Management's Discussion and Analysis

Our Mission and History

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

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

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

History. The federal government recognized that furthering education is a national priority in 1867, when its initial role in education encompassed statistical data collection and reporting. For a summary of education legislation since that time, go to: http://nces.ed.gov/pubs2008/2008022_4.pdf

The Department is committed to giving students the skills they need. It recognizes the primary role of states and school districts in providing a high-quality education, employing highly qualified teachers and administrators, and establishing challenging content and achievement standards. The Department is also setting high expectations for its management by creating a crosscutting strategy on management practices, fiscal integrity and a culture of high performance.

Continuous National Improvement Through Education
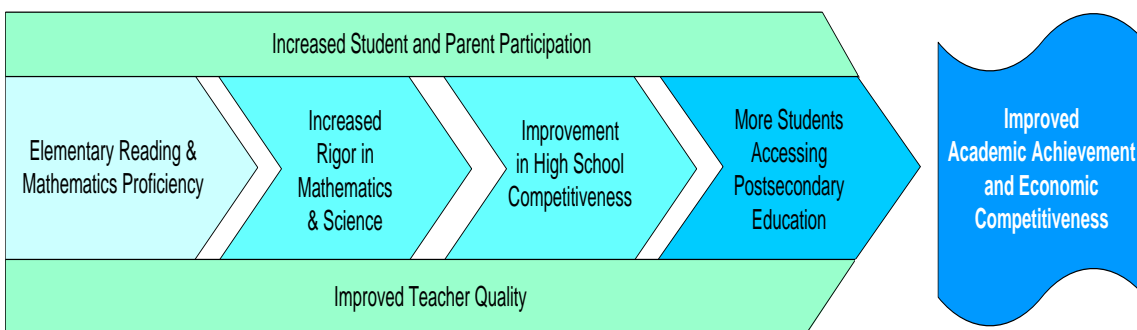
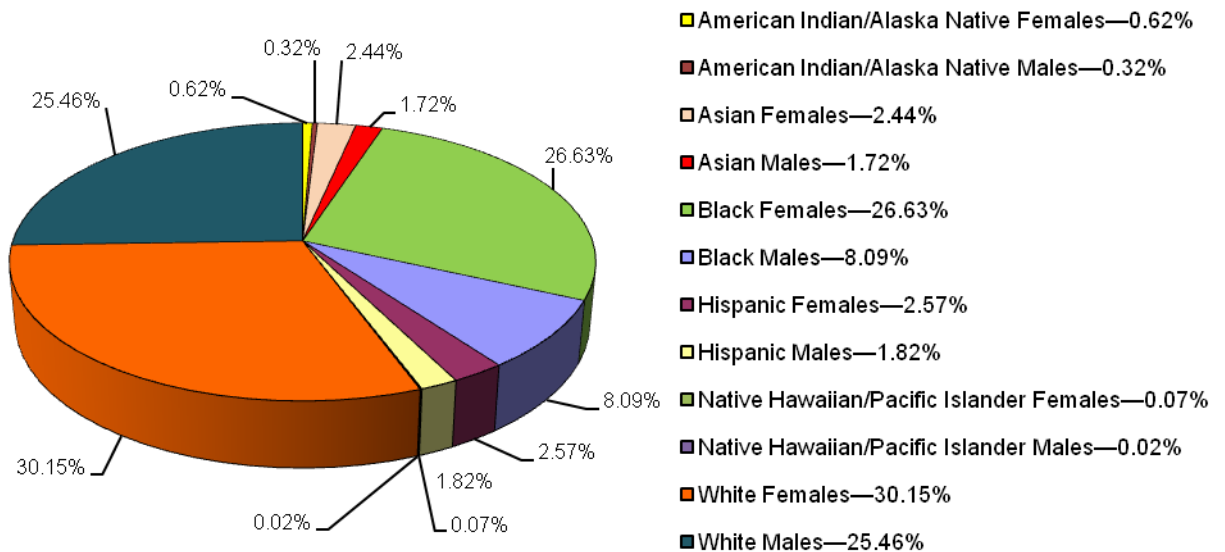# Who We Are: Our Organization and Workforce

Workforce Overview

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

Department of Education Workforce Makeup

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

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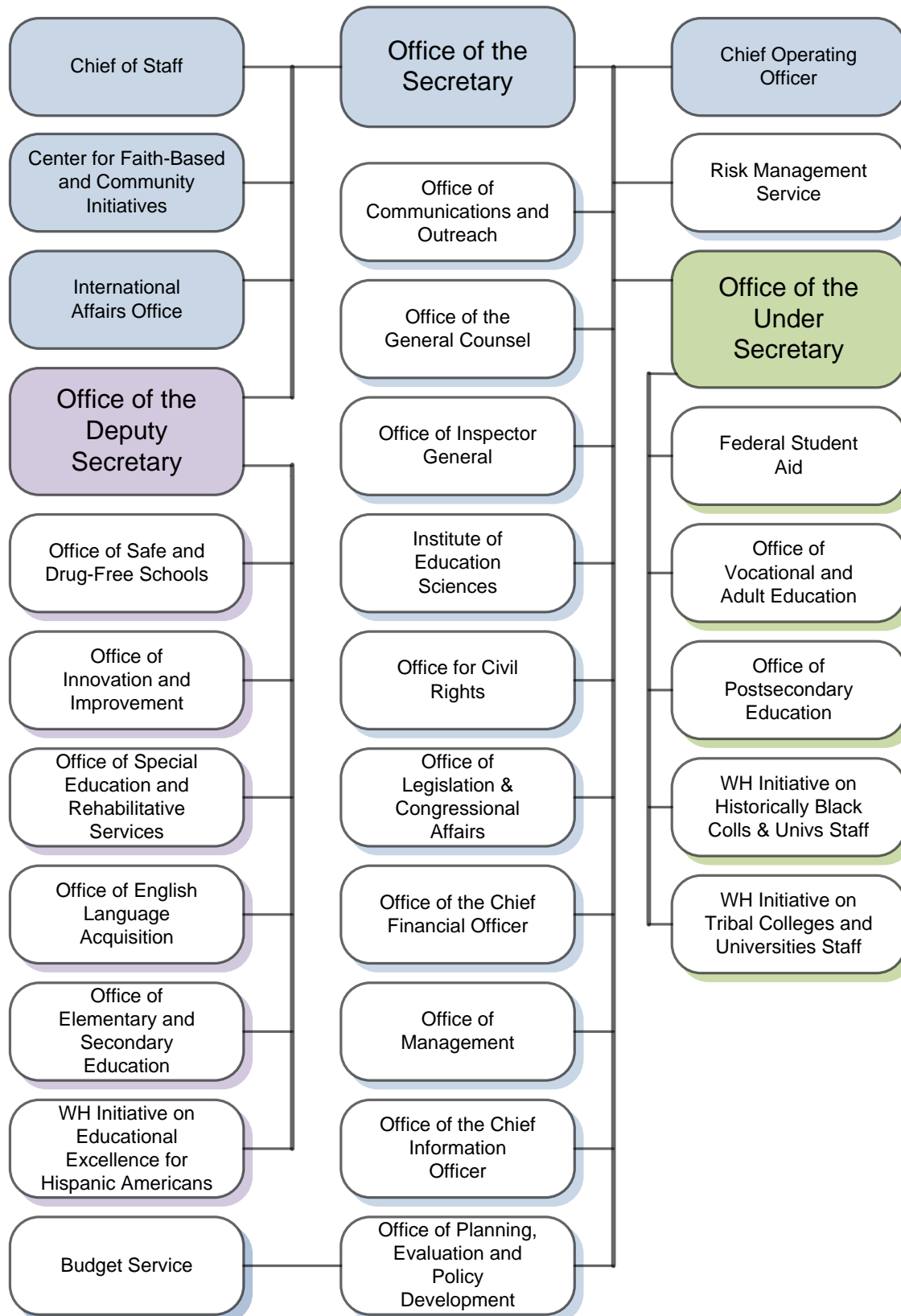

- American Indian/Alaska Native Females—0.62%
- American Indian/Alaska Native Males—0.32%
- Asian Females—2.44%
- Asian Males—1.72%
- Black Females—26.63%
- Black Males—8.09%
- Hispanic Females—2.57%
- Hispanic Males—1.82%
- Native Hawaiian/Pacific Islander Females—0.07%
- Native Hawaiian/Pacific Islander Males—0.02%
- White Females—30.15%
- White Males—25.46%

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

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

Organization

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

Figure 2. Department of Education Coordinating Structure FY 2008

Chief of Staff	Office of the Secretary	Chief Operating Officer
Center for Faith-Based and Community Initiatives	Office of Communications and Outreach	Risk Management Service
International Affairs Office	Office of the General Counsel	Office of the Under Secretary
Office of the Deputy Secretary	Office of Inspector General	Federal Student Aid
Office of Safe and Drug-Free Schools	Institute of Education Sciences	Office of Vocational and Adult Education
Office of Innovation and Improvement	Office for Civil Rights	Office of Postsecondary Education
Office of Special Education and Rehabilitative Services	Office of Legislation & Congressional Affairs	WH Initiative on Historically Black Colls & Univs Staff
Office of English Language Acquisition	Office of the Chief Financial Officer	WH Initiative on Tribal Colleges and Universities Staff
Office of Elementary and Secondary Education	Office of Management	
WH Initiative on Educational Excellence for Hispanic Americans	Office of the Chief Information Officer	
Budget Service	Office of Planning, Evaluation and Policy Development	

Who We Serve: Our Public Benefit

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

Elementary and Secondary Students

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

Teachers

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

Parents

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

State and Local Educational Agencies

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

Administrators

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

Postsecondary Students and Institutions

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

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Continuous Improvement: The Department Reports on a New Strategic Plan

Continuity and Change

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

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

- Increasing percentages of all students who meet or exceed *Proficient* and *Advanced* performance levels in national and state assessments of reading, mathematics and other core subjects.

- Improving proficiency levels of students in high-poverty schools who show continuous improvement comparable to those for the nation as a whole.

- Increasing high school attendance and graduation rates, particularly in high-poverty schools and among students with disabilities and others at risk of school failure.

- Increasing numbers of high school students who successfully complete Advanced Placement courses each year, including students in high-poverty schools.

- Providing access to students pursuing higher education or other successful transitions into employment, further education or the military.

- Improving internal controls and addressing management challenges within the Department of Education.

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

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

STRATEGIC PLAN COMPARISON

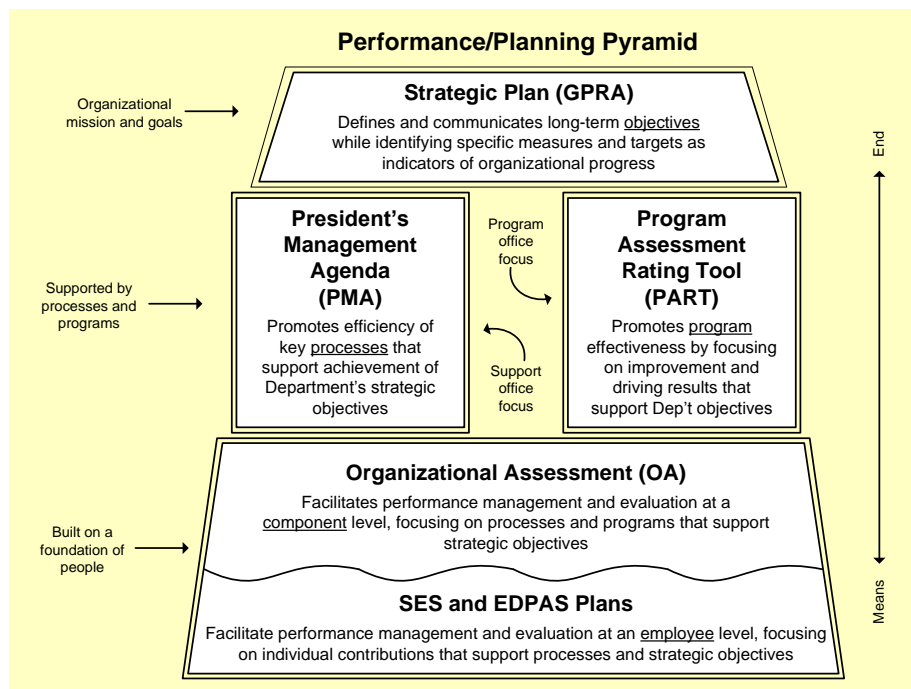| 2007–2012 *Strategic Plan*		2002–2007 *Strategic Plan*	
Mission: Promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access		**Mission:** Ensure equal access to education and to promote educational excellence throughout the nation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

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Strategic Plan

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

- **Goal 1:** Improve student achievement and teacher quality and renew troubled schools so that every student can read and do math at grade level by 2014, as called for by *No Child Left Behind*.

- **Goal 2:** Encourage more rigorous and advanced coursework to improve the academic performance of our middle and high school students.

- **Goal 3:** Work with colleges and universities to improve access, affordability and accountability, to prepare students and adults for employment and future learning.

- **Cross-Goal Strategy on Management:** Strengthen strategic management controls**,** including human capital, and link funding to results.

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

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

Performance/Planning Pyramid

Strategic Plan (GPRA)
Defines and communicates long-term objectives while identifying specific measures and targets as indicators of organizational progress

Organizational mission and goals

President's Management Agenda (PMA)
Promotes efficiency of key processes that support achievement of Department's strategic objectives

Program office focus

Program Assessment Rating Tool (PART)
Promotes program effectiveness by focusing on improvement and driving results that support Dep't objectives

Support office focus

Supported by processes and programs

Organizational Assessment (OA)
Facilitates performance management and evaluation at a component level, focusing on processes and programs that support strategic objectives

Built on a foundation of people

SES and EDPAS Plans
Facilitate performance management and evaluation at an employee level, focusing on individual contributions that support processes and strategic objectives

End

Means

Management Challenges Met Over Time

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

- Auditors will issue an unqualified (clean) opinion on the Departmentwide annual financial statements every year. **MET**

- Open audit recommendations related to financial statement audits will be addressed and closed. **SIGNIFICANT PROGRESS** (see Audit Report on page 175).

- Internal controls will be improved and material weaknesses and system non-conformances will be reduced as described in the Department's annual *Federal Managers' Financial Integrity Act* report. **MET**

- The Department's student financial aid programs will be removed from the Government Accountability Office's (GAO) list of "High Risk" Programs. **MET**

- The Department's financial systems will be in substantial compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), which requires that financial management systems provide reliable, useful and timely information. **MET**

- Findings in statewide single audits and program review reports will decrease as the number of Cooperative Audit Resolution and Oversight Initiative projects increases with the Department's state partners. **MET**[1]

- Debt management for Federal Student Aid will continue to improve: student loan defaults will decrease and recovery of defaulted student loans will increase. **MET**[2]

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

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

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

Our Accomplishments for FY 2008 and Ongoing Initiatives

Protecting Student Access and Affordability in Higher Education

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

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

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

New Loan Purchase Programs Address Student Aid Needs

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

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

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

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

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

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

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

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

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

The Reauthorization of the *Higher Education Act*

A college education continues to be the best path to the strengthening the future of our nation. The *Higher Education Opportunity Act,* the latest renewal of the *Higher Education Act of 1965*, continues the effort to make college more affordable and expands college access. The legislation encourages colleges to rein in price increases, improves integrity and accountability in student loan programs, simplifies the federal student aid application process, expands college access and support for low-income and minority students and

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increases college aid for veterans and military families. The Act establishes measures to ensure equal college opportunities for students with disabilities, encourages colleges to adopt energy-efficient practices and strengthens our workforce and competitiveness.

Indicators To Track the Nation's Educational Progress

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

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

Strengthening *No Child Left Behind*

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

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

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

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

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

New Flexibilities Under *No Child Left Behind*

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

Differentiated Accountability. In FY 2007, Secretary Spellings announced another important flexibility under *No Child Left Behind.* The new initiative, differentiated

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accountability, allows eligible states to distinguish between those schools in improvement that are just missing the mark and those that need significant reform. Differentiated accountability allows states to vary the intensity and type of interventions to match the reasons that lead to a school's identification for restructuring.

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

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

Progress in Reading, Mathematics and Science Achievement

Every day, schools in the U.S. work to make progress toward the goal of having all students perform on grade level or better in reading and mathematics by 2014. Achievement of this goal depends on a continued commitment to high standards, annual assessments, accountability for results, a highly qualified teacher in every classroom and information and options for parents. The Department has been tracking progress and

National Reading Achievement

Grade 4 — Grade 8

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

Source: National Assessment of Educational Progress (NAEP)

collecting data about the academic performance of students in order to chart current achievement and plan a course of action for future progress. See more details at http://www.ed.gov/nclb/accountability/results/progress/nation.html
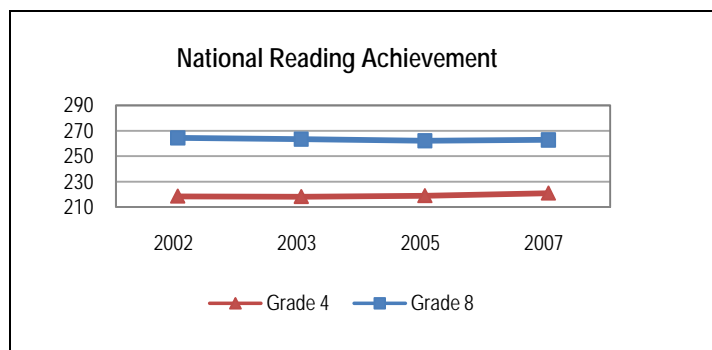
States Report Gains in Reading Achievement. The Reading First Program is an academic cornerstone of *No Child Left Behind.* Reading First builds on a solid foundation of scientifically based research and provides struggling students in the highest-need schools with the necessary resources to make progress in reading achievement. Reading First is designed to help at-risk students in grades K-3, while Early Reading First helps preschool age children.

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

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

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

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

http://www.nsf.gov/news/news_sum m.jsp?cntn_id=111514.

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

National Math Achievement
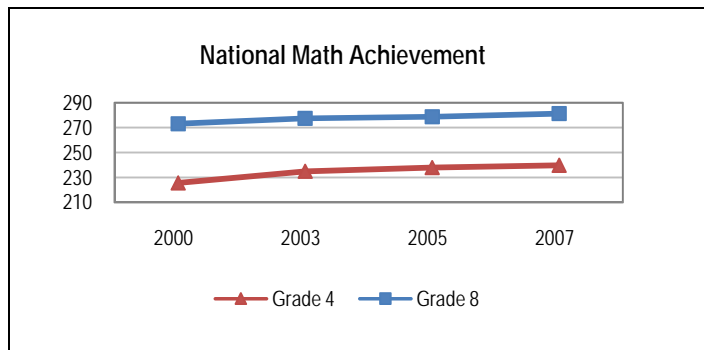
Source: National Assessment of Educational Progress (NAEP)

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

Management's Discussion and Analysis

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

Global Competitiveness Is a Vital National Interest

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

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

Ongoing Improvement Initiatives

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

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

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

The Department Creates the Risk Management Service. As part of implementing risk management, the Department has created the Risk Management Service. It is responsible for mitigating risks that may adversely affect the advancement of the Department's mission, in coordination with the Risk Management Coordinating Council and the Department's principal offices. The Risk Management Service is developing and coordinating a Departmentwide risk management strategy that supports consistent, quality management of formula and discretionary grants, and related program-funded activities across the Department.
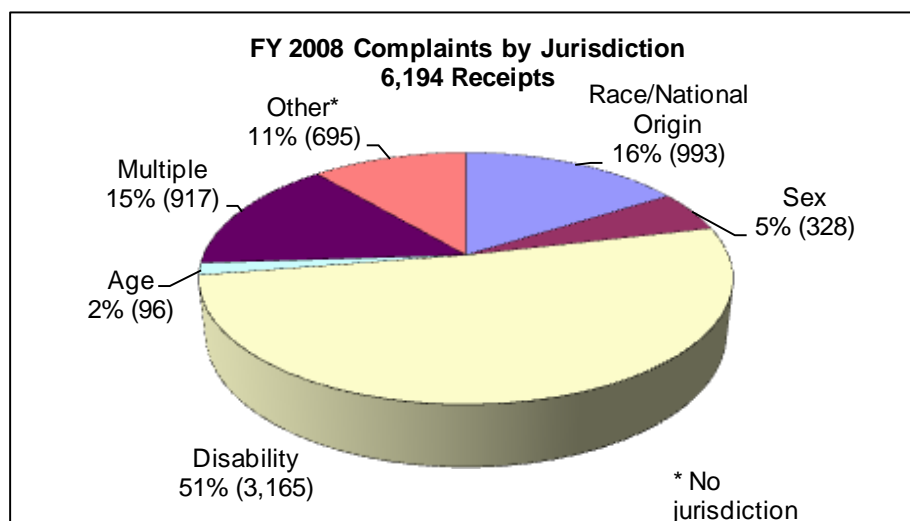
Renewed Focus on Program Monitoring. In addition to the activities underway in the Risk Management Service, program offices across the Department are enhancing their program monitoring activities. The Department encouraged offices to place a renewed focus on program monitoring by utilizing a risk-based approach to identify grantees in need of heightened monitoring. Corrective actions for audits of guaranty agencies, lenders and servicers, and schools were implemented and on-going efforts were focused on the monitoring of the Title I, Reading First and Migrant Education programs.

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Civil Rights Enforcement

The enforcement of civil rights laws drives student outcomes by ensuring that discrimination does not deny or limit student access to education programs and activities at any educational level. The Department of Education enforces five civil rights laws that protect students against discrimination on the basis of race, color, national origin, sex, disability and age primarily in educational institutions that receive federal funds from the Department. In addition, the Department enforces laws intended to ensure that the Boy Scouts of America and other designated youth groups have equal access to meet in elementary and secondary schools that receive funds through the Department.[4] These anti-discrimination laws protect more than 49.8 million students attending elementary and secondary schools[5] and more than 18.2 million students attending colleges and universities.[6]

The Office for Civil Rights (OCR), a law enforcement agency within the Department, performs the Department's civil rights enforcement responsibilities in a variety of ways, including: investigating complaints alleging discrimination, conducting compliance reviews in educational institutions to determine if they are in compliance with the laws and providing technical assistance to educational institutions on how to comply with the law and to parents and students on their rights under the law. The Department also issues regulations on civil rights laws, develops policy guidance interpreting the laws and distributes the information broadly.

In FY 2008, the Department received 6,194 complaints of discrimination and resolved 5,943.[7] The goal of each investigation is to address the alleged discrimination promptly and to determine if civil rights laws and regulations have been violated. As shown in the chart, the majority of complaints received by the Department allege discrimination due to disability.

FY 2008 Complaints by Jurisdiction
6,194 Receipts

Other* 11% (695)
Multiple 15% (917)
Age 2% (96)
Disability 51% (3,165)
Race/National Origin 16% (993)
Sex 5% (328)
* No jurisdiction

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

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

[6] Ibid, Table 10.

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

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

- physical access of students with disabilities to colleges and universities;

- access to educational services for limited English proficient students and effective communication with parents of limited English proficient students;

- national origin minority students are not inappropriately included in or excluded from special education services;

- nondiscrimination in athletics programs and activities on the basis of sex;

- schools have established and are implementing procedural safeguards required by laws prohibiting discrimination on the bases of sex, disability and age; and

- nondiscriminatory access to Advanced Placement and other high-level programs.

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

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

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

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

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

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

In FY 2008, the Department assessed a total of eight programs, seven of which were reassessments, bringing the total number of programs assessed under the PART since 2002 to 93, including some that no longer receive funding. Programs accounting for about 98 percent of the Department's budget authority have now been assessed using the PART.
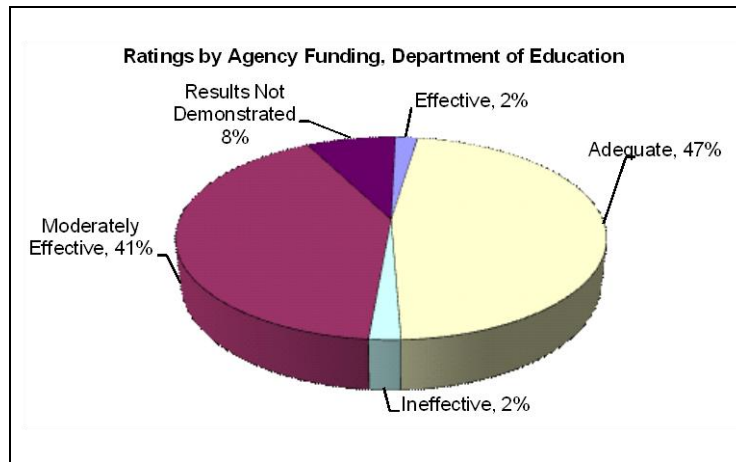
To access PART evaluations of Department programs to date, go to:
http://www.whitehouse.gov/omb/expectmore/agency/018.html

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

Ratings by Agency Programs, Department of Education

Effective, 6%
Moderately Effective, 9%
Results Not Demonstrated 47%
Adequate, 32%
Ineffective, 4%
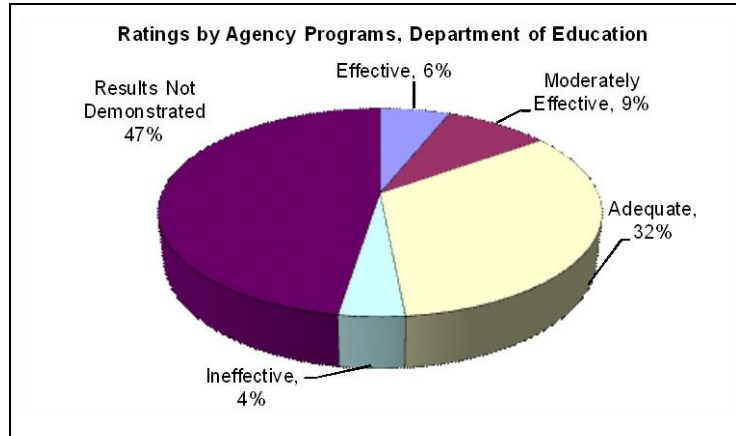
Notes: Percentages of ratings by agency programs may not total 100 percent due to rounding. Total includes PART ratings for programs not currently funded.

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

Ratings by Agency Funding, Department of Education

Results Not Demonstrated 8%
Effective, 2%
Adequate, 47%
Moderately Effective, 41%
Ineffective, 2%

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

Challenges Linking the Program Performance to Funding Expenditures. Linking performance results, expenditures, and budget for Department programs is complicated because more than 98 percent of the Department's funding is disbursed through grants and loans in which only a portion of a given fiscal year's appropriation is available to state, school, organization, or student recipients during the fiscal year in which the funds are

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appropriated. The remainder is available at or near the end of the appropriation year or in a subsequent year.

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

The results presented in this report cannot be attributed solely to the actions taken related to FY 2008 funds but to a combination of funds from across several fiscal years. Furthermore, the results of some education programs may not be apparent for several years after the funds are expended.

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

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

How We Validate Our Data

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

The Department is committed to improving the completeness, accuracy and reliability of data for *No Child Left Behind* reporting, integrated performance-based budgeting and general program management. In addition to completeness, accuracy and reliability, the Department has improved the timeliness of data reporting to the public by several months. Data time lags have been cut from up to 24 months for some performance data in FY 2006 to an average of 8.5 months in FY 2008. The implementation of ED*Facts,* an initiative designed to collect and use K–12 state performance data, will help to reduce the reporting burden on state and local educational agencies, resulting in further improvement in the timeliness of data submitted to the Department.

Performance Data

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

Department data validation and verification focuses on two goals:

- External quality—Data collection at the school, district and state levels will be conducted using well-organized and methodologically rigorous techniques.

- Internal validity—Data files submitted by state educational agencies will be validated using a Departmentwide matrix and through expert reviews.

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

- In 2008, the Department solicited applications for awards to fund the development or improvement of statewide longitudinal data systems, which are already under way in 27 states.

- In school year 2008-2009, state educational agencies are required to fully report educational data through the Department's ED*Facts* collection system. Transition agreements with the Department will ensure the smooth transitions to a single electronic system.

The Department is working with internal and external partners to help state educational agencies implement, by 2009, high-quality longitudinal data systems that include a state data audit system assessing data quality, validity and reliability.

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The goal of the National Forum on Education Statistics, sponsored by the Department's National Center for Education Statistics, is to improve the quality, comparability and usefulness of elementary and secondary education data while remaining sensitive to data burden concerns. The forum plans, recommends and implements strategies for building an education data system that will support local, state and national efforts to improve public and private education throughout the United States. See more details at http://nces.ed.gov/forum/data_quality.asp.

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

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

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

The Department's data validation criteria require that:

- The goal and measure are appropriate to the mission of the organization and measured performance has a direct relation to the goal.

- The goal and measure are realistic and measurable, achievable in the time frame established, and challenging in their targets.

- The goal and measure are understandable to the lay person, language is unambiguous, and terminology is adequately defined.

- The goal and measure are used in decision-making about the effectiveness of the program and its benefit to the public.

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

Data Management

Management Excellence. The Department develops and uses data to strengthen internal controls. One of the most visible areas in which this occurs is the annual budget development process. The Department uses program performance data to inform the formulation and execution of the Department's budget, fulfilling a governmentwide element of the *President's Management Agenda.*

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

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

The data quality processes for financial data are reflected in the Department's audit report and in management's assurance of internal control over financial reporting assessment. The financial statements, associated notes and auditor's reports can be found on pages 127–190. The required Limitations of the Financial Statements can be found on page 34. Management's assurance of internal control can be found on page 41.

Management's Discussion and Analysis

Overview of Performance Results

In FY 2008, the key measures provided in this report represent those measures that provide an overall assessment of the Department's progress in achieving improvements in the educational system, based on the *Strategic Plan for Fiscal Years 2007–12.*

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

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

Each year, the Department assesses key measures for that year's performance plan and evaluates the utility and appropriateness of those measures. As a result, key measures are continued, replaced, or completely removed from the objective key measurement process. This assessment process provides a method for continued improvement in Department programs. The new Strategic Plan required the establishment of new key measures, though some key measures were previously in place as program performance measures and, therefore, have historical data.

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

Legend

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

Performance Results for FY 2008 Key Measures

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

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

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

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

Management's Discussion and Analysis

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

Financial Highlights

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

Sources of Funds

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

Postsecondary education grants and administration of student financial assistance accounted for 42 percent, including loan program costs that helped more than 11 million

FY 2008 Department of Education's Budget

- Administrative Expenses 2%
- Elementary and Secondary Grants 54%
- Postsecondary Grants and Loan Administration Program Costs 42%
- Research, Improvement, and Rehabilitation Grants 2%

students and their parents to better afford higher education during FY 2008. An additional 2 percent went to programs and grants encompassing research and improvement, as well as vocational rehabilitation services. Administrative expenditures were 2 percent of the Department's appropriations.

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

The Department's three largest grant programs are ESEA Title I grants for elementary and secondary education, Pell Grants for postsecondary financial aid and Special Education Grants to States under the *Individuals with Disabilities Education Act.* Each of these program's FY 2008 appropriations exceeded $10 billion. In addition, the TEACH Grant Program was implemented this year. This program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

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

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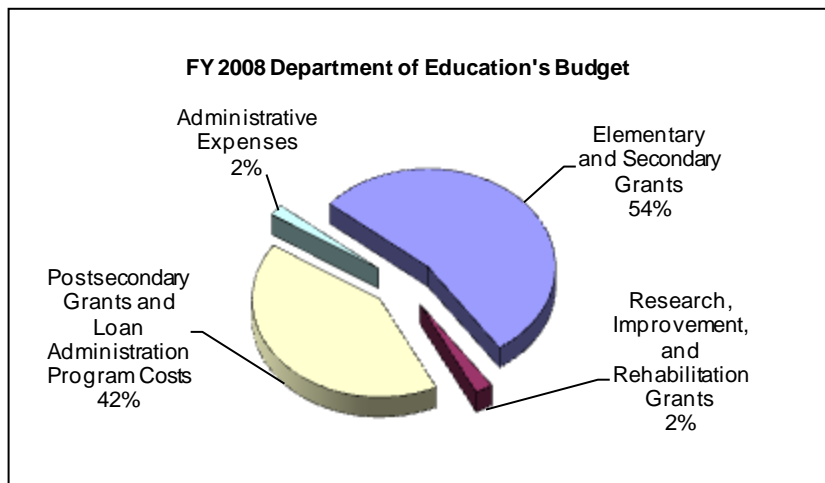
Program to help students and families pay for postsecondary education by providing grants and low-rate loans. The Department is active in all phases of the loan life-cycle from determining borrower eligibility during the Free Application for Federal Student Aid process to processing guarantor claims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

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) amended the FFEL Program to authorize the Secretary to buy FFEL loans for the 2008-2009 academic year. Within the existing FFEL Program, the Department has implemented two activities under this temporary loan purchase authority to purchase FFEL loans generally originated between July 1, 2008 and June 30, 2009. These two activities include: loan purchase commitments where the Department purchases loans directly from FFEL lenders, and loan participation purchases where the Department purchases participation interests in FFEL loans.
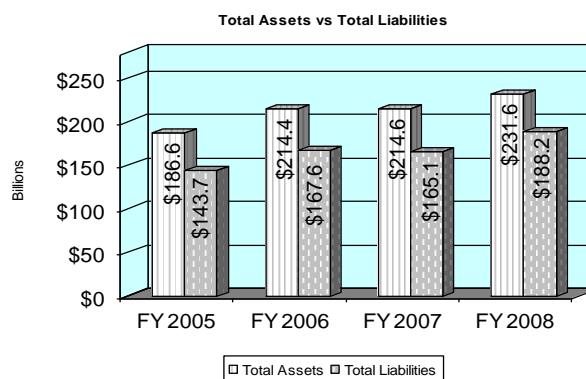
On October 7, 2008, President Bush signed P.L. 110-350, which extended the Secretary of Education's authority to purchase FFEL loans. This authority, originally enacted in the ECASLA, would have otherwise expired on September 30, 2009; P.L. 110-350 extended the authority through September 30, 2010. The Administration recently announced plans to replicate the 2008-2009 loan purchase and participation options for the 2009-2010 award year. Other approaches to purchase outstanding FFEL loans are also under consideration, but specific terms and conditions have yet to be determined.

The William D. Ford Direct Loan Program, added to the Higher Education Act of 1965 (HEA) in 1993 by the *Student Loan Reform Act of 1993,* enables the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools.   As of September 30, 2008, the value of the Department's direct loan portfolio was $109.9 billion.

Financial Position

The Department's financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of Ernst & Young, LLP. Financial statements and accompanying notes for FY 2008 appear on pages 128-169. An analysis of the principal financial statements follows.

Balance Sheet. The Balance Sheet presents, as of a specific point in time, the recorded value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department. The Balance Sheet displayed on page 128 reflects total assets of $231.6 billion, an 8 percent increase over FY 2007. The change is primarily due to the increase in Credit Program Receivables. Credit Program Receivables increased by $18.8 billion, a 16 percent increase over FY 2007. The majority of this loan portfolio is principal and interest owed by students on direct loans. The

Total Assets vs Total Liabilities

|	Total Assets	Total Liabilities
FY 2005	$186.6	$143.7
FY 2006	$214.4	$167.6
FY 2007	$214.6	$165.1
FY 2008	$231.6	$188.2

remaining balance is related to defaulted guaranteed loans purchased from lenders under terms of the FFEL Program and to loan purchase commitments and loan participation purchases under the FFEL Program. The net portfolio for direct loans increased by over $10.8 billion due to increased direct loan disbursements and borrower interest collections. FFEL Program loans increased by $7.9 billion during FY 2008, due primarily to loan volume and activity related to loan purchase commitments and loan participation purchases. Fund Balance with the Treasury decreased by 3 percent from FY 2007.

Total Liabilities for the Department increased by 14 percent. This change is primarily due to an increase in borrowing during FY 2008. Borrowing increased for the Direct Loan Program and to provide funds for the loan purchase commitments and loan participation purchases activity under the FFEL Program. Liabilities for Loan Guarantees for the FFEL Program decreased $7.6 billion due primarily to FFEL defaulted claims payments and the subsidy re-estimate. These liabilities present the estimated costs, on a present-value basis, of the net long-term cash outflows due to loan defaults net of offsetting fees.

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

Statement of Net Cost. The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Department's total program net costs, as reflected on the Statement of Net Cost, page 129, were $64.8 billion, a 1 percent increase from FY 2007. The increase largely occurred for programs in support of the Promote Academic Achievement in Elementary and Secondary Schools goal, the Special Education goal, and the Transformation of Education goal.

Total Net Cost of Operation

	Billions	
FY 2005	$75.2	
FY 2006	$96.8	
FY 2007	$64.3	
FY 2008	$64.8	
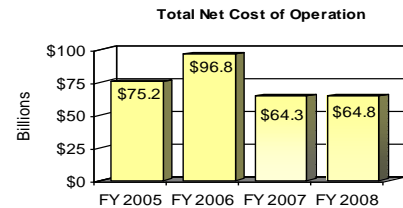
The Statement of Net Cost is presented to be consistent with the Department's strategic goals and the *President's Management Agenda*. As required by the *Government Performance and Results Act of 1993*, each of the Department's reporting organizations has been aligned with the major goals presented in the Department's *Strategic Plan for Fiscal Years 2007–12*.

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

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

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

Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. The statement displayed on page 131 shows that the Department had $193.9 billion in total budgetary resources for the year ended September 30, 2008. These budgetary resources were composed of $79.1 billion in appropriated budgetary resources and $114.8 billion in non-budgetary credit reform resources, which primarily consist of borrowing authority for the loan programs. Of the $31.2 billion that remained unobligated at year end, $29.2 billion represents funding provided in advance for activities in future periods that was not available at year end. These funds will become available during the next fiscal year or future fiscal years.

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Limitations of Financial Statements

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

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

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

President's Management Agenda
Scorecard Results

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

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

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

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

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

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

Management's Discussion and Analysis

Inspector General's Discussion of Management Challenges

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

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

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

Challenge: Student Financial Assistance Programs and Operations

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

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

the authorities provided by ECASLA for the Loan Participation/Purchase programs, and establishing internal controls to provide for accountability and monitoring of compliance with the law and program agreements.

Challenge: Information Security and Management

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

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

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

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

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

With regard to IT management, while the critical issue of independent assessment remains unaddressed, the Department has recently strengthened the IT capital investment program by expanding membership on two of its review groups, the Investment Review Board and

Management's Discussion and Analysis

the Planning and Investment Review Working Group. The Department continues its efforts to strengthen individual business cases and to map proposed investments to an agency-wide enterprise architecture strategy.

Challenge: Grantee Oversight and Monitoring

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

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

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

Challenge: Contract Awards, Performance and Monitoring

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

management processes provide assurance that the Department receives quality goods and services for its money; and inadequate attention to improper payments.

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

Challenge: Data Integrity

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

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

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

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

Management's Discussion and Analysis

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

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

Challenge: Human Resources Services

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

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

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

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

Management's Assurances

Federal Managers' Financial Integrity Act

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

- Obligations and costs are in compliance with applicable laws.

- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and maintain accountability over assets.

- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from senior management serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statement provided on page 43 is the result of our annual assessment and is based upon each senior officer's evaluation of controls.

Department organizations that identify material deficiencies are required to submit plans for correcting the cited weaknesses. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving of the Department's management controls.

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

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

Management's Discussion and Analysis

Federal Financial Management Improvement Act

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

The Department is cognizant of our auditor's concerns relating to instances of non-compliance with FFMIA as noted in the Compliance with Laws and Regulations Report located on pages 187–188 of this report. The Department continues to strengthen and improve our financial management systems.

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

Federal Managers' Financial Integrity Act

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

The Department conducted its assessment of internal control in compliance with applicable laws and regulations, and in accordance with the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control*. As a result of this assessment, the Department identified one material weakness in its internal control over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, as of September 30, 2008. Other than the exception noted in Exhibit 1, the internal controls were operating effectively, and no material weaknesses were found in the design or operation of the internal controls. The financial management systems meet the objectives of FMFIA.

In addition, the Department conducted an assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of the Office of Management and Budget's Circular No. A-123. In accordance with the results of this assessment, the Department of Education can provide reasonable assurance that its internal control over financial reporting as of June 30, 2008, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

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Margaret Spellings
November 14, 2008

Management's Discussion and Analysis

Exhibit 1—*FMFIA* Material Weaknesses

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