10 years alone. Continued developments in the modes of education delivery (e.g., non-traditional terms, distance education) and virtual paperless electronic delivery of program funds bring new challenges to ensure adequate oversight to identify and manage risks. With approximately $70 billion awarded annually through the student financial assistance programs and an outstanding loan portfolio of over $400 billion, the Department must ensure all entities involved in the programs are adhering to statutory and regulatory requirements. The Department's Office of Federal Student Aid (FSA) must provide adequate program monitoring to reduce fraud and abuse in these programs.

The Department's responses to OIG audits have shown that stewardship remains a challenge for the Department, as it has not taken sufficient actions to protect federal funds or recover funds to which entities were not entitled. Examples include:

- In February 2005, we issued our audit report on Direct Consolidation Loans. We found the Department's procedures did not ensure that all of an applicant's eligible loans were consolidated in a Direct Consolidation Loan. When a loan holder failed to return a loan verification certificate (LVC) time, or failed to provide all the information requested on the LVC, the Department did not take effective action to ensure that the applicant's loan was consolidated. In addition, the Department provided inappropriate guidance to applicants when their loan holders failed to return timely or complete LVCs.

- In 1997, OIG reported a problem in regard to foreign school Federal Family Education Loan (FFEL) borrowing. The problem persists today. An example is the case of an individual who pled guilty to student financial aid fraud in February 2003 after obtaining $161,000 in FFEL funds by falsely claiming that he and his brother were enrolled at a university in the United Kingdom. Our investigation developed information that the individual was responsible for the submission and/or preparation of an additional 2,370 loan applications requesting disbursement of approximately $43.8 million. Additionally, an OIG audit in August 2005 found that two guaranty agencies responsible for approximately 79 percent of all foreign school loans did not have policies and procedures in place to provide compliance with Dear Colleague Letter G-03-348. This Dear Colleague Letter was issued specifically to provide assurance that borrowers, who are receiving FFEL disbursement checks directly, were indeed enrolled at the foreign institution.

The Department's Progress. FSA has agreed to improve its management and to develop and implement consistent oversight procedures among its regions. In December 2004, OIG and FSA representatives initiated the OIG/FSA Joint Fraud Initiative—a proactive approach to identify and reduce fraud and abuse in federal student financial assistance programs.

The Challenge—Risk Management of Elementary and Secondary Education Programs

The funds the Congress has provided to elementary and secondary programs have grown from $6.9 billion in FY 1980 to nearly $38 billion in FY 2005. Identifying and taking corrective action to detect and prevent fraudulent activities by state and local employees, as well as addressing accountability and compliance issues by program participants, remains a challenge for the Department. Some recent examples follow.

- An OIG audit of the Wyandanch Union Free School District in New York found that Wyandanch's records for $6.6 million of Title I and Title II expenditures from July 1, 1999, through June 30, 2004, were unauditable. Specifically, we noted that Wyandanch had weak controls over its accounting functions, including reconciliations, reclassifications, and recording of expenditures for Title I and Title II funds.
- An OIG audit of telecommunications charges at the New York City Department of Education found approximately $1.5 million (75 percent of sampled transactions from July 1, 1999, through June 30, 2003) that could not be supported.
- A federal task force consisting of OIG, the Federal Bureau of Investigation (FBI), Internal Revenue Service/Criminal Investigation Division, U.S. Department of Agriculture, and the Texas Education Agency developed information that led to the conviction and sentencing of a number of officials of a charter school in Texas for their roles in defrauding federal and state government agencies. Our investigation found that the school misreported student attendance data and consequently received funding for which it was not entitled. From academic year 1999–2000 ending through academic year 2001–02, the school received approximately $2,566,565 in federal funding.
- OIG conducted both an audit and an investigation related to the accountability of Title I funds by the Orleans Parish School Board (Orleans Parish). The audit found that Orleans Parish did not properly account for nearly $69.3 million of Title I funds from July 1, 2001, through December 31, 2003. Our investigation, conducted jointly with the FBI and the New Orleans

Police Department, uncovered a $70,000 kickback scheme. Seven former employees of Orleans Parish have pled guilty for their roles in the scheme to date.

- A recent OIG audit of the Migrant Education Program administered by the Puerto Rico Department of Education found that from a sample of 171 enrolled students, all were determined to be ineligible. In May 2003, the Department visited the Puerto Rican department, and although the team examined eligibility certificates, it did not test the accuracy of the data. Had the Department performed such testing, the inaccuracy and fabrication of enrollment data most likely would have been uncovered. Also, we are currently performing Migrant Education Program audits in Georgia, Oklahoma, and Arkansas, and reviewing allegations regarding inflated migrant student counts in a number of other states. Increased awareness by program managers regarding their responsibility to oversee programs carefully, rather than to focus exclusively on technical assistance, would help prevent these losses and protect program integrity.

The Department's Progress. The Department has made risk management a priority. Its interoffice Risk Management Team, under the leadership of the Under Secretary, is undertaking projects to address accountability and compliance issues, as identified by OIG audits, referrals, and single audits conducted by nonfederal auditors. It works with program offices to designate grantees as "high-risk" when the situation warrants and has dedicated a weekly meeting to risk management issues. In addition, the Department has sent multidisciplinary teams into key locations, as identified through OIG audits, to review and assess the progress the "high-risk" entity is making in addressing its weaknesses.

The Challenge—Unsolicited Grants and Congressional Earmarks

Unsolicited grants are awards made by the Department, in most cases, as a result of grantee initiative. Such awards do not result from formal Department solicitations for applications. Complications can arise with unsolicited grants, as many recipients of these funds tend to be first-time participants in federal education programs. They are often unfamiliar with applicable regulations and require additional direction, guidance, and support with the compliance processes. In FY 2004, unsolicited grants totaled more than $47 million for 59 grantees. The Department must ensure that unsolicited grant applications receiving awards are genuinely unsolicited, contrary to the evidence in some of our recent audits.

Like unsolicited grants, congressional earmarks do not result from formal solicitations for applications. Congress earmarked specific education appropriations totaling nearly $400 million for 1,175 local projects in FY 2005, an increase of more than 40 percent over the previous year. The Department is required to ensure that recipients of its funds use them in accordance with applicable laws and regulations. However, the Department has stated it does not have enough staff to administer and properly monitor the recipients of congressional earmarks. It should be noted that some grant projects that begin as unsolicited grants receive congressional earmarks in subsequent years.

The Department's Progress. The Department plans to develop a toolkit to help new grantees properly administer their grant programs and to continue to re-engineer its grants monitoring process.

The Challenge—Data Reliability

Data reliability is both a compliance issue and a performance issue. For example, the *No Child Left Behind Act*, which ties funding directly to student achievement and accountability, requires states to report on performance in many areas. The utility of this reporting, and ultimately funding decisions, depends on the collection of reliable data. Without reliable data, the Department cannot make effective decisions on its programs, or know if the funds it disburses are indeed reaching the intended recipients. OIG has performed a number of audits of Title I, Part A, and the *Carl D. Perkins Vocational and Technical Education Act* education programs and concluded that management controls must be strengthened at the local, state, and federal levels to ensure that data are complete, accurate, and reliable.

The Department's Progress. The Department recognized the need to improve its data quality and data reliability, and, in FY 2003, launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network is expected to provide state educational agencies and the federal government the capacity to transfer and analyze information about education programs.

Operations Accountability

The Challenge—IT Capital Investment

The Department anticipated its FY 2006 IT capital investment portfolio will be $385.8 million. It is critical that the Department have a sound information technology investment management control process that can ensure that technology investments are appropriately evaluated, selected, justified, and supported. The Department needs to continue to improve its capital planning and investment control oversight. The Department has focused significant attention on this area and has made an effort to make this process more efficient. In the past few months, the Department has revised the charter of the Investment Review Board (IRB) and restructured the Planning and Investment Review Working Group, the working group that supports the IRB. It is premature to judge the effectiveness of these changes.

Many critical IT projects are pending, such as the Oracle 11i project. In 2004, OCFO and FSA announced plans to consolidate their separate platforms into one functional financial management system, using version 11i of Oracle Federal Financials, by October 2006. However, in February 2005, we were informed that the Department had decided to forego this consolidation. Although this decision is bound to mitigate significant risks associated with the consolidation and changes in interfacing systems, the initiative is still quite complex and high risk. We have recommended, due to the growing complexity and costs for IT projects, the Department consider, at least for its most major investments, arranging for an independent, professional assessment of those projects as part of its capital investment process. While the Department appears to be routinely including Earned Value Management in its business cases, as required by the Office of Management and Budget (OMB), and including Independent Verification and Validation contracts in several projects, these actions alone will not provide the type of expert, outside assessment that we believe would greatly benefit the Department's capital investment process, particularly if this assessment occurs prior to the initiation of a major project.

The Department's Progress. The Department has made an effort to better articulate the relationship between IT projects and the Department's lines of business. It has also strengthened its business cases and is doing a better job of systematically tracking its high-risk IT investments. In 2004, it also deployed the Electronic Capital Planning and Investment Control system, which will assist in the management of IT projects across the Department.

The Challenge—IT Systems

The Department is required to adequately manage and safeguard IT assets and meet e-government requirements. Its 60 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to complete its development of a well-defined enterprise architecture, practice sound system analysis, and design concepts and ensure that robust system acquisition and development life cycle methodologies are in place and adhered to. Currently, there is a lack of common understanding of the life cycle of systems development processes across the agency, and varied methods of life cycle development execution have led to inefficient use of both time and resources. The Department must continue moving forward in ensuring that its systems are secure, in accordance with the *Federal Information Security Management Act of 2002*, in order to protect the data they contain and the operations they support. Lastly, the Department must ensure that it is effectively managing its transition to governmentwide system solutions and in addressing OMB's Line of Business initiative, a governmentwide analysis of five lines of business supporting the *PMA* goal of expanding electronic government.

The Department's Progress. The Department has embarked on several modernization efforts that have the potential to increase business efficiency and improve customer service. It is moving forward with its ongoing system development and consolidation efforts planned for FY 2006. It has also devoted time and resources to enhance security for its systems, including formally certifying most of its general support systems and major applications. We noted that the process did not adequately identify the residual risks that Department officials were accepting at the time of system certification, and the Department implemented a corrective action plan. In addressing OMB's Line of Business initiative, the Department currently has an E-Authentication Program that represents its commitment to the implementation of E-Authentication and lays out the roles and responsibilities for implementing the initiative.

The Challenge—Procurement

The Department contracts for many services that are critical to its operations, at a value of over $929 million in FY 2004 alone. The Department must improve its procurement and contract management process to ensure that it is receiving quality goods and services in accordance with the contract terms. The Department needs to use pre-award audits, strengthen its ability to clearly and completely define contract requirements, ensure effective communication between relevant contracting and program office personnel, and ensure that contractors are performing in accordance with contract terms and conditions.

The Department's Progress. In 2005, the Secretary directed the Chief Acquisition Officer and Contracts and Acquisition Management Director to develop a training program reinforcing the Department's contracting processes and applicable laws and regulations. Senior managers, contracting personnel, and relevant program office personnel will be required to attend this training. The Secretary has also directed each Principal Officer leading a program office to take immediate steps and personal responsibility for ensuring contracts are awarded properly and effectively monitored, and has designated a senior advisor reporting directly to her to oversee transformation activities to ensure effective investing and risk management of contracts.

The Challenge—Human Capital Management

Like most federal agencies, the Department will see a significant percentage of its work force eligible for retirement in 2006. The Department is also continuing to see a significant change in critical skill requirements for many of its staff. Identification of needed action steps and prompt implementation of those action items to adequately address these work force and succession planning issues, including recruitment, hiring, and retention, is critically important. Absent sufficient well-trained and highly skilled staff, the Department cannot provide program or operations accountability. In 2004, the Department recognized that its OneED plan, which it developed in 2001 in response to the *President's Management Agenda*, was not a comprehensive human capital plan, and it developed and began implementing a new plan in fall 2004. The development of this plan was a positive step by the Department; however, it is premature to judge the extent to which the specific needs of the individual offices are being identified or effectively addressed as the plan is being implemented.

The Department's Progress. As noted, in 2004, the Department released a new Human Capital plan that replaced its OneED report. The Department has begun implementation of the plan. In 2005, FSA, with the aid of a consultant, also developed its own Human Capital plan. The FSA plan specifically focuses on the needs of FSA and is intended to help SFA attract and retain a highly skilled and motivated work force.

Improper Payments Information Act of 2002 Reporting Details

The *Improper Payments Information Act of 2002 (IPIA)*[1] and the Office of Management and Budget's (OMB) implementing guidance, Memoranda M-03-13[2], and OMB Circular A-136[3], require agencies to annually review all programs and activities to identify those susceptible to significant improper payments. The guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually. For each program identified as susceptible, agencies are required to report the annual amount of estimated improper payments, along with steps taken and actions planned to reduce them, to the President and the Congress.

To facilitate agency efforts to meet the reporting requirements of the *IPIA*, OMB announced a new *President's Management Agenda*[4] (*PMA*) program initiative beginning in the first quarter of fiscal year 2005 entitled Eliminating Improper Payments. Previously tracked along with other financial management activities through the Improving Financial Performance initiative, the establishment of a dedicated initiative focused the Department of Education's (Department) improper payments efforts. Under the new initiative, the status and progress of actions to further identify, report on, and reduce improper payments are now tracked and reported to OMB in quarterly *PMA* scorecards.

The Department has divided its improper payment activities into the following segments: Student Financial Assistance Programs, Title I Program, Other Grant Programs, and Recovery Auditing.

Student Financial Assistance Programs

Federal Student Aid (FSA) operates and administers the majority of the *Higher Education Act of 1965*, as amended *(HEA)*, Title IV Student Assistance (Title IV) programs for the Department of Education.[5] In fiscal year 2004, nearly $70 billion was provided to students and families to assist them in overcoming the financial barriers that make it difficult to attend and complete postsecondary education. FSA administers a variety of grants, loans, and loan guarantees through its financial assistance programs. The processes developed to administer the programs are responsive to changes in statutes, the reauthorization of existing statutes, and the changing needs of educational institutions and their students.

Title IV student assistance programs are large and complex. FSA relies upon over 6,000 eligible postsecondary institutions in addition to 3,200 lenders, 35 loan guaranty agencies, and a number of loan servicers to administer its programs. Except for funds received as an administrative cost allowance, FSA program funds received by a school are held in trust by the school for the students, the Department, and, in some cases, for private lenders and guaranty agencies.

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[1] Public Law 107-300, Stat. 2350, November 26, 2002.

[2] OMB Memorandum M-03-13, *Improper Payments Information Act of 2002, Public Law 107-300* (May 21, 2003).

[3] OMB Circular No. A-136 (Revised), *Financial Reporting Requirements (August 23, 2005).*

[4] Executive Office of the President, Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (August 2001).

[5] Title IV is a part of the *Higher Education Act of 1965* that authorized and regulates various student financial aid programs.

The *HEA* and subsequent Department regulations to implement the law are comprised of a succession of eligibility definitions, standards, requirements, tests, and other internal controls designed to minimize the risk that improper payments will be made either to students, or to postsecondary or financial institutions. The law provides criteria for an institution to be eligible to participate in student financial assistance programs and mandates the joint responsibility of a program integrity triad made up of state educational agencies, accrediting agencies, and the Department. This structure, while empowering educational institutions to operate programs based on area needs, can increase the risk of improper payments and pose oversight and monitoring challenges for the federal government.

FSA engages in an ongoing process of actively identifying new risks in the programs it administers. Noncompliance with statutes, regulations and policies, whether by students, schools, lenders, guaranty agencies, or loan servicers, not only places Title IV funds at risk, but also erodes public trust in the programs. To address these concerns, FSA has several initiatives underway to identify real or potential risks for fraud, waste, abuse, mismanagement, and inadvertent errors in the delivery of student financial assistance programs and funds.

Controls Over Financial Aid Applications

Over 13 million postsecondary school students apply for federal student aid each year by completing the required Free Application for Federal Student Aid (FAFSA). Information provided on the FAFSA is used to (1) calculate the expected family contribution (EFC), an amount applicants and their families are expected to contribute to the cost of their postsecondary education expenses for a given award year, and (2) confirm eligibility through computer matches with other agencies. Unless the application is rejected due to inconsistencies or inadequate information, the Department's central processing system will automatically calculate the EFC. The *HEA* establishes the formula for the EFC calculation. The result is a measure of the applicant's financial strength, and is significant in the determination of the amount and type of aid a student can receive.

The Department processes the FAFSA data it receives each year, using a sophisticated set of database matches and computerized editing techniques to confirm student eligibility for the Title IV programs and to target error-prone applications for a process called verification. All applicants are subjected to one or more of the student eligibility database matches and approximately 30 percent (approximately 3.9 million) are selected for verification.

Those applicants selected for verification are required to submit documentation to their school in order to verify their reported household size, number of family members attending college, adjusted gross income (AGI), U.S. income taxes paid, and certain untaxed income and benefits reported on the FAFSA. Schools are required to collect copies of income tax returns from applicants who file returns (and their parents, if the applicant is dependent) to determine that AGI, income taxes paid, and certain untaxed income and benefits amounts were correctly reported on the FAFSA. Any discrepancies detected during the verification process must be corrected.

Risk Assessment

As required by the *IPIA*, FSA inventoried its programs during fiscal year 2005, and reviewed program payments made during fiscal year 2004 (the most recent complete fiscal year available), to assess the risk that a significant amount of improper payments were made. The review identified and then focused on five key programs, denoting 99.6 percent of FSA's fiscal year 2004 outlays. (Outlays in this context represent the amount of money actually spent during a fiscal year.)

The criteria for determining susceptible risk within the programs were defined as follows:

- For those programs whose annual outlays did not exceed the OMB Memorandum M-03-13 susceptibility threshold of $10 million, a comprehensive program risk assessment was not prepared and the programs were determined to be unsusceptible to the risk of significant improper payments.
- For programs whose outlays were greater than $10 million, but less than $200 million, estimates of improper payments were prepared using the susceptible threshold error rate 2.5 percent. Programs with improper payment estimates of less than $5 million were deemed unlikely to be susceptible to the risk of significant improper payments.
- Programs were selected for further determination of susceptibility to significant improper payments if annual outlays exceeded $200 million.
- Finally, programs were automatically deemed susceptible if previously required to report improper payment information under OMB Circular A-11, Budget Submission, former Section 57.[6]

Risk Susceptible Programs

The following Title IV programs were deemed to be potentially susceptible to the risk of significant improper payments based on OMB's threshold of potential annual improper payment amounts exceeding both 2.5 percent of program payments and $10 million.

Federal Family Education Loan Program

The Federal Family Education Loan (FFEL) program is a guaranteed loan program established by the *HEA*. Under the FFEL program, eligible students apply to lenders such as banks, credit unions, and savings and loan associations for loans to vocational, undergraduate, and graduate schools to help pay for educational expenses. If the lender agrees to make the loan, a state or private nonprofit loan guaranty agency insures the loan against default. The federal government subsequently reinsures this loan. FFEL programs offer various repayment options and provide four types of loans to qualified applicants.

- Subsidized Stafford Loans—Need-based loans in which the government pays interest when the student is in school and during qualified periods of grace and deferment.
- Unsubsidized Stafford Loans—Loans in which the government does NOT pay interest.
- PLUS Loans—Loans to parents of dependent undergraduate students in which the government does NOT pay interest.
- Consolidated Loans—Loans that allow borrowers to combine multiple outstanding federal student assistance loans.

[6] The four original programs identified in OMB Circular A-11, Section 57 were Student Financial Assistance (now Federal Student Aid), Title I, Special Education Grants to States, and Vocational Rehabilitation Grants to States. Subsequently, after further review of the program risk, 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.

During fiscal year 2004, net loans of $39 billion were provided to 5.4 million FFEL recipients. The average subsidized FFEL loan was $3,450, while the average unsubsidized loan was $4,868. In addition, FSA paid an estimated $3.0 billion to lenders for interest and special allowance subsidies, and an estimated $3.9 billion to guaranty agencies to reimburse them for defaulted FFEL loans, loan processing fees, issuance fees, and account maintenance fees required by the *HEA*. The interest payments and special allowance subsidies, combined with the default, loan processing, issuance, and account maintenance fees comprise the program outlays at risk.

Federal Pell Grant Program

The Federal Pell Grant (Pell Grant) program provides need-based grants to low-income undergraduate and certain post baccalaureate students to promote access to postsecondary education. Students may use their grants at any one of approximately 6,000 eligible postsecondary institutions. Grant amounts are dependent on the student's EFC, the cost of attending the institution, whether the student attends full-time or part-time, and whether the student attends the institution throughout the entire academic year. The statutory maximum award in fiscal year 2004 was $4,050, and the average award was $2,441.

Under the terms of the *HEA*, eligibility for Pell Grant awards is determined exclusively through applicant self-reported income, family size, number of dependents in college, and assets. These data are key drivers in the determination of program eligibility and eligible amounts. However, FSA historical analysis indicates that the accuracy of self-reported data is prone to error, and that these errors subsequently increase the risk of improper payments within the Pell Grant program. While limited matching of some self-reported income data is currently conducted with data from the Department of the Treasury's (Treasury) Internal Revenue Service (IRS) annual income tax filings, FSA is pursing additional authority to allow greater access to the IRS data. Specifically, FSA has requested authorization to verify 100 percent of the annual student financial aid applications with the financial data reported to the IRS in annual income tax returns. The ability to verify self-reported financial data could result in a significant reduction of the risk of improper payments in the Pell Grant program. Legislation to amend the Internal Revenue Code to permit a 100 percent data match has not yet been enacted, and at this time we are uncertain as to whether, or when such legislation may be enacted. In the interim, FSA is working with OMB to develop alternative methods.

Federal Supplemental Educational Opportunity Grant and Federal Work-Study Programs

The Federal Supplemental Educational Opportunity Grant (FSEOG) program is one of three campus-based[7] formula grant programs allocated to eligible institutions for the purpose of providing grants to needy undergraduate students attending the institution. During fiscal year 2004, the Department allocated $770 million through the FSEOG program to institutions who awarded grants to about 1.2 million low-income students. The awards ranged from $100 to $4,000, with the average award about $778.

The Federal Work-Study (FWS) program is another of the three campus-based formula grant programs allocated to more than 3,300 participating institutions of higher education for the purpose of providing part-time employment to needy undergraduate and graduate students. In

[7] Campus-based financial aid programs are administered to students by the postsecondary institutions they attend and not by the Department of Education.

fiscal year 2004, the Department allocated $999 million to schools, which provided funds for part-time employment assisting about 858,000 students with financing the costs of postsecondary education. The average award was $1,394.

The FSEOG and FWS programs were surveyed and determined not to be at risk of significant improper payments. Combined, the two programs constituted $1.8 billion, or just 2.6 percent of the Department's total payments in fiscal year 2004. Each year, participating institutions complete the Fiscal Operations Report and Application to Participate (FISAP). The FISAP serves as a mechanism to report prior year funds usage and current year need. Each year, the aggregated amount of need (for all participating institutions) far exceeds the appropriated amounts for both FSEOG and FWS programs. Therefore, by design, the risk of over-awarding funds is inherently minimized since award distribution is prioritized by order of need, and not all students with demonstrated need actually receive awards. Moreover, ongoing oversight activities, including audits and program reviews have not revealed significant risk in either of these programs.

William D. Ford Federal Direct Loan Program

Like loans made under the FFEL program, the William D. Ford Federal Direct Loan (Direct Loan) program provides the following four types of loans to qualified individuals to assist with the cost of postsecondary education: (1) Stafford Subsidized; (2) Stafford Unsubsidized; (3) PLUS; and (4) Consolidation.

Under the Direct Loan program, the Department uses U.S. Department of the Treasury (Treasury) funds to provide loan capital directly to schools, which then disburse loan funds to students. During fiscal year 2004, the Department loaned $12.8 billion in Direct Loans through participating institutions to 1.8 million applicants with financial need who met the program criteria. The average subsidized loan amount was $3,675 while the average unsubsidized loan amount was $4,991.

Similar to the Pell Grant program, improper payments in the Direct Loan program are generally the result of errors in the self-reported eligibility data provided on the FAFSA. However, since the aid is provided as a loan rather than a gift, and is subject to full repayment (some loans including interest), eligibility errors alone do not necessarily result in a significant loss to the government. Moreover, the authority of the Department to successfully pursue the collection of defaulted loans (properly or improperly made) through tax refund offsets, wage garnishment offsets, and other legal actions, further reduces the government's risk. The principal risk to the government lies in the cost of administering the loans and the subsidy—the net present value of cash flows to and from the government that result from providing these loans to borrowers.

FSA contracts with multiple educational and financial institutions to originate, disburse, service, and collect Direct Loans, while the *HEA* and subsequent reauthorization actions determine the allowable interest rates and fees. Eligibility requirements are determined through the analysis of factors such as income and assets, and the schools make the final award decisions. Because of this multifaceted structure that encompasses multiple entity involvement and variable annual eligibility requirements, a full and rigorous assessment of the rate of improper payments in the Direct Loan program is extremely complex. Despite this challenge, FSA is analyzing the eligibility data used to determine the Pell Grant improper payment rate as part of its comprehensive effort to lower the risk of improper payments in all FSA financial aid programs that are reliant on applicant's self-reported eligibility information.

FSA Administrative Payments

As part of our annual assessment of risk for the susceptibility of significant improper payments, we reviewed other types of payments made by FSA. An initial review of the administrative payments such as payroll disbursements, vendor payments, and travel expenses, determined that those payments were not susceptible to the risk of significant improper payments, as defined by the *IPIA* and the related OMB implementation guidance. Further information on vendor payments is reported in the Recovery Auditing section of this report.

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." FSA has a wide array of programs, each with unique objectives, eligibility requirements, and payment methods. Consequently, each program has its own universe (or multiple universes) of payments that must be identified, assessed for risk, and, if appropriate, statistically sampled to determine the extent of improper payments.

Federal Family Education Loan Program

FSA has been working with OMB and the Department of Education's Office of the Chief Financial Officer (OCFO) on the implementation of the *PMA* initiative, Eliminating Improper Payments. The initiative involves a range of quarterly activities designed to ensure that the Department is prepared to meet the annual reporting requirements of the *IPIA*. Through meetings and discussions with OMB and OCFO, FSA is finalizing its sampling methodology for estimating improper FFEL program payments in compliance with the requirements of the *IPIA* and implementation guidance established in OMB Memorandum M-03-13.

In fiscal year 2005, FSA developed a baseline of estimated improper payments in the FFEL program by evaluating the following information:

- Overpayments identified during FSA Financial Partners Service (FP) program reviews of guaranty agencies, lenders and loan servicers during fiscal year 2004.
- Overpayments identified by independent public accountants (IPA) and third-party audit firms in Single Audit[8] reports for guaranty agencies and lenders.
- Overpayments reported by the Department of Education's OIG in audits and reviews of guaranty agencies, lenders, and loan servicers during fiscal year 2004.
- Outstanding loan balance amounts at guaranty agencies, lenders, and servicers selected for review by the OIG, IPAs and FSA's FP.

The information was compiled by entity and compared to the total payments made to those entities in fiscal year 2004 to determine if there exists a susceptibility to significant improper payments. The focus of this analysis was to (1) determine a baseline error rate for FFEL payments, (2) establish an action plan for improving the accuracy of future measurements, and (3) ensure that

[8] "Single audit" means an audit, which includes both the entity's financial statements and the Federal awards pursuant to the *Single Audit Act of 1984, P.L. 98-502*, and the *Single Audit Act Amendments of 1996, P.L. 104-156*. The provisions of the statute are set forth in OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

the planned methodology and approach for measuring improper payments meets the requirements of the *IPIA*.

In March 2005, the OIG raised concerns with FSA's estimates of improper payments. Specifically, FSA did not attempt to include any estimate of improper payments within the student loan programs, did not extrapolate liabilities from compliance problems identified through OIG audits, and did not include restitutions and penalties resulting from OIG investigations. FSA relied on the actual sustained liabilities from audits and program reviews, and estimated the effect of misreporting of income in the Pell Grant program, which was not reflective of the actual magnitude of improper payments in the student loan programs.

Federal Pell Grant Program

Section 484(q) of the *HEA* authorized the Department to confirm directly with the IRS, the AGI, taxes paid, filing status, and number of exemptions reported by students and parents on the FAFSA. Under IRS Code, FSA is not authorized to view the complete data, but is provided with summary data by the IRS.

The Department began routinely conducting studies with the IRS using FAFSA data for the 2000-2001 award year. Data provided by the IRS study were used to estimate improper payments for the Pell Grant program for the 2003-2004 award year. It is currently working with the IRS on the fifth annual study, using FAFSA data collected for the 2004-2005 award year, which will be matched with IRS data for 2003 income tax year. (Applicants for the 2004-2005 award year reported income information based on their actual or estimated 2003 income tax year.)

In the latest completed study, which compared 2003-2004 FAFSA data with 2002 IRS data, a sample file of 155,000 FAFSA applicant records was provided to the IRS along with a sampling program designed to allow 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 50,000 independent undergraduates and 50,000 dependent undergraduates (for whom parental data was matched).

Pell Grant Improper Payment Estimates
($ in millions)

Fiscal Year	Disbursements	Underpayments	Overpayments	Total Improper Payments*	Percent Underpayments*	Percent Overpayments*	Percent Total Improper Payments*
2001	$ 9,851	$ 64	$272	$336	.8%	3.4%	4.2%
2002	$11,619	$ 49	$328	$378	.5%	3.3%	3.8%
2003	$12,680	$205	$365	$569	1.8%	3.1%	4.9%
2004	$13,042	$221	$349	$571	1.8%	2.8%	4.5%

*amounts are rounded

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 to similar information reported to the Department on the FAFSA. Using a computer program supplied by FSA, the IRS calculated revised EFC and Pell Grant awards for matching records by substituting the IRS income information for the FAFSA income information. The IRS provided aggregated statistical tables to the Department that presented the results of these comparisons. The results allowed the Department to estimate the following Pell Grant improper payment information:

- Improper Payment Rate and Amount—The average amount of over- and under-reporting of FAFSA income data—as compared to the IRS income data—and the 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.

The previous table presents a historical analysis of the results of the IRS Statistical Study of Pell Grants.

William D. Ford Federal Direct Loan Program

The analysis and corrective actions developed for the Pell Grant program, relative to application accuracy, will also improve the accuracy of Direct Loan program applications, because (1) the same application is used for both programs, and (2) eligibility for subsidized Direct Loans are founded on the same needs-based analysis formula and institutional cost of attendance. FSA, in coordination with OMB, plans to continue analyzing the interactive effects of the targets and strategies developed for the Pell Grant program before determining an appropriate sampling methodology for the Direct Loan program. Should the program be determined to be susceptible to the risk of significant improper payments, a statistically valid sample will be developed and reported in the *FY 2006 Performance and Accountability Report*.

Corrective Actions

Federal Family Education Loan Program

FSA is working closely with OMB and OCFO 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 the amount of known improper payments in the FFEL program. Understanding and developing systems of internal controls over program payments is crucial to these goals. FSA has a number of existing internal controls integrated into its systems and activities. Program reviews, IPA and OIG audits of guaranty agencies, lenders, and servicers are some of its key management oversight controls. Other control mechanisms in place are described below. These controls, among others throughout FSA, greatly reduce the potential risk of significant improper payments.

- System Edits—The systems used by the guaranty agencies, lenders, and servicers to submit fee bills for payment include “hard” and “soft” edits to prevent erroneous information from being entered into the system and translated into erroneous payments. The hard edits prevent fee bills with certain errors from being approved, and these errors must be corrected before proceeding with payment processing. The soft edits alert the user and FSA to potential errors. These warnings are reviewed by FSA prior to approval of payment.
- Reasonability Analysis—Data stored in the National Student Loan Data System (NSLDS) are used as a tool to assess the reasonability of fee billing, and to determine payment amounts for account maintenance and loan issuance processing fees paid to guaranty agencies. FSA also performs trending analysis of previous payments to guaranty agencies and

lenders/servicers, as a means of evaluating reasonableness of changes in payment activity and payment levels.

- Focused Monitoring and Analysis—FSA 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 to allow FSA to make necessary corrections. Further, FSA's action plan incorporates the development of additional internal controls designed to improve the accuracy of future FFEL payments to lenders, servicers, and guaranty agencies.

- Special Allowance Payments—Increased focus and review of payments of fees to lenders and servicers associated with loans eligible for tax- exempt special allowance payments.
- Guaranty Agencies—Enhanced review of the Guaranty Agency Financial Report (Form 2000) to report collection activities, claims reimbursement, and loan portfolio status; and under- and over-billings for account maintenance, loan issuance, and processing fees associated with incorrect NSLDS reporting.

Additional controls are being considered for both cost efficiency and effectiveness in reducing FFEL payment errors. Updates to the corrective action plan will be reported to OMB in the quarterly PMA scorecard for Eliminating Improper Payments.

Federal Pell Grant Program

FSA has several initiatives underway designed to improve its ability to detect and reduce improper payments made in the Pell Grant program. Working with OMB on quarterly action plan objectives designed to facilitate full implementation of the *IPIA*, it has identified additional methods to determine the error rate and to estimate the annual amount of improper payments.

Preliminary Analysis. Eligibility for Title IV student aid is determined exclusively through applicant self-reported income, family size, number of dependents in college, and assets. These data are reported through the FAFSA, which applicants typically complete prior to the April 15 IRS tax filing deadline. The FAFSA data are key drivers in the determination of student aid program eligibility and eligible amounts. FSA performs regular analysis on the accuracy of income and other financial data submitted via the FAFSA. These routines include a variety of methods and techniques designed to ensure payment accuracy.

- 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 FSA programs.
- Quality Assurance—Enhanced program integrity processes.
- Verification—A process by which institutions compare applicant data to IRS data for the same period.

FSA is also using the IRS statistical study in which financial data from a random sample of FAFSA submissions is compared to 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, FSA has requested authorization to perform a 100 percent match of the financial data reported on the FAFSA to the financial data reported to the IRS on applicant income tax returns. However, current law does not permit FSA to verify income data with the IRS. Although FSA plans to pursue this option, it must continue to meet the reporting requirements of the *IPIA*. FSA is pursuing alternatives that will accomplish the same result: reduced improper payments in the Pell Grant program.

Alternatives to Verifying Self Reported AGI. FSA, working with officials from OMB and OCFO 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 alternatives that are being considered:

- Private database matches (data aggregators).
- Require actual tax returns for FAFSA filing.
- Require update to income data at tax filing deadline.
- Expand verification beyond 30 percent.

The ongoing action plan details the steps necessary to (1) perform statistical analysis, (2) complete the review of the alternative, (3) incorporate current IRS statistical analysis, and (4) submit the recommended alternative or combination of alternatives. Progress in completing actions will continue to be reported to OMB in the quarterly *PMA* scorecard initiative, Eliminating Improper Payments.

FSA's ability to project improper payment reductions is wholly dependent upon the completion of the corrective action plan and the selection of an alternative approach to a 100 percent IRS income match for every application. This will not be a quick or easy process. It is important to note that the system development life cycle for the pertinent FSA systems requires significant lead time for requirements, testing, coding and implementation of changes required to deploy the changes necessary to reduce improper payments.

William D. Ford Federal Direct Loan Program

While the risk of significant improper payments in the Direct Loan program has been considered minimal—based on the nature of the program (fully repayable loans)—FSA will develop a separate action plan to achieve *IPIA* reporting elements for this program during fiscal year 2006. Should the program be determined to be susceptible to the risk of significant improper payments, a statistically valid sample will be developed and reported in the FY 2006 Performance and Accountability Report.

Summary

The following table presents the improper payments outlook for Federal Student Aid Programs.

Federal Student Aid Improper Payment Reduction Outlook Fiscal Years 2004 – 2008
($ in millions)

Program	2004 Net Outlays (1)	2004 IP %	2004 IP $	2005 Outlays	2005 IP %	2005 IP $	2006 Est. Outlays	2006 IP %	2006 IP $	2007 Est. Outlays	2007 IP %	2007 IP $	2008 Est. Outlays	2008 IP %	2008 IP $
Direct Loan Program	$16,453	N/A(2)	N/A	$18,831	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Federal Family Education Loan Program(4)	$6,481	.16%	$10	$10,085	.16%	$16	$6,543	.16%	$10	$5,345	.16%	$9	$5,468	.16%	$9
Pell Grant Program	$12,866	4.5%(3)	$571	$12,602	4.5%	$617	$12,990	4.5%	$637	$13,171	4.5%	$645	$13,179	4.5%	$646

(1) Outlays reported in the table have been adjusted to reflect actual disbursements of funds, net of internal and intra-governmental adjustments or transfers.

(2) FSA is working with OMB and OCFO to determine whether a statistically valid estimate of improper payments is necessary for the Direct Loan program. Should the estimate be deemed necessary, FSA will report details in the *FY 2006 Performance and Accountability Report*.

(3) Combined over- and under-payment error rate is 4.5 percent. A separate analysis of the overpayments and underpayments was previously presented in the Pell Grant table.

(4) FSA is working to update future year improper payment estimates as the methodology is further developed.

Manager Accountability

FSA program managers are responsible for making recommended improvements and achieving quantifiable savings. The FSA Executive Management Team monitors these efforts. The Management Team is composed of approximately twelve key managers and is the executive decision-making body within FSA. Further, the Office of Inspector General conducts periodic audits of student aid programs and makes appropriate recommendations to management and the Congress. Reducing improper payments in the Pell Grant program has been a performance measure in the Department's Strategic Plan since 2002. The IRS statistical study has also been included in FSA's Annual Plans. In addition, projects have also been included in the FSA Annual Plan to improve the verification process results. Beginning in 2005, a control group of FAFSA applicants who had estimated their 2004 income when completing the application, were advised after April 15, to revise the application with the correct and known information filed on their 2004 income tax return.

Information Systems and Infrastructure

In fiscal year 2005, FSA introduced ADvance, its front-end business integration solution. ADvance will integrate FSA's student aid awareness; FAFSA application processing; Pell Grant and Direct Loan origination and disbursement; customer service support; and publication development services. A phased-in approach will be used for the ADvance solution, which is scheduled for completion in fiscal year 2007. The system will enhance the overall integrity of the payment process by predicting the risk based on applicant responses at the time of entry, and prompting the applicant to correct inaccurate, incomplete, or possible conflicting information for a particular field. If fatal errors are not corrected, a disbursement will not be made.

Statutory or Regulatory Barriers

As stated previously, a database match with the IRS would likely improve the accuracy of Pell Grant awards. In addition, it would eliminate the need for schools to rely on paper copies of tax returns submitted by the applicant (and the applicant's parent, if the applicant is dependent) to verify AGI and taxes paid amounts. However, legislation to amend the Internal Revenue Code to permit a 100 pecent database match has not yet been enacted and at this time we are uncertain as to whether, or when such legislation may be enacted.

Title I

The Department performed a risk assessment of the *Elementary and Secondary Education Act* Title I Program, parts A, B, and D, during fiscal year 2005. The chart on p. 301 documents the assessment that the risk of improper payments under the current statutory requirements is very low. In order to refine the process for assessing risk in the program the Department implemented a monitoring plan to review all states and territories receiving Title I funds within a three-year review cycle. The first three-year monitoring cycle began in fiscal year 2005 and will be completed in fiscal year 2007. The Office of the Chief Financial Officer is participating with OESE in the monitoring process to provide technical support in the fiduciary area of the reviews.

A key element of the monitoring process is to monitor the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under USDA'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.

USDA has raised concerns about the reliability of these data. USDA is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

Remaining Grant Programs

During fiscal year 2005, the Department expanded and strengthened its approach to evaluating the risk of improper payments associated with its remaining grant programs. The Department put in place a vehicle to complete a much more detailed risk assessment for these grants. We established a memorandum of understanding with the Department of Energy's Oak Ridge National Laboratory (ORNL) to perform data mining on information available in the Federal Audit Clearinghouse's Single Audit Database (SAD), the Department's Grant Administration and Payment System (GAPS), and the Department's Audit Accountability and Resolution Tracking System (AARTS).

Our approach to establishing the initial improper payment estimates for non-FSA grant programs was to develop a methodology to produce statistically valid measures that could be applied uniformly across the Department's programs. We wanted to use the same methodology across all non-FSA grant programs to establish a level of quality control for all programs and at the same time produce a cost effective measure. Since resource availability is always an issue, we decided to utilize the results of the thousands of single audits already being performed by independent auditors on grant recipients.

The ORNL project team sought input from various offices within the Department to define the elements of risk in the context of the Department's programs and activities. This process, termed "issues identification," was the focus of an ORNL/Department of Education workshop on August 26 and 27, 2004 in Washington, D.C. Subsequently, the ORNL explored data sources, particularly GAPS and AARTS, and refined the estimation procedure based on preliminary understanding of data available in AARTS. As part of this process, ORNL held a second workshop in Washington on November 9, 2004. Participation in this data-oriented workshop was more interactive and focused.

The second workshop revealed several concerns that needed to be addressed in order to utilize the single audit data. Questioned costs identified initially in the "Single Audit" process are sustained at a rate far less than 100 percent when the Department resolves the audits through its post-audit resolution process. Consequently, using the initial questioned costs would overestimate the erroneous payments. Other issues raised in the second workshop and reviewed by the ORNL team related to small grantees and pass though funds to local educational agencies. ORNL concluded that there was sufficient information in the SAD, AARTS and GAPS to proceed.

Risk Assessment

To conduct the risk screening, ORNL augmented the AARTS 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 is below 2.5 percent, then the actual value will be lower than 2.5 percent. If the computed upper bound percentage is greater than 2.5 percent, then the actual value may be greater or less than 2.5 percent but will need additional information to determine the appropriate estimate.

The key results of the analysis are presented in the chart. It contains the estimates of the average functional program rates of questioned costs for recent years. The most striking point about the table is the generally low rate of questioned costs. With only two exceptions, the rates are below 2.5 percent. The key finding of this analysis is that for the most recent year for which data is available (fiscal year 2003), none of the functional programs exceeds the threshold value of 2.5 percent. Consequently, none of the programs should be labeled as a high-risk program.

Improper Payment Estimates

Functional Program	2000 (%)	2001 (%)	2002 (%)	2003 (%)
Education Research, Statistics & Assessment	0.12	0.00	0.02	0.36
Elementary & Secondary Education	0.35	0.13	0.12	0.13
English Language Acquisition	3.55	0.00	0.02	0.10
Higher Education	0.13	2.72	0.29	0.21
Impact Aid	0.01	0.00	0.55	0.04
Innovation and Improvement	0.06	0.28	0.21	0.23
Rehabilitation Services & Disability Research	0.12	0.07	0.12	0.32
Safe & Drug-Free Schools	0.88	0.37	0.33	0.13
Special Education	0.09	0.09	0.06	0.83
Title I	0.42	0.04	0.16	1.19
Vocational & Adult Education	0.20	0.20	0.25	0.12
Total	0.10	0.06	0.04	0.16

Changes Being Considered for the Next Review

One of the concerns that have been discussed since the ORNL study results have been available is the definition of what constitutes a “program.” Our original definition was at a high level in order to effectively match anticipated outlays as defined in our budget submissions. The concern that has been uncovered is that calculating estimated improper error rates at that high of a level can effectively mask the potentially higher rates that might exist if “program” is defined to mean the Catalogue of Federal Domestic Assistance (CFDA) level.

In fact, individual audits conducted by the OIG have indicated the potential for higher improper payment estimates if they are measured at the lower CFDA level.

For instance, an OIG audit in the Hispanic-Serving Institutions (HSI) program identified grantees that were unable to provide documentation to substantiate their assurances relating to the institutions’ eligibility as eligible Hispanic-Serving institutions. Based on the audit and additional analyses, the Department estimates that the amount of potential improper payments awarded for fiscal years 2001 through 2004 could total as much as $25.6 million. The Department is working with those grantees identified as receiving potentially improper payments to determine if any additional information exists that can substantiate their eligibility. If additional information is not identified to substantiate the grantees’ eligibility, the Department will discontinue the grantees’ funding for the remainder of the grant performance period.

To reduce the potential for improper payments in this program, the Department has implemented a number of changes that include improved guidance to grantees and requiring grantees to submit documentation supporting their institutional eligibility assurances prior to receiving an award under the HSI Program.

To avoid overlooking improper payments such as these, the Department is considering performing the next risk assessment at a lower “program” level than the fiscal year 2005 assessment.

The OIG has also expressed other concerns regarding the ORNL study. Specifically the need to extrapolate questioned costs in the sample audited to the universe of payments made by the auditees, the possibility of missing questioned costs in grant funds passed through states to sub-grantees, and the fact that some questioned costs are not sustained for reasons other than determining that the costs were allowable. These situations will be discussed further with the OIG and considered for the next review.

Managing Risk in Discretionary Grants

In fiscal year 2005, the Department managed more than 10,000 discretionary grant awards. Due to the vast legislative differentiation and the complexity of the Department's grant award programs, ensuring that our program staff are fully aware of potentially detrimental issues relating to individual grantees is a significant challenge. Program offices must occasionally designate specific grants as high-risk, following collaboration with the respective program legal counsel and the Department's Grants Policy and Oversight staff. Unfortunately, other program offices across the Department have heretofore been unaware of such determinations.

In an effort to ensure efficiency and reduce risk, the Department has established the Grants High-Risk Module. This module is housed within the Department's Grant Administration and Payment System, such that 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 are being developed to support implementation of the high-risk module. System input to the module's database will be 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 will be provided such that continual monitoring of grantee risk is made available to Department program administrators.

Implementation of the module provides greater accountability and significantly reduces risk within the Department's grant award process by ensuring program office awareness of potentially detrimental grantee issues prior to award determination. We anticipate that increased accessibility and communication across our program offices will promote further monitoring of high-risk grantees, such that the number of grantees so designated will decline.

Manager Accountability

As part of the Department's agreement with Oak Ridge National Laboratory to assess and measure the risk of improper payments in the Department's grant programs, a two-day improper payment workshop was held for Department managers. The goal was to increase the overall awareness of the requirements of the *Improper Payments Information Act* and gather manager feedback regarding the available methods and data available to effectively and efficiently measure the risk and amount of improper payments.

The Department also plans to develop manager's internal control training that will focus on controls to eliminate improper payments. Managers will be required to attend a one-day seminar that will provide a framework for managing the Department's improper payment controls program utilizing applicable regulations, guidelines, and best practices. Part of this one-day training will focus on the utilization of the risk assessment criteria to properly assess the risk of improper payments in the Department's programs.

Planned Corrective Actions

In addition to the actions previously outlined under the Federal Student Aid Programs and Title I sections, the Department will configure our corrective action plans based on the results of the initiatives outlined above. The Department will record and maintain corrective action plans as required. These will include due dates, process owners, and task completion dates.

Information Systems and Infrastructure

The Department has requested $450,000 for fiscal year 2006 and $450,000 for fiscal year 2007 in our budget submission. A portion of the funds will be used to continue the refinement of the ORNL 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 executed a formal agreement for recovery auditing work on contract payments. All vendor payment transactions made from fiscal year 1998 through fiscal year 2004 were reviewed. Potential recoveries are minimal. Fiscal year 2005 payments will be reviewed during fiscal year 2006. Our purchase and travel card programs remain subject to monthly data-mining to identify potential misuse or abuse.

Summary

The Department of Education is continuing its efforts to comply with the *Improper Payments Information Act of 2002*. While there are still challenges to overcome, the Department has demonstrated in fiscal year 2005 that it is committed to ensuring the integrity of its programs. OMB recognized our progress in managing improper payments when they raised the Department's implementation progress to green on the *PMA* initiative for Eliminating Improper Payments.

The Department is focused on identifying and managing the risk of improper payment problems and mitigating the risk with adequate control activities. In fiscal year 2006, we will continue to work with OMB and the OIG to explore additional methods for identifying and reducing improper payment activity in our programs, and to ensure compliance with the *IPIA*.

Report to Congress on Audit Follow-up

The Inspector General Act, as amended, requires that the Secretary report to the Congress on the final action taken for the Inspector General audits. With this *Performance and Accountability Report*, the Department of Education is reporting on audit follow-up activities for the period October 1, 2004, through September 30, 2005.

The Audit Accountability and Resolution Tracking System (AARTS) is the Department's single database system used for tracking, monitoring, and reporting on the audit follow-up status of the Government Accountability Office (GAO) audits; the Office of Inspector General (OIG) issued internal audits, external audits, and alternative products; and Single Audits of funds held by non-federal entities. AARTS functionalities allow the following:

- Tracking of internal, external, GAO, sensitive, and alternative product types from inception to final disposition.
- Evaluation and escalation points for audit reports and recommendations at appropriate levels in the user hierarchy.
- Notifying users of audit decisions and approaching or expiring events and transactions.
- Downloading report and query results into electronic file formats.
- Attaching files to the audit record.
- Providing a personal portal (Digital Dashboard) for user-assigned transactions.
- Providing a search function to query application (Audit Report) data.
- Providing for both a defined and an ad hoc report generation environment.

Number of Audit Reports and Dollar Value of Disallowed Cost.

At the start of this reporting period, the balance for audit reports with disallowed costs totaled 62, representing $31.7 million. At the end of the reporting period, the outstanding balance was 59 audits, representing $34.3 million. The information in the table below represents audit reports for which receivables were established.

Final Actions on Audits with Disallowed Costs for Fiscal Year Ending September 30, 2005		
	Number of Reports	**Disallowed Costs**
Beginning Balance as of 10/1/2004	62	$31,680,403
+ Management Decision	164	16,771,135
Pending Final Action	226	$48,451,538
- Final Action	167	14,166,397
Ending Balance as of 9/30/2005	59	$34,285,141

Number of Audit Reports and Dollar Value of Recommendations That Funds Be Put to Better Use

The Department has a total of nine audit reports totaling $244 million with recommendations that funds be put to better use. Only three of these, totaling $5.3 million, have been resolved. Resolution occurs when there is agreement between the program office and the Department's OIG on the corrective actions that will be taken to address all of the recommendations in the audit.

Reports Pending Final Action One Year or More After Issuance of a Management Decision

As of September 30, 2005, the Department has a total of 11 OIG internal and nationwide audit reports on which final action was not taken within a year after the issuance of a management decision; 82 percent were less than two years old. Many corrective actions are dependent upon major system changes that are currently being implemented. For detailed information on these audits, refer to the Department's *Semiannual Report to Congress on Audit Follow-up Number 33.*

Credit Management and Debt Collection Improvement Act

The Department of Education has designed and implemented a comprehensive credit management and debt collection program that enables us to effectively administer our multi-billion-dollar student loan and other programs. The credit management and debt collection program covers each phase of the credit cycle—including prescreening of loan applicants, account servicing, collection, and close-out—and it conforms to the governmentwide policies in the Federal Claims Collection Standards, the Office of Management and Budget (OMB) Circular A–129, and the *Debt Collection Improvement Act (DCIA)*. As a result, the Department has made significant strides in student loan default management and prevention.

The Department has been working diligently with schools and partners in the student loan industry to reduce the cohort default rate. The fiscal year 2003 cohort default rate dropped to an all-time low of 4.5 percent. The low default rate is a function of the Department's improved borrower counseling and the steps we have taken in gatekeeping to remove schools with high rates from participating in the federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid, and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

The Department also continues to conduct computer matches with other federal agencies as part of our effort to strengthen the management and oversight of student financial assistance programs. The computer matches are designed to ensure that students meet various eligibility criteria and to increase the collections from students who have defaulted on their loans.

The Department of Education categorizes our debt into two basic categories: student loan debt, which accounts for approximately 99 percent of all of the Department's outstanding debts, and institutional and other administrative debt. The Department of Treasury granted the Department a permanent exemption from the cross-servicing requirements of the DCIA for defaulted student loans and approval to continue to service our own internal student loan debts because of our successful track record. However, we have been referring eligible student loan debts—those we previously tried to collect using all other available tools—to the Department of Treasury for tax refund offset since 1986.

The Department handles our institutional and administrative debts outside of the systems established for student loans. The Department was one of the first to participate in the Treasury Cross Servicing Program and has been referring delinquent debts since October 1996. As of September 30, 2005, we have forwarded approximately 99 percent of all institutional and administrative debts eligible for cross servicing to Treasury.

Glossary of Acronyms and Abbreviations

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AARTS	Audit Accountability and Resolution Tracking System
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*
ASL	Accreditation and State Liaison
ATA	*Assistive Technology Act*
AYP	Adequate Yearly Progress
CFAA	*Compact of Free Association Act, Amendments of 2003*
CFDA	Catalogue of Federal Domestic Assistance
CHAFL	College Housing and Academic Facilities Loans
CHL	College Housing Loans
CIFMS	Continuous Improvement and Focused Monitoring System
CRA	*Civil Rights Act*
CSRS	Civil Service Retirement System
DCIA	*Debt Collection Improvement Act*
ED	Department of Education
EDA	*Education of the Deaf Act of 1906*
EDEN	Education Data Exchange Network
EDPAS	Education Department Performance Appraisal System
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
FBI	Federal Bureau of Investigation
FBCO	Faith-Based and Community Organizations
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*
FISAP	Fiscal Operations Report and Application to Participate

FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FP	Financial Partners Service
FPPS	Federal Personnel/Payroll System
FSA	Office of Federal Student Aid
FSEOG	Federal Supplemental Educational Opportunity Grant
FWS	Federal Work-Study
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAPS	Grant Administration and Payment System
GED	General Educational Development
GEAR-UP	Gaining Early Awareness and Readiness for Undergraduate Programs
GPRA	*Government Performance and Results Act of 1993*
GRS	Graduation Rate Survey
GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities
HEA	*Higher Education Act of 1965*
HEFL	Higher Education Facilities Loans
HEP	Higher Education Programs
HKNCA	*Helen Keller National Center Act*
HQT	Highly Qualified Teacher
HSIs	Hispanic-Serving Institutions
IDEA	*Individuals with Disabilities Education Act*
IG	Inspector General
IP	Improper Payments
IPA	Independent Public Accountants
IPIA	*Improper Payments Information Act of 2002*
IRB	Investment Review Board
IRS	Internal Revenue Service
IT	Information Technology
IUS	Internal Use Software
LEA	Local Educational Agency
LEP	Limited English Proficient
LVC	Loan Verification Certificate
MECEA	*Mutual Educational and Cultural Exchange Act of 1961*

MVHAA	*McKinney-Vento Homeless Assistance Act*
NACSA	National Association of Charter School Authorizers
NAEP	National Assessment of Educational Progress
NCER	National Center for Education Research
NCSER	National Center for Special Education Research
NCES	National Center for Education Statistics
NLA	*National Literacy Act of 1991*
NSLDS	National Student Loan Data System
OCFO	Office of the Chief Financial Officer
OCR	Office for Civil Rights
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
ORNL	Oak Ridge National Laboratory
OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
OUS	Office of the Under Secretary
OVAE	Office of Vocational and Adult Education
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBDMI	Performance-Based Data Management Initiative
PCP	Potomac Center Plaza
PMA	*President's Management Agenda*
RA	*Rehabilitation Act of 1973*
REAP	Rural Education Achievement Program
RSA	Rehabilitation Services Administration
SAD	Single Audit Database
SAMHSA	Substance Abuse and Mental Health Services Administration
SES	Supplemental Educational Services
SFA	Student Financial Assistance
SFFAS	Statement of Federal Financial Accounting Standards
SLM	Student Loan Model

SOF	Statement of Financing
SY	School Year
TASSIE	Title I Accountability Systems and School Improvement Efforts
TRIO	A group of grant programs under the *HEA*, originally three programs; not an acronym
USC	United States Code
USDA	United States Department of Agriculture
VTEA	*Perkins Vocational and Technical Education Act*
YRBSS	Youth Risk Behavior Surveillance System

Highlights and a CD of the

Department of Education

Fiscal Year 2005 Performance and Accountability Report

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The Department welcomes all comments and suggestions on both the content and presentation of this report. Please forward them to:

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The following companies were contracted to assist in the preparation of the U.S. Department of Education *Fiscal Year 2005 Performance and Accountability Report*:

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