

U.S. Department of Education | Federal Student Aid

# ANNUAL REPORT 2011



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## **United States Department of Education**

Arne Duncan

*Secretary*

### **Federal Student Aid**

James W. Runcie

*Chief Operating Officer*

### **Finance Office**

Jay Hurt

*Chief Financial Officer*

November 15, 2011

### **About This Report**

Federal Student Aid, a principal office of the United States Department of Education, is mandated by legislation to produce an *Annual Report*, which details Federal Student Aid's financial and program performance. The *Federal Student Aid Annual Report* for Fiscal Year 2011 provides an overview of Federal Student Aid's financial and program performance results that enables the President, Congress, and the public to assess the organization's performance relative to its mission and its accountability for the resources entrusted to it.

The report includes information about Federal Student Aid's performance as a Performance-Based Organization, its accomplishments, initiatives, and challenges as required by the Office of Management and Budget Circulars A-11 and A-136. This report also meets the following legislated requirements:

- *1998 Amendments to The Higher Education Act of 1965 (Pub. L. 105-244)*
- *The Chief Financial Officers Act of 1990*
- *The Government Performance and Results Act of 1993*
- *The Government Management Reform Act of 1994*
- *The Reports Consolidation Act of 2000*
- *The Federal Managers' Financial Integrity Act of 1982*
- *The Federal Financial Management Improvement Act of 1996*
- *The Government Performance and Results Act Modernization Act of 2010*
- *The Improper Payments Information Act of 2002*
- *The Improper Payments Elimination and Recovery Act of 2010*





## LETTER FROM THE CHIEF OPERATING OFFICER OF FEDERAL STUDENT AID



**Dear Federal Student Aid Colleagues, Partners, and Customers:**

I am pleased to present the Fiscal Year (FY) 2011 *Annual Report* for Federal Student Aid. As the Chief Operating Officer of Federal Student Aid (FSA), I am honored to be a part of an organization whose mission is to support the educational achievements of America's students. As such, we constantly strive "*To be the most trusted and reliable source of student financial aid, information, and services in the nation.*" This report highlights the many accomplishments and challenges FSA faced during FY 2011 in pursuit of this vision.

FSA achieved many successes in FY 2011—from improvements to the aid application to the augmentation of our loan servicing capacity in support of our growing customer base. We processed over 22 million Free Applications for Federal Student Aid (FAFSAs) last year, a five percent increase over the prior year. For the 2011–12 application cycle, a redesigned website with improved skip logic coupled with the expanded availability of the Internal Revenue Service data retrieval tool has allowed almost 19 million students to complete the FAFSA in about 22 minutes down from 33 minutes for the same time period in the previous year. To further increase awareness around the availability of federal financial aid, FSA piloted a program to provide school districts with FAFSA completion data to help high schools identify and encourage students to complete a FAFSA.



**James W. Runcie**  
Chief Operating Officer

This was the first full year that the Department originated the majority of all new federal student loans through the William D. Ford Federal Direct Loan Program. To further augment our Direct Loan servicing capacity, FSA entered into agreements with more than 20 not-for-profit servicers. The agreements are designed to help lower student loan delinquency and improve customer service to our borrower population. Direct Loan disbursements increased by 44 percent and, most importantly, students were universally able to access Direct Loans at eligible institutions. As a result, I can report that the transition to Direct Lending was an unqualified success. Of course, this could not have been accomplished without the tremendous efforts of FSA employees working hand-in-hand with the school community.

Working with colleagues from across the Department and other federal agencies, FSA supported the design and began implementation of the Gainful Employment regulations. These regulations are intended to increase institutional accountability and equip students and families with better information when making decisions about their investment in higher





education. We also continued to improve the security and protection of student aid data available to the Department, schools, contractors, and other business partners who utilize this information.

Last year was marked by several challenges; the most notable was the effect of our nation's economic struggles on the federal student aid programs. Default rates continued to rise as students struggled to meet their federal student loan obligations. In response, we increased our default prevention efforts and strengthened our oversight and monitoring of institutions participating in the Title IV programs.

In addition, until the President signed the Department of Defense and Full-Year Continuing Appropriations Act (Pub. L. 112-10) on April 15, 2011, the federal government operated under multiple continuing resolutions. During this time, FSA was forced to operate at the FY 2010 funding level, which was \$148 million less than the President's Budget request. Despite these administrative cuts, FSA delivered approximately \$157 billion to more than 15 million students in grants, loans, and work-study aid. While meeting these challenges, FSA delivered more aid to more students and families in FY 2011 than during any period in the history of these programs.

FSA's successes could not have been realized without the hard work and commitment of FSA's employees, operating partners and the institutions that participate in our programs. I thank them for their dedication and service to our nation's students and families.

Sincerely,

James W. Runcie  
Chief Operating Officer  
November 15, 2011





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## INTRODUCTION

The Fiscal Year (FY) 2011 *Federal Student Aid Annual Report* provides financial and performance information that enables the President, Congress, and the public to assess how Federal Student Aid (FSA) has performed in accomplishing its mission and achieving its goals. The report is organized into the following sections:

**Management's Discussion and Analysis:** The **Management's Discussion and Analysis** section provides an overview of the entire *FSA Annual Report*. It includes a synopsis of FSA's mission and its organizational structure, as well as the organization's FY 2011 financial and performance highlights, which are discussed in more detail within the subsequent sections of this report. This section also contains a discussion of FSA's systems, controls, and compliance with laws and regulations. The section concludes with the Limitations of Financial Statements, which provides the context in which the financial statements should be reviewed.

**Annual Performance Report:** The **Annual Performance Report** presents the strategic goals included in the *Federal Student Aid: Strategic Plan, Fiscal Years 2011–15* and discusses the results of the various performance goals as related to each strategic goal. Targets established for each performance goal, are compared to the actual performance of FSA during the year. These results are presented to demonstrate how effective FSA was in accomplishing its mission. The *Annual Performance Report* also presents the FY 2011 accomplishments of FSA and discusses the process by which FSA provides legislative and regulatory recommendations to the Department on issues that affect federal student financial aid. The *Annual Performance Report* concludes with the subsections, Annual Bonus Awards, which details executive compensation at FSA, and the Report of the Ombudsman, which details its processes in assisting borrowers in obtaining a resolution to federal student aid issues.

**Financial Section:** The **Financial Section** provides a detailed view of FSA's stewardship and accountability of its resources. The section includes the Message from the Chief Financial Officer, the audited financial statements, and the accompanying notes to the financial statements. It concludes with the subsections, Required Supplementary Stewardship Information and Required Supplementary Information.

**Independent Auditors' Reports:** The **Independent Auditors' Reports** section consists of the various reports of the auditor, including the Report of Independent Auditors, which contains the audit opinion. In addition to the Report of the Independent Auditors, the section is composed of the Office of Inspector General Audit Transmittal Letter, the Report on Internal Control, and the Report on Compliance and Other Matters. The section concludes with the Management's Response to the Audit, which is FSA's executive management's response to the findings and recommendations contained in the various audit reports.





**Other Accompanying Information:** The **Other Accompanying Information** section provides links to the United States Department of Education’s *Agency Financial Report*, which includes a discussion of FSA’s improper payments in compliance with the *Improper Payment Information Act of 2002* as amended by the *Improper Payments Elimination and Recovery Act of 2010*. This section also includes a link to the Summary of Financial Statement Audit and Management Assurances and concludes with a link to FSA’s Management Challenges.

**Appendices:** The **Appendices** section includes the Discontinued Strategic Objectives and Performance Measures from the previous *FSA Five-Year Plan*, a glossary of acronyms and terms, and details on the availability of this *Annual Report*.







# MANAGEMENT'S DISCUSSION AND ANALYSIS



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## Fiscal Year 2011 Financial and Performance Highlights of Federal Student Aid





### Operational Highlights

	September 30, 2011	September 30, 2010	% Change 2011 over 2010
Federal Personnel	1,240	1,168	6%
Total Student Aid Loan Portfolio	\$ 848 billion	\$ 722 billion	17
Total Federal Student Aid Delivered	\$ 157 billion	\$ 134 billion	17
Total Number of Postsecondary Students Served	15 million	14 million	7
Total Number of Applications Processed	22 million	21 million	5
Total Number of Postsecondary Education Institutions	6,300	6,200	2%

### Financial Highlights (Dollars in millions)

	September 30, 2011	September 30, 2010	% Change 2011 over 2010
<b>Total Assets</b>	\$ 593,994	\$ 424,169	40%
<b>Total Liabilities</b>	575,691	413,722	39
<b>Net Position</b>	18,303	10,447	75
<b>Net Cost</b>	(3,373)	19,677	(117)
Budgetary Resources Available for Spending	54,353	49,131	11
Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts)	262,293	231,611	13
Total Outlays, Net (Budgetary)	(6,611)	13,399	(149)
Total Outlays, Net (Non-Budgetary Credit Reform Financing Accounts)	168,495	142,826	18

### Performance Highlights

Performance Measures	FY 2011 Target	FY 2011 Actual	Performance Results
% of original FAFSA filers among high school seniors	>=49.5%	52.0%	<b>Met</b> 
Customer satisfaction score (ASCI) for the entire aid lifecycle	74	78	<b>Met</b> 
"Ease of doing business with FSA" survey result from schools	Launch survey	Survey launched	<b>Met</b> 
Default rate	<=12.3%	11.3%	<b>Met</b> 





## MISSION AND ORGANIZATIONAL STRUCTURE

Federal Student Aid (FSA), a principal office of the United States (U.S.) Department of Education (Department), seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. FSA is responsible for implementing and overseeing federal student financial assistance programs, authorized by Title IV of the *Higher Education Act of 1965*, as amended (HEA). Specifically, the federal student assistance programs for which FSA is responsible are authorized by Title IV of the HEA (Title IV).

In order to execute the Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, which includes:

- Educating students and families about the process of obtaining financial aid;
- Processing millions of student financial aid applications;
- Disbursing billions of dollars in student financial aid;
- Insuring billions of dollars in existing student loans;
- Enforcing financial aid rules and regulations;
- Servicing millions of student loans and helping borrowers avoid default;
- Securing repayment from borrowers who have defaulted on their loans; and
- Partnering with schools, financial institutions, and guaranty agencies to prevent program fraud, waste, and abuse.

This complex, multifaceted mission calls on a range of staff skills and demands coordination by all levels of management. Designated a Performance-Based Organization (PBO) by Congress in 1998, FSA emphasizes tangible results and efficient performance, as well as the continuous improvement of the processes and systems that support its mission.



**Legislative Authority that influences the mission of FSA**

FSA's mission is "Funding America's Future, One Student at a Time." Throughout its history, there have been several legislative acts that have significantly impacted FSA as an organization. The *1998 Reauthorization of HEA* established FSA as a PBO, to administer the Title IV programs at the Department. Several other key pieces of legislation have influenced FSA's mission, and are detailed in the following table.

**Overview of Legislative Authority**

- **Higher Education Act of 1965, as amended**  
Created the federal student financial assistance programs known as the Title IV programs.
- **Higher Education Amendments of 1992**  
Initially authorized William D. Ford Federal Direct Loan Program<sup>SM</sup> as a demonstration pilot.
- **Student Loan Reform Act of 1993**  
Authorized a multi-year phased implementation of the William D. Ford Federal Direct Loan Program<sup>SM</sup>.
- **1998 Reauthorization of the Higher Education Act of 1965**  
Amended the HEA and authorized the designation of FSA as the first PBO in the federal government.
- **Higher Education Reconciliation Act of 2005**  
Created the Academic Competitiveness Grant and the National Science and Mathematics Access to Retain Talent Grant Programs.
- **College Cost Reduction and Access Act of 2007**  
Authorized the Teacher Education Assistance for College and Higher Education Grant Program and created the Public Service Loan Forgiveness Program.
- **Ensuring Continued Access to Student Loans Act of 2008**  
Provided the Department with the authority to implement programs to ensure that eligible students and parents were not denied access to federal student loans during the credit market disruptions of 2008.
- **Higher Education Opportunity Act of 2008**  
Authorized the Grants for Access and Persistence Program and assists states in establishing partnerships to provide eligible students with Leveraging Educational Assistance Partnership grants to attend postsecondary institutions.
- **American Recovery and Reinvestment Act of 2009**  
Authorized the increase of Pell Grants to the amount of \$5,350 and created the \$2,500 American Opportunity Tax Credit for four years of college tuition.
- **SAFRA Act of 2010**  
Provided that beginning July 1, 2010, no new loans were to be originated under the Federal Family Education Loan Program<sup>SM</sup>.

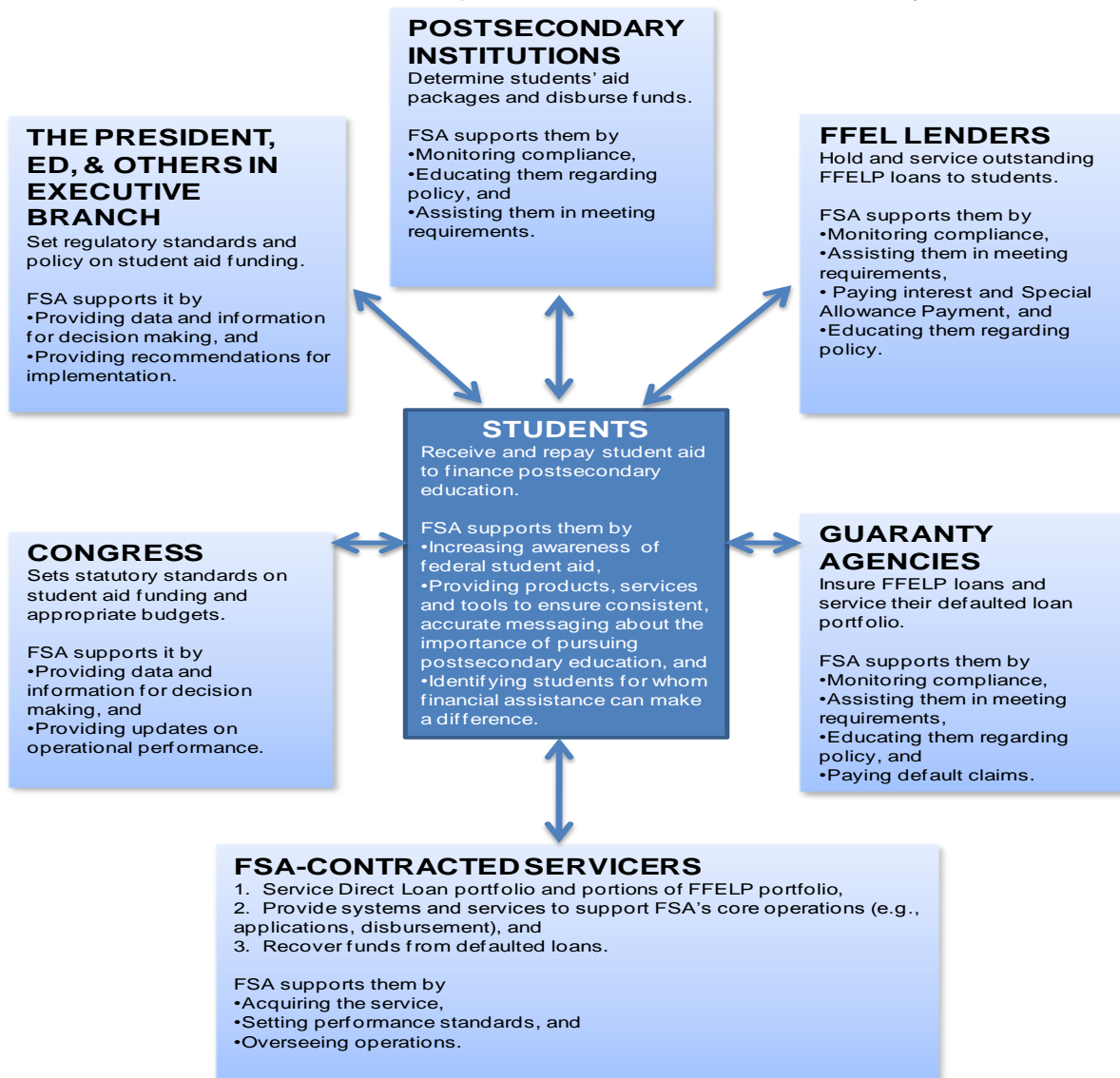




### FSA Stakeholders

The community of stakeholders in the student aid delivery system includes students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers and collection agencies, as well as the taxpayers and other federal entities, such as Congress and the Office of Management and Budget (OMB).

### Role of FSA and Participants in the Federal Student Aid System



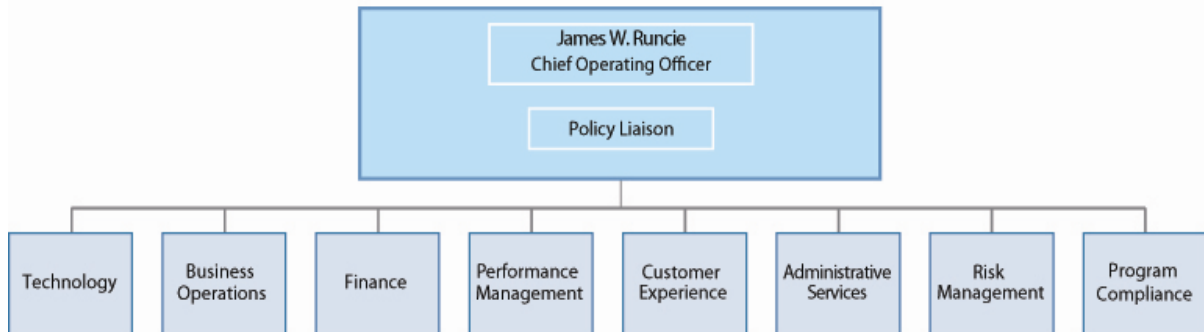
One of FSA's responsibilities is to coordinate and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department.





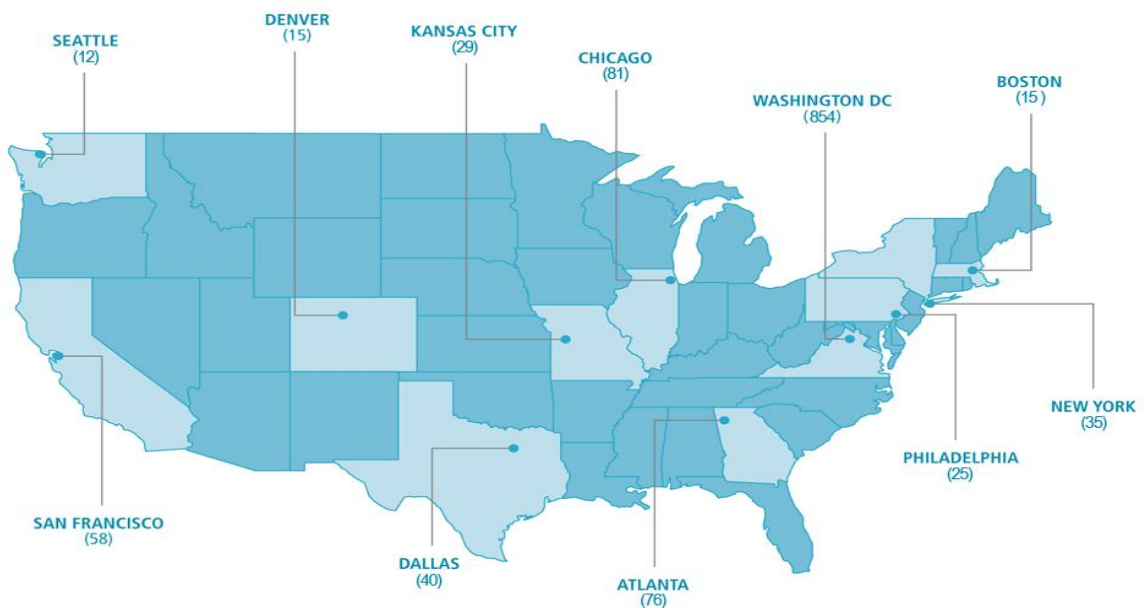
### FSA Organizational Structure

FSA currently operates under a functional organizational structure that aligns the organization closely with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO), who is appointed to a five-year term by the Secretary of Education (Secretary), leads FSA. James W. Runcie was appointed by the Secretary as the COO on September 15, 2011. Mr. Runcie served in several positions within FSA and was most recently the FSA Deputy COO. The following graph illustrates the current functional organizational structure of FSA.



During Fiscal Year (FY) 2011, the organization operated on an annual administrative budget of approximately \$1 billion. FSA is staffed by over 1,200 full-time employees and is augmented by contractors who provide outsourced business operations. The workforce is based in Washington, D.C., with ten regional offices located throughout the country as reflected in the following graph. The number of full-time employees at each location is shown in parentheses immediately following the location name.

Federal Student Aid Regional Map





## Programs

The federal student financial assistance programs collectively represent the nation's largest source of federal financial aid for postsecondary students. In FY 2011, FSA processed over 22 million Free Applications for Federal Student Aid<sup>SM</sup> (FAFSA<sup>SM</sup>), resulting in the delivery of approximately \$157.0 billion in Title IV aid to over 15 million postsecondary students and their families. These students attend approximately 6,300 active institutions of postsecondary education accredited by dozens of agencies.

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### Types of Federal Student Financial Assistance Programs

- **Loan Programs**  
Student aid funds that must be repaid with interest.
- **Grant Programs**  
Student aid funds that do not have to be repaid (other conditions apply).
- **Work-Study Program**  
A part-time work program to earn money while in school.

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The following table presents a comparison of the amounts of Title IV aid disbursed to students by program in 2011 and 2010. A summary of each of the Title IV student assistance programs is presented in the paragraphs that follow the table.

### Summary of Federal Aid Disbursed to Students by Program

(Dollars in Millions)

Programs	2011 Aid Disbursed to Students	2010 Aid Disbursed to Students	Difference	Percent Increase
<b>Loan Programs</b>				
William D. Ford Federal Direct Loan Program <sup>SM</sup>	\$ 116,098	\$ 80,559	\$ 35,539	44%
Federal Family Education Loan Program <sup>SM</sup>	0	19,909	(19,909)	(100)
Federal Perkins Loan Program	971	1,042	(71)	(7)
<b>Subtotal Loan Programs</b>	<b>\$ 117,069</b>	<b>\$ 101,510</b>	<b>\$ 15,559</b>	<b>15%</b>
<b>Grant Programs</b>				
Federal Pell Grant Program	\$ 36,515	\$ 29,103	\$ 7,412	25%
Federal Supplemental Educational Opportunity Grants Program	959	959	0	0
Academic Competitiveness Grants Program	555	503	52	10
National Science and Mathematics Access to Retain Talent Grants Program	432	361	71	20
Leveraging Educational Assistance Partnerships Program	162	162	0	0
The Teacher Education Assistance for College and Higher Education Grants Program	131	93	38	41
<b>Subtotal Grant Programs</b>	<b>\$ 38,754</b>	<b>\$ 31,181</b>	<b>\$ 7,573</b>	<b>24%</b>
<b>Work-Study Programs</b>				
Federal Work-Study Program	\$ 1,171	\$ 1,171	\$ 0	0%
<b>Grand Total</b>	<b>\$ 156,994</b>	<b>\$ 133,862</b>	<b>\$ 23,132</b>	<b>17%</b>

Aid disbursed to students as cited in the table above, and in the following sections concerning Federal Loan Programs, Federal Grant Programs and the Federal Work Study Program in the Management's Discussion and Analysis section, are derived from amounts used to support the President's Budget. These amounts may differ from actual amounts included in the Financial Section of the document.







## Federal Loan Programs

In fulfilling its program responsibilities, FSA directly manages or oversees almost \$848.0 billion in outstanding loans—representing over 146 million student loans to more than 36 million borrowers. These loans were primarily made through the first two federal student loan programs described below.

The **William D. Ford Federal Direct Loan (Direct Loan<sup>SM</sup>) Program<sup>SM</sup>** lends funds directly to students and parents through participating schools. Created in 1993, this program is funded by borrowings from the U.S. Department of the Treasury, as well as an appropriation for subsidy costs. In FY 2011, the Department made \$116.1 billion<sup>1</sup> in net loans to 11.5 million recipients. With the enactment of the *SAFRA Act*, as part of the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), beginning in July 2010, no new loans were originated under the Federal Family Education Loan (FFEL<sup>SM</sup>) Program<sup>SM</sup>. This transition from the FFEL Program to the Direct Loan Program resulted in a 44 percent increase in Direct Loan Program disbursements for FY 2011.

Under the **Federal Family Education Loan Program<sup>SM</sup>**, students and parents obtained federal loans through lenders. Guaranty agencies insured these loans, which were, in turn, reinsured by the federal government. Although the passage of the *SAFRA Act* ended the origination of new FFEL Program loans as of July 1, 2010, lenders and guaranty agencies continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL Program loan portfolio of approximately \$490.0 billion, as of September 30, 2011. In FY 2011, FSA made gross payments of approximately \$2.5 billion to lenders for interest and special allowance subsidies and \$12.0 billion to guaranty agencies for reinsurance claims and fees paid to guaranty agencies for account maintenance, default aversion, and collection activities.

In addition to the above described FFEL Program, the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorized the Department to implement a number of programs to ensure credit market disruptions did not deny eligible students and parents access to federal student loans for the 2008–09 and 2009–10 academic years. Under this authorization, the Department implemented the Loan Participation Purchase and Loan Purchase Commitment Programs. These programs were successfully closed-out on October 15, 2010. During FY 2011, the Department collectively purchased \$26.3 billion via these two programs.

A third program the Department implemented under the authority of ECASLA is the Asset-Backed Commercial Paper Conduit Program (Conduit). Under this program, which began operations in mid-2009, the Department entered into forward purchase commitments with a Conduit. The Conduit issues commercial paper backed by qualifying student loans made between October 1, 2003, and September 30, 2009. If no other financing is available to retire this paper as it matures, the Department commits to provide the needed funds by purchasing the underlying student loans. Lenders were able to place loans into the Conduit until June 30, 2010. By that time, a total of 25 lenders had participated, and backed by their loans, the Conduit issued a total of \$41.5 billion in commercial paper. Under the Put Agreement with the Conduit, the Department purchases loans subject to certain events, for example, when a loan becomes 255 days delinquent. As of September 30, 2011, the Department has purchased

<sup>1</sup>Excludes consolidation loans of \$19.5 billion.





\$1.2 billion in delinquent loans from the Conduit. To date, the Conduit has only put defaulted loans to the Department. The option to sell loans to the Department ends in January 2014.

The **Federal Perkins Loan Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable the eligible institutions to offer low-interest loans to students based on need. For the 2010–11 award year, approximately \$970.7 million were disbursed through approximately 493,000 campus-based awards.

### **Federal Grant Programs**

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of \$38.7 billion in grants to 11.3 million recipients via several grant programs. The following provides a summary for each grant program, including aid disbursed for FY 2011.

The **Federal Pell Grant (Pell Grant) Program** helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income undergraduate students. As the most need-based of the Department's student aid programs, Pell Grants vary according to the financial circumstances of students and their families. For the 2010–11 award year, the Department disbursed \$36.5 billion in Pell Grants averaging approximately \$4,115 to approximately 9 million students. The maximum Pell Grant award was \$5,550 for the 2010–11 award year and remained at \$5,550 for the 2011–12 award year.

The **Federal Supplemental Educational Opportunity Grant Program** is one of three campus-based programs through which the Department provides loan funds directly to eligible institutions. Funds provided through this program enable the eligible institutions to offer grants to students based on need. For the 2010–11 award year, approximately \$959.0 million were disbursed through approximately 1.3 million campus-based awards.

The **Academic Competitiveness Grant (ACG)** and **National Science and Mathematics Access to Retain Talent (SMART) Grant Programs** were created by the *Higher Education Reconciliation Act of 2005* and signed into law in 2006. Funding for the ACG and National SMART Grant Programs expired at the end of FY 2011.

The ACG Program was for undergraduates who met Pell Grant eligibility requirements and completed a rigorous high school program, as determined by the state or local education agency and as recognized by the Secretary. First-year students were eligible to receive an ACG award of up to \$750, whereas second-year students were eligible to receive up to \$1,300 if they had maintained a cumulative grade point average of at least 3.0. The ACG award became available in the 2006–07 school year for first-year students who graduated high school after January 1, 2006, and second-year students who graduated high school after January 1, 2005. The ACG award was awarded as a supplemental grant to the student's Pell Grant award. For the 2010–11 award year, \$555 million in ACG awards were disbursed to approximately 764,000 students.





The National SMART Grant Program provided up to \$4,000 to third- and fourth-year undergraduates, or fifth-year students in a five-year program, studying full-time and majoring in physical, life, or computer sciences; mathematics, technology, engineering, or a foreign language critical to national security. In order to be eligible for a SMART grant, the student must have met Pell Grant eligibility requirements. The student must have maintained a cumulative grade point average of at least 3.0 for coursework required for the major. The National SMART Grant was awarded as a supplemental grant to the student's Pell Grant award. A student could not receive more than one ACG or National SMART Grant award in each academic year for which they were eligible. For the 2010–11 award year, \$432.0 million in National SMART grants were disbursed to approximately 159,000 students.

There are two state grant programs. The **Leveraging Educational Assistance Partnership (LEAP) Program**, authorized by Section 415A of the HEA, makes federal funds available to assist states in providing student financial assistance programs for individuals with substantial financial need. The **Special Leveraging Educational Assistance Partnership (SLEAP) Program** was added to the LEAP Program in the 1998 Amendments to the HEA (Section 415E). SLEAP makes federal funds available to states to cover a third of the cost of supplementing their respective LEAP programs, supplementing their LEAP Community Service Work-Study programs, and/or providing Merit and Academic Achievement or Critical Careers Scholarships to students with substantial financial need. For the 2010–11 award year, approximately \$162 million in LEAP grants were disbursed to approximately 162,000 students. The 2010–2011 award year is the last award year in which states will be able to apply for SLEAP funding. The Grants for Access and Persistence Program was authorized under Section 415E of the HEA, which was amended as a result of the *Higher Education Opportunity Act of 2008*, and assists states in establishing partnerships to provide eligible students with LEAP Grants under the Grants for Access and Persistence Program to attend institutions of higher education and to encourage increased participation in early information and intervention, mentoring, or outreach programs.

Funding for the LEAP Program expired at the end of FY 2011. This program accomplished its objective of stimulating all states to establish need-based postsecondary student grant programs, and federal incentives for such aid are no longer required.

**The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program**, authorized by the *College Cost Reduction and Access Act of 2007 (CCRAA)*, provides up to \$4,000 per year to students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. If students fail to fulfill the service requirements, TEACH Grants convert to unsubsidized Stafford Loans, with interest accrued from the time of the award. This grant program began in the 2008–09 school year, starting July 1, 2008. In FY 2011, the Department disbursed approximately 44,000 grants for \$131 million under TEACH.

### **Federal Work-Study Program**

The **Federal Work-Study (FWS) Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable the eligible institutions to offer employment to students based on need. For the 2010–11 award year, approximately \$1.2 billion was disbursed through approximately 713,000 campus-based awards





## Vision, Mission, Core Values, and Goals

In FY 2010, FSA developed a new vision, mission, and core values to capture the opportunities and meet rising challenges from the changing higher education environment. This action was in response to numerous discussions with, and feedback from, employees from each office within FSA.



### Vision

To be the most trusted and reliable source of student financial aid, information, and services in the nation

### Mission

*Funding America's Future, One Student at a Time*

### Core Values

- Integrity
- Customer Service
- Excellence
- Respect
- Stewardship
- Teamwork

FSA's vision and mission focuses on students and positions FSA as not only a provider of federal student financial aid and services, but also as a trusted source to provide information to help students and families make better decisions about their postsecondary education funding options. The core values reflect FSA employees' desire to create a high-performing organization and work environment, while improving operations and services.

In order to achieve its vision and successfully accomplish its mission, FSA developed a new strategic plan. FSA's new strategic goals are outlined in the *Federal Student Aid: Strategic Plan, Fiscal Years 2011–15 (FSA Strategic Plan FY 2011–15)* and are listed below. These goals are closely aligned to FSA's PBO responsibilities. Those responsibilities include improving service, reducing costs, improving and integrating support systems, developing delivery and information systems, and enhancing staff development and talent to improve human capital management.

### Strategic Goals

- **Strategic Goal A:** Provide superior service and information to students and borrowers
- **Strategic Goal B:** Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery
- **Strategic Goal C:** Develop efficient processes and effective capabilities that are among the best in the public and private sectors
- **Strategic Goal D:** Ensure program integrity and safeguard taxpayers' interests
- **Strategic Goal E:** Develop FSA's performance culture and become one of the best places to work in the federal government





## PERFORMANCE MANAGEMENT

This section of the FSA *Annual Report* provides a general overview of the performance management processes at FSA; summary of FSA's FY 2011 performance goals, objectives, and results; discussion of FSA's FY 2011 High Priority Performance Goal (HPPG); and discussion of FSA's efforts to validate the quality of performance data reported.

### Performance Management Processes at Federal Student Aid

FSA uses three tools to establish goals, and to communicate, measure, and report performance. These tools are the following:

- *Five-Year Strategic Plan*;
- *Annual Performance Report*; and
- Annual Organizational Performance Review (OPR).

#### Five-Year Strategic Plan

As part of the strategic planning process, FSA continuously identifies and evaluates key drivers that significantly influence FSA's long-term goals and objectives. FSA analyzes these drivers to identify long-term core strategic goals that will serve as the foundation of FSA's long-term strategic planning. These strategic goals collectively provide the framework for continuous improvement at FSA, guiding the organization in managing its programs more effectively and providing clear strategic direction to all of FSA's internal and external constituencies. The strategic goals developed must be:

- appropriate to the mission of the organization;
- realistic and measurable;
- achievable in the time frame established and challenging in their targets; and
- understandable to the layperson (i.e., language is unambiguous and terminology is adequately defined).

Each Strategic Goal encompasses Objectives and identifies Performance Goals to measure FSA's level of success in meeting the Strategic Goal. For each Performance Goal, FSA identifies a target level of performance for each fiscal year. FSA sets the target level of performance at a challenging, but realistic level that is achievable within the time frame. Meeting or exceeding the target indicates that FSA succeeded in meeting the Performance Goal, while falling short of the target indicates that FSA did not meet the Performance Goal. The following table summarizes the key components of *FSA's Strategic Plan FY 2011–15*.



**Key Components of FSA Strategic Plan FY 2011–15**

Key Component	Description
<b>Strategic Goals</b>	Statements of long-term purpose outlined in the <i>Strategic Plan</i> that define how FSA will accomplish its mission. These goals are aligned to FSA's responsibilities as a PBO.
<b>Objectives</b>	Statements that describe the tactical activities FSA will perform to achieve the associated Strategic Goal.
<b>Performance Goals</b>	Levels of performance over a period of time used to gauge FSA's success in reaching its Strategic Goals. These Goals include targets and timeframes.
<b>Targets</b>	Indicators of the desired performance levels or specific desired results targeted for a given fiscal year. Targets are expressed in quantifiable terms and compared to the actual result to determine level of performance.

Throughout the fiscal year, FSA measures and analyzes performance based upon Performance Goal results. For any Performance Goals not on track, FSA's analysis includes identifying the root cause of the unexpected result and determining the appropriate corrective actions necessary to improve performance.

**Annual Performance Report**

To report progress on meeting the Strategic Goals, FSA prepares and publishes an *Annual Performance Report*. This report is included in FSA's *Annual Report* issued mid-November. In addition to the *Annual Performance Report*, FSA's *Annual Report* includes FSA management's discussion and analysis of financial and performance results, FSA's audited financial statements and notes, and the report of the independent auditors.

**Organizational Performance Review**

The OPR is part of the Department-wide performance management system. It operates at the principal office level and is designed to integrate and align all of the Department's performance management elements, including the Department's *Strategic Plan*, the Secretary's annual priorities, the priorities of the principal offices, and other requirements of law and of the President. The OPR contains timelines with specific milestones. FSA tracks and reports the status of OPR metrics to the Department on a quarterly basis.





## FY 2011 Strategic Goals, Objectives, and Performance Goals

In the previous five years, FSA primarily focused on achieving operational efficiency and system integration, both of which are key to FSA's designation as a PBO. During FY 2010, FSA initiated the development of an updated five-year strategic plan. In addition to its core mission, FSA now seeks to improve the overall system of funding for postsecondary education by (1) equipping students and their families with better information to make improved decisions about postsecondary education; and (2) actively shaping the behavior of participants in education funding, by using FSA's knowledge, data, oversight authority, and relationships to improve the coordination of all participants in the system.

FSA's *Strategic Plan FY 2011–15* was issued in September 2010 and implemented at the beginning of FY 2011. While developing this plan, FSA identified the key strategic drivers listed in the following table.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
<i>The Higher Education Act of 1965</i> legislation.	Prescribes Title IV program and PBO requirements (i.e., improve service, reduce costs, improve and integrate support systems, develop delivery and information systems, and enhance staff development and talent).
Student and borrower needs.	Students and borrowers are key customers of FSA services and products.
Key trends and conditions for the financial aid environment.	Indicates student aid environment within which FSA must operate. Key trends for FY 2011 are listed below. <ul style="list-style-type: none"> <li>• Rising cost of attendance for postsecondary education.</li> <li>• Decline in availability of nonfederal sources of postsecondary education funding.</li> <li>• Expected increase in enrollment, particularly of nontraditional students.</li> <li>• Growing number of enrollments at proprietary and two-year postsecondary institutions.</li> <li>• Increased role of the federal government in providing funding for postsecondary education.</li> </ul>
The Department's Five-Year <i>Strategic Plan</i> .	Requires FSA's support of the Department's strategic goals related to postsecondary education.





Key Strategic Driver	Relevance to FSA’s Strategic Planning Process
President Obama’s higher education goal that, by 2020, America will have the highest proportion of college graduates in the world.	Requires the Department and FSA’s support to achieve goal.
The Office of Inspector General’s (OIG’s) Management Challenges.	Requires FSA senior management’s consideration for establishing priorities. OIG’s management challenges for FY 2011 include: <ul style="list-style-type: none"> <li>• Implementation of New Programs and Statutory Changes;</li> <li>• Oversight and Monitoring;</li> <li>• Data Quality and Reporting; and</li> <li>• Information Technology Security.</li> </ul>
The Office of Inspector General and Government Accountability Office (GAO) audits.	Requires FSA senior management’s consideration for establishing priorities to address findings and recommendations.
Federal financial management laws and regulations.	Prescribes financial management requirements.
Federal performance reporting legislation and requirements.	Prescribes performance and reporting requirements.
Federal budget deficits.	Requires FSA to look for opportunities to reduce operating costs through improved efficiency.

FSA identified the following five Strategic Goals based upon analysis of the above key strategic drivers:

- **Strategic Goal A:** Provide superior service and information to students and borrowers
- **Strategic Goal B:** Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery
- **Strategic Goal C:** Develop efficient processes and effective capabilities that are among the best in the public and private sectors
- **Strategic Goal D:** Ensure program integrity and safeguard taxpayers’ interests
- **Strategic Goal E:** Develop FSA’s performance culture and become one of the best places to work in the federal government

The remainder of this section provides a discussion of each Strategic Goal, including the associated Objectives and a summary of Performance Goal results. For a more detailed discussion, please see the *Annual Performance Report* section of this document. Appendix A of this document details the Strategic Objectives and Performance Metrics that were in effect for the FY 2010 reporting period which were discontinued for the FY 2011 reporting period due to the implementation of the updated *FSA Strategic Plan FY 2011–15*.





**How the remainder of this section is organized**





This section is organized by the five Strategic Goals. For each Strategic Goal, this section provides an overview of the goal, lists the associated Objectives that support the Strategic Goal, and the Performance Goals used to measure performance. Specifically, the following information is included for each Strategic Goal:

**Strategic Goal:** States the Strategic Goal and provides a discussion of the relevance of this goal to FSA's mission.

**Objective:** Includes a brief discussion of the objectives identified for the Strategic Goal.

**Performance Goals measured:** Includes a brief summary of FSA's performance as measured by the Performance Goals for the Strategic Goal, followed by a table that details, for each Performance Goal, the current reporting period target, actual result, and reference to detail contained in the *Annual Performance Report* section of this document. The following is the legend for the performance result indicator included in the table.

**Performance Result Indicator Legend**

Performance result met or exceeded the target.	<b>Met</b> 
Performance result did not meet the target.	<b>Not met</b> 
Performance result was tracked, but no target was established.	<b>No target</b> 
Performance result is not applicable because the performance goal was not developed, the performance goal was not implemented, or the required data were not available in time for inclusion.	<b>N/A</b> 

The Performance Goal results reported are as of fiscal year-end (i.e., September 30, 2011) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent period available is used. Data as of fiscal year-end may not be available, since some required data are obtained from external sources (i.e., state guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).



**Strategic Goal A:** *Provide superior service and information to students and borrowers.*

A major component of FSA's mission is to ensure that all eligible individuals have access to federal student aid. In order to achieve this goal, FSA provides funding options to eligible students and their families to make well-informed decisions. As a customer-facing institution, FSA also has an obligation to uphold the highest standards of service when interacting with its customers: students and their families.

Strategic Goal A aims to actively inform all eligible individuals of their funding options, help customers make well-informed decisions, provide better services, and improve customer experience.

**Objectives supported:**

To support this Strategic Goal, FSA identified a set of Objectives which includes detailed initiatives designed to assist with meeting each Objective. Meeting each Objective will result in accomplishing the Strategic Goal. The Objectives that support this Strategic Goal include:






- **Objective 1:** Take a data driven approach to better understand our students and borrowers and develop insights from these customers.
- **Objective 2:** Reach out to potential students more effectively to expand access to higher education, especially for nontraditional students.
- **Objective 3:** Aggregate and distribute information on the costs and benefits of higher education programs and on funding options to improve financial literacy and support the customers' decision-making.
- **Objective 4:** Identify students for whom financial assistance can make a difference in completing a degree or credential and develop a plan to support the President's 2020 college completion goal.
- **Objective 5:** Enhance customer-facing processes to improve the customer experience.

**Performance Goals measured:**

To determine the success of FSA's efforts to meet this Strategic Goal, FSA identified a set of Performance Goals including a target level of performance. For this Strategic Goal, the following table lists the Performance Goals, FY 2011 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA had the following performance results: two Performance Goals met or exceeded the target result; one Performance Goal did not meet its targeted result; one Performance Goal did not have established targets in this fiscal year; and one Performance Goal was not applicable.



**Performance Summary for Strategic Goal A****Strategic Goal A: *Provide superior service and information to students and borrowers***

<b>Performance Goals</b>	<b>FY 2011 Target</b>	<b>FY 2011 Actual</b>	<b>Result</b>	<b>Reference Page</b>
% of original FAFSA filers among high school seniors	>=49.5%	52.0%	<b>Met</b> 	<a href="#">49</a>
% of original FAFSA filers among workforce aged 25+ without college degree	>=3.9%	3.8%	<b>Not met</b> 	<a href="#">50</a>
% of original filers among low-income students	TBD	57.0%	<b>No target</b> 	<a href="#">51</a>
% of students who dropped out due to financial reasons	TBD	—	<b>N/A</b> 	<a href="#">52</a>
Customer satisfaction score (ASCI) for the entire aid lifecycle	74	78	<b>Met</b> 	<a href="#">53</a>





**Strategic Goal B:** *Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.*

FSA plays a vital role within the system of postsecondary education funding in the United States. While the Office of Postsecondary Education within the Department is responsible for any matters related to policy and regulation setting regarding postsecondary education, FSA collaborates with the Department and Congress to inform policy and regulations relating to student financial assistance. Specifically, FSA provides timely and relevant information to the Department and policymakers to support their decision-making processes concerning issues related to funding postsecondary education. In addition, FSA has a leadership role in the universe of postsecondary education funding to ensure that all system participants effectively serve the interests of students.

To execute delivery of financial assistance, FSA works closely with partners: it coordinates the activities of different contractors, including servicers and private collection agencies; it works with guaranty agencies and FFEL Program lenders to administer programs; it provides oversight and support to postsecondary institutions; and it directly interacts with students and their families.

Strategic Goal B aims to increase FSA's role in working with postsecondary institutions, contractors, and other major participants in the overall aid delivery system, to fulfill the organization's mission better to consistently champion the promise of postsecondary education for all Americans.

**Objectives supported:**

To support this Strategic Goal, FSA identified a set of Objectives which includes detailed initiatives designed to assist FSA with meeting each Objective. Meeting each Objective will result in accomplishing the Strategic Goal. The Objectives that support this Strategic Goal include:

- **Objective 1:** Improve FSA's support, communications, and processes for postsecondary institutions and financial partners.
- **Objective 2:** Provide ideas, data, and analyses to inform policymakers about opportunities and challenges in higher education funding.
- **Objective 3:** Support system participants in completing the transition laid out by the HCERA and other future legislation.



**Performance Goals measured:**

To determine the success of FSA's efforts to meet this Strategic Goal, FSA identified a set of Performance Goals including a target level of performance. For this Strategic Goal, the following table lists the Performance Goals, FY 2011 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target result for one Performance Goal and had one Performance Goal for which targets were not established in this fiscal year.



**Performance Summary for Strategic Goal B**

**Strategic Goal B: *Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.***

<b>Performance Goals</b>	<b>FY 2011 Target</b>	<b>FY 2011 Actual</b>	<b>Result</b>	<b>Reference Page</b>
"Ease of doing business with FSA" survey result from schools.	Launch survey	Survey launched	<b>Met</b> 	<a href="#">54</a>
Additional metric to measure impact of improvements under development (to be established in 2011)  Additional metric established the following: Borrower based delinquency rate	TBD	9.9%	<b>No target</b> 	<a href="#">55</a>





**Strategic Goal C:** *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

FSA is responsible for managing the operational functions associated with delivering Title IV grants, work-study, and loan programs, while continually improving operating efficiency. To maintain credibility and confidence in the overall student aid delivery system, it is important for FSA to anticipate and plan for changes in volume that impact capacity requirements. For example, FSA experienced a significant increase in Direct Loan originations as a result of the passage of the *SAFRA Act* during FY 2010. As part of the ability to respond to changing demands, FSA must consider budgetary resources available to support increasing capacity. Historically, FSA's budget has not grown proportionally to the increase in the volume of aid, and that is likely to remain true going forward. As a result, FSA will need to pursue further efficiencies to access additional resources in its operating budget for allocation to the initiatives outlined in its *Strategic Plan*.

FSA also will continue to improve its internal efficiency and capabilities across key functions, particularly in technology, acquisition, risk management, and business management, by comparing the current state with best practices and benchmarks across public and private sectors. The objectives under this goal will build the foundation and capability to support the first two strategic goals, providing better service and information to FSA customers and playing an integral role in the overall student aid delivery system.

Strategic Goal C aims to pursue further efficiencies to free up additional resources in the operating budget by integrating systems, improving acquisition processes, improving risk management, and improving project management.

**Objectives supported:**

To support this Strategic Goal, FSA identified a set of Objectives which includes detailed initiatives designed to assist FSA with meeting each Objective. Meeting each Objective will result in accomplishing the Strategic Goal. The Objectives that support this Strategic Goal include:

- **Objective 1:** Deliver funds to students accurately, promptly, and professionally, to create high levels of customer satisfaction.
- **Objective 2:** Strengthen FSA's Information Technology (IT) function to complete systems integration, modernization, and to maintain IT security.
- **Objective 3:** Refine FSA's acquisition strategy, acquisition processes, and performance management.
- **Objective 4:** Improve the organizational capacity to anticipate and handle external change.
- **Objective 5:** Enhance the risk management organization, systems, and processes.
- **Objective 6:** Evaluate administrative cost structures and streamline internal operations to increase efficiency and productivity.
- **Objective 7:** Build stronger business management capabilities and increase operational transparency to improve cross-functional coordination.






**Performance Goals measured:**

To determine the success of FSA's efforts to meet this Strategic Goal, FSA identified a set of Performance Goals including a target level of performance. For this Strategic Goal, the following table lists the Performance Goals, FY 2011 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA had two Performance Goals which did not have established targets in this fiscal year and one Performance Goal which was not applicable.

**Performance Summary for Strategic Goal C**

**Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.***

Performance Goals	FY 2011 Target	FY 2011 Actual	Result	Reference Page
Aid delivery-related cost per application	TBD	\$9.89	No target 	<a href="#">56</a>
Loan servicing-related cost per borrower serviced	TBD	\$18.15	No target 	<a href="#">57</a>
Additional metric to measure improvement in cost structures under development (to be established in 2011)	TBD	—	N/A 	<a href="#">58</a>
Note: No additional metrics were established in FY 2011.				



**Strategic Goal D:** *Ensure program integrity and safeguard taxpayers' interests.*

The Congressional Budget Office projects that the latest federal budget will result in close to \$10 trillion in cumulative budget deficits over the next 10 years. This places additional importance on the responsibility of all federal agencies to safeguard taxpayer resources through all of their activities. FSA's role requires the organization to provide more oversight of taxpayer dollars than most agencies, as FSA annually disburses almost \$157 billion in aid and administers a loan portfolio valued at almost \$848 billion. Even small variances in the financial performance of this portfolio can have a large impact on the U.S. federal budget. FSA is committed to upholding the highest standards of integrity with the Title IV Programs and continues to work with institutions on increased monitoring and oversight efforts.

FSA will strive to better manage taxpayer resources and minimize program costs. As part of this goal, FSA will concentrate its limited resources on those areas that have been identified as having the greatest potential risk for fraud and abuse. In addition, FSA will focus on data gathering and analysis to better understand and manage FSA's growing student aid portfolio. Through these efforts, FSA will be able to better identify, understand, and mitigate all enterprise risks, including the student aid portfolio risk.

Strategic Goal D aims for continuous improvement of FSA's oversight functions to maintain program integrity and safeguard taxpayers' interests by using the program dollars effectively and efficiently. FSA has oversight and enforcement responsibility for approximately 6,300 schools and 1,975 financial institutions. As such, FSA must leverage and focus its resources to optimize oversight and monitoring activities, and its administrative, sanction, and enforcement actions when warranted.

**Objectives supported:**

To support this Strategic Goal, FSA identified a set of Objectives which includes detailed initiatives designed to assist FSA with meeting each Objective. Meeting each Objective will result in accomplishing the Strategic Goal. The Objectives that support this Strategic Goal include:

- **Objective 1:** Improve quality control and reduce errors, waste, fraud, abuse, and mismanagement on the part of postsecondary institutions and financial partners to minimize program losses.
- **Objective 2:** Manage unpaid obligations and provide transparency about portfolio risk exposure.

**Performance Goals measured:**

To determine the success of FSA's efforts to meet this Strategic Goal, FSA identified a set of Performance Goals including a target level of performance. For this Strategic Goal, the following table lists the Performance Goals, FY 2011 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target result for one Performance Goal and one Performance Goal was not applicable.









### Performance Summary for Strategic Goal D

Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

Performance Goals	FY 2011 Target	FY 2011 Actual	Result	Reference Page
Delinquency rate	<=8.8%	—	N/A 	<a href="#">59</a>
Default rate	<=12.3%	11.3%	Met 	<a href="#">60</a>





**Strategic Goal E:** *Develop FSA’s performance culture and become one of the best places to work in the federal government.*

FSA achieved substantial improvement in operational performance after its transformation into a PBO in 1998, successfully and reliably delivering aid under changing legislative conditions. The results of the 2010 Employee Viewpoint Survey identified some areas for improvement. In addition, a significant number of FSA’s staff is eligible for retirement over the next several years. In order to meet the performance challenges facing FSA and to fulfill its rapidly expanding role, the organization will have to rebuild its human capital foundations.

Strategic Goal E aims to meet the performance challenges facing FSA. To do so, FSA will need to empower its employees to accept new challenges, while ensuring the knowledge accumulated by the retirement eligible staff is not lost upon their departure.

**Objectives supported:**

To support this Strategic Goal, FSA identified a set of Objectives which includes detailed initiatives designed to assist FSA with meeting each Objective. Meeting each Objective will result in accomplishing the Strategic Goal. The Objectives that support this Strategic Goal include:


- **Objective 1:** Improve human capital processes to attract, develop, and retain talent, and help FSA employees achieve their full performance potential.
- **Objective 2:** Further develop a student-centric culture among all managers and employees that will fully deliver on FSA’s mission, vision, and strategy.

**Performance Goal measured:**

To determine the success of FSA’s efforts to meet this Strategic Goal, FSA identified a Performance Goal including a target level of performance. For this Strategic Goal, the following table lists the Performance Goal, FY 2011 target and actual performance level, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. This Performance Goal was not applicable for FY 2011, since the FY 2011 Actual performance level was not available in time for inclusion in this *Annual Report*.

**Performance Summary for Strategic Goal E**

**Goal E:** *Develop FSA’s performance culture and become one of the best places to work in the federal government.*

Performance Goal	FY 2011 Target	FY 2011 Actual	Result	Reference Page
Best Places to Work in the Federal Government ranking	180 <sup>th</sup>	—	N/A 	<a href="#">61</a>





## High Priority Performance Goal

During the FY 2011 budget process, OMB required federal agencies to develop HPPGs that support improvements in near-term outcomes, customer service, or efficiencies, and advance progress toward longer term, outcome-focused goals. FSA is responsible for the Departmental HPPG for FY 2010 through FY 2011 that all participating higher education institutions that want to be operationally ready to originate Federal Direct Student Loans will be able to do so by the end of FY 2011. This, in turn, will help the United States achieve the goal of having the highest proportion of college graduates in the world by 2020. According to the non-partisan Congressional Budget Office, switching to the Direct Loan program will save taxpayers approximately \$62 billion over 10 years.

In anticipation of the expected increase in Direct Loan volume, FSA expanded its Direct Loan origination and servicing capacities in FY 2010. The OIG performed a review to assess "FSA's efforts in 1) executing appropriate modifications to the COD [Common Origination and Disbursement] contract given the anticipated increase in Direct Loan volume; 2) providing technical assistance to impacted schools; and 3) preparing contingency plans if the COD system cannot effectively handle the increased loan volume, especially during the peak loan origination period."<sup>2</sup> With respect to their scope, the OIG "...found FSA took actions intended to ensure the effective processing of student loans as a result of the 100 percent transition to the Direct Loan program."<sup>3</sup> The full report is located on the OIG's website and can be found at the following link:

<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2010/x19k0008.pdf>.

As of September 2011, almost 100 percent of domestic schools and 80 percent of foreign schools that previously participated in the FFEL program have originated Direct Loans. The Department continues to work with 18 domestic and 33 foreign institutions on transition activities; these schools are extremely small institutions that have so far not had students seeking loans. No school wishing to originate loans has been unable to do so. FSA continues to closely monitor schools participating in the program and to offer assistance when problems arise. In addition, communications continue to be provided to all participating schools to offer the most up-to-date information about the program. This particular HPPG was archived on September 30, 2011.

As required by OMB's guidance for implementing the *Government Performance and Results Act Modernization Act of 2010* (Pub. L. 111-352), the Department and FSA developed a set of Priority Goals for FY 2012–FY 2013 as part of the internal budget process. These Priority Goals are outcome oriented short-term goals that will align to the administration's priorities and the Department and FSA's strategic plans. FSA will report performance against its Priority Goal in the FY 2012 *Annual Report*.

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<sup>2</sup> U.S. Department of Education, Office of Inspector General, *FINAL MANAGEMENT INFORMATION REPORT - Subject: Federal Student Aid's Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program (Control Number ED-OIG/X19K0008)*, September 16, 2010, 1.

<sup>3</sup> Ibid, 3.





## Quality of Performance Data

Ensuring the integrity of the data required to determine performance results is a critical step in reporting performance. For this step, FSA developed and implemented a Validation and Verification Matrix. Specifically, FSA uses this matrix as a tool to validate the completeness and reliability of the underlying data gathered and used to calculate each Performance Goal for the reporting period, including the performance results reported in this *Annual Report*.

For each Performance Goal, this matrix is used to document the following: measurement definition and owner; data source, availability, security procedures, and known limitations; whether data are subject to FSA's A-123 Internal Control Review process; and procedures for accessing the data, calculating the Performance Goal, and validating and verifying the data gathered.

For a discussion of data quality and limitations for each Performance Goal, please see Performance Results by Strategic Goal contained in the *Annual Performance Report* section of this *Annual Report*.





## FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

The financial management discussion and analysis provides an overview of FSA's financial results for FY 2011. This section is included to assist readers in understanding FSA's financial results, position, and condition as portrayed in the principal financial statements and notes found in the Financial Section of this report. The financial analysis explains major changes in assets, liabilities, costs, and budgetary resources. It also includes comparisons of the current year to the prior year and discusses the relevance of significant balances and amounts reflected in the principal financial statements and notes.

FSA is committed to providing sound management, financial systems, and controls to ensure that students receive aid and repay loans according to applicable laws and regulations. FSA's financial statements are prepared in accordance with established federal accounting standards. The financial statements are subject to an annual independent audit to ensure that FSA's financial position has been fairly presented.

In FY 2011, FSA achieved an unqualified audit opinion on its financial statements. The Report of Independent Auditors cited no material weaknesses in internal control. These results demonstrate FSA's commitment to strong accountability and effective stewardship of its resources.

FSA presents its financial statements and notes in the format required by the OMB Circular A-136, *Financial Reporting Requirements*. One result of FSA's compliance is that for the comparative fiscal years, FY 2011 and FY 2010, the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position were prepared on a consolidated basis, whereas the Statement of Budgetary Resources was prepared on a combined basis. The Report of Independent Auditors on these statements and accompanying Reports on Internal Control and Compliance with Laws and Other Matters are included in this report and can be found in the section, *Independent Auditors' Reports*.

Federal Student Aid is responsible for managing a net loan portfolio of approximately \$530.0 billion. This portfolio has seen significant growth, increasing by 44.2 percent over the September 30, 2010 net portfolio balance. This growth is driven by the expansion of the Direct Loan program, as dictated by the *SAFRA Act* legislation. Operationally, FSA must efficiently utilize the resources it has available to ensure that this portfolio is serviced efficiently and effectively, and quality customer service is provided to its borrowers. There are several risks that FSA must mitigate to ensure this portfolio is effectively managed. These risks are discussed at the conclusion of the analysis of the financial statements.





The FY 2011 FSA Financial Highlights chart presented below provides a condensed summary of the significant balances in FSA's financial statements for the current and prior years, as of September 30, 2011 and 2010 respectively, and the percentage change.

<b>FY 2011 FSA Financial Highlights</b>			
<b>Condensed Balance Sheet</b> <i>(Dollars in millions)</i>	<b>FY 2011</b>	<b>FY 2010</b>	<b>Percentage Change</b>
Fund Balance with Treasury	\$ 62,214	\$ 53,465	16%
Credit Program Receivables, Net	529,965	367,410	44
Remaining Assets	1,815	3,294	(45)
<b>Total Assets</b>	<b>\$ 593,994</b>	<b>\$ 424,169</b>	<b>40%</b>
Debt	\$ 546,264	\$ 373,656	46%
Liabilities for Loan Guarantees	10,025	14,479	(31)
Remaining Liabilities	19,402	25,587	(24)
<b>Total Liabilities</b>	<b>\$ 575,691</b>	<b>\$ 413,722</b>	<b>39%</b>
Net Position	\$ 18,303	\$ 10,447	75%
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 593,994</b>	<b>\$ 424,169</b>	<b>40%</b>
<b>Cost summary</b> <i>(Dollars in millions)</i>	<b>FY 2011</b>	<b>FY 2010</b>	<b>Percentage Change</b>
Gross Cost	\$ 16,839	\$ 36,748	(54)%
Less: Earned Revenue	20,212	17,071	18
<b>Net Cost of Operations</b>	<b>\$ (3,373)</b>	<b>\$ 19,677</b>	<b>(117)%</b>

### The Balance Sheet

The Balance Sheet presents the recorded value of assets and liabilities retained or managed by FSA as of a specific point in time. The assets represent resources available for use by FSA, while the liabilities represent amounts owed by FSA. The difference between the assets and the liabilities represents FSA's net position.

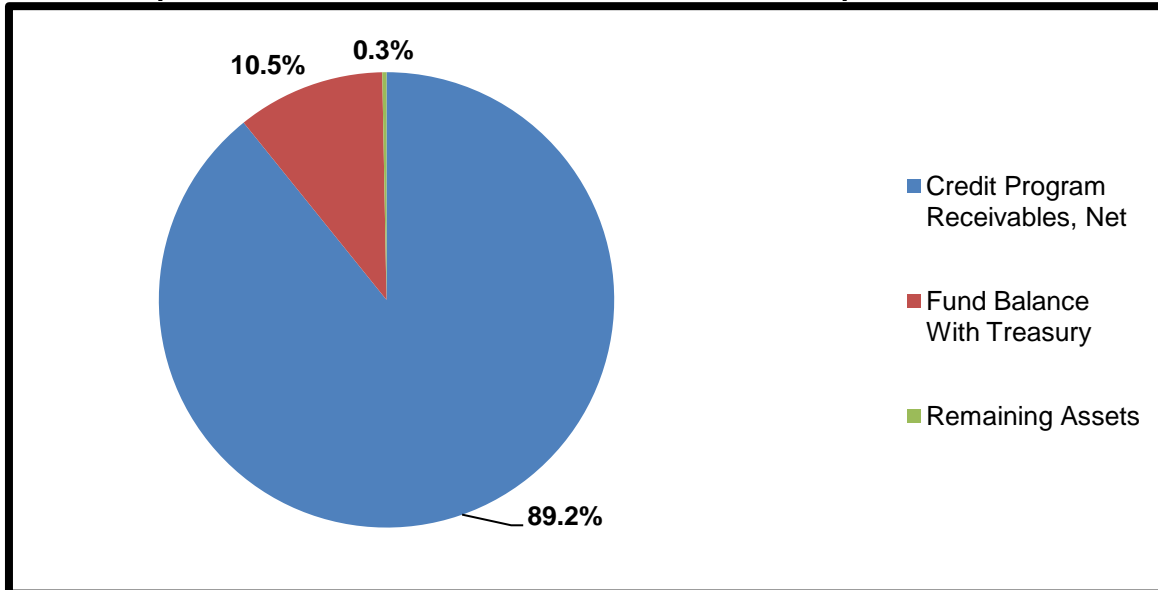
### Composition of FSA Assets

FSA's assets are the resources available to pay liabilities or satisfy future service needs. The Consolidated Balance Sheet shows that FSA had total assets of \$594.0 billion, as of September 30, 2011. The primary composition of these assets is FSA's Fund Balance with Treasury and its net Credit Program Receivables. The following charts present the significant balances of FSA's assets and a comparison of those current balances to prior year amounts. The Composition of Assets chart depicts major categories of assets as a percentage of FSA's total assets. The Comparison of Assets chart presents comparisons of the significant asset balances for Fiscal Years 2008–2011.





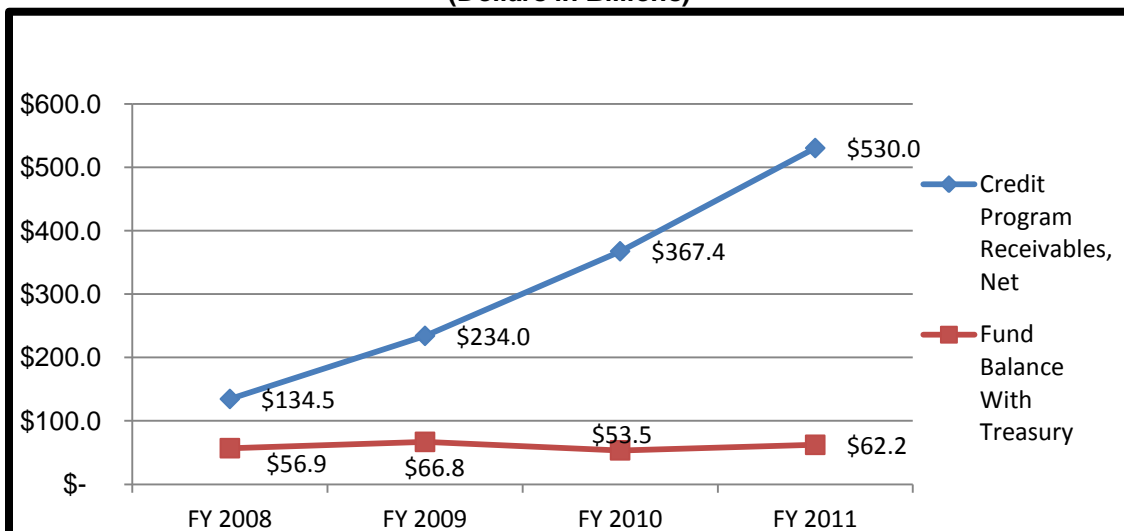
### Composition of Federal Student Aid's Assets as of September 30, 2011



Total assets of \$594.0 billion represent an increase of \$169.8 billion over the previous year's total assets of \$424.2 billion, as of September 30, 2010. This increase reflects a 40.0 percent increase in FSA's total assets. The difference resulted primarily from an increase in the Credit Program Receivables, along with an increase in the various programs' Fund Balances with Treasury.

As can be seen from the chart above, over 99 percent of Federal Student Aid's assets consist of its credit program portfolio and its cash balances. The following chart illustrates the growth in these two Balance Sheet line items over the past four fiscal years.

### Comparison of Federal Student Aid's Assets for Fiscal Years 2008–2011 (Dollars in Billions)





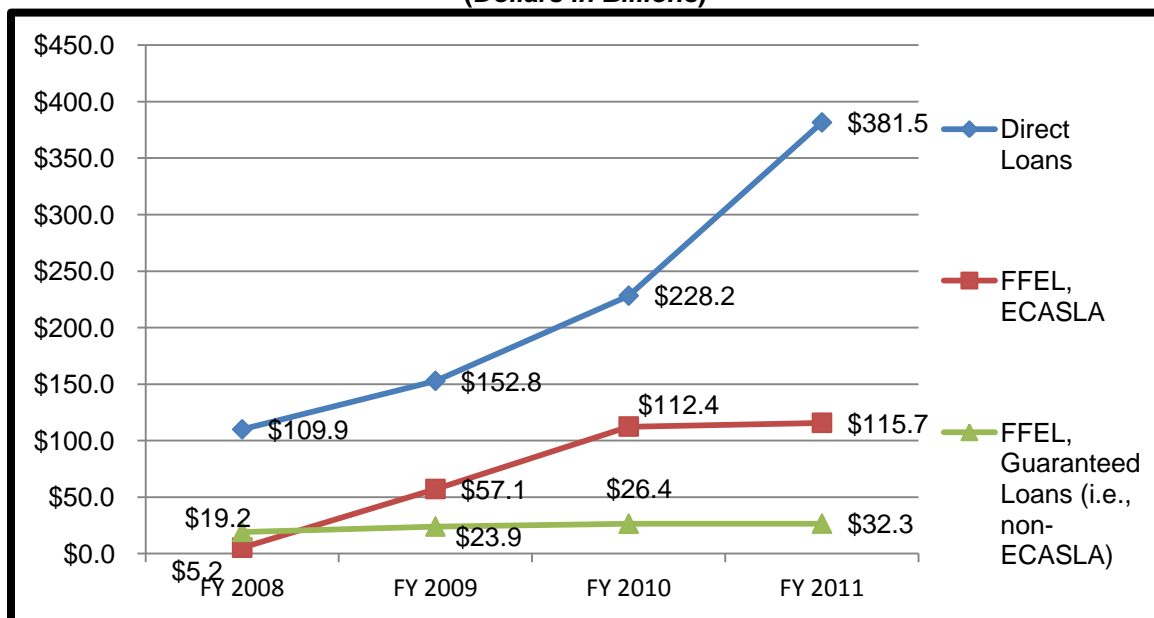
Fund Balance with Treasury increased by \$8.7 billion from September 30, 2010 to September 30, 2011. The Direct Loan fund balance increased by \$7.2 billion, or 69.4 percent, primarily as a result of the *SAFRA Act* legislation, which eliminated all new loan disbursements under the FFEL Program. The FFEL fund balance decreased by \$3.0 billion, or 13.0 percent, primarily as a result of a decrease in new borrowings which were primarily related to loan purchase activities under ECASLA, net of collections on defaulted loans, and consolidated defaulted loans, as well as the recapture of excess interest paid.

Credit Program Receivables, net of subsidy allowance, increased by \$162.6 billion over the September 30, 2010 total. Credit Program Receivables are comprised of principal, interest, and fees owed by students for Direct Loans, TEACH Grants, Perkins loans, and FFEL loans under the Conduit, Loan Participation Purchase, Loan Purchase Commitment, and defaulted guaranteed loans. As of September 30, 2011, the Credit Program Receivables' balance was \$530.0 billion – the majority of which were for the Direct Loan Program, Loan Participation Purchase, Loan Purchase Commitment Programs, and defaulted FFEL loans.

Credit Program Receivables, net of the allowance for subsidy, increased primarily due to two factors. First, as a result of the enactment of the *SAFRA Act* legislation and the liquidity crisis in the financial markets, there has been a large influx of schools and participants into the Direct Loan Program, resulting in a significant increase in new loan originations. As of September 30, 2011, the Direct Loan receivables increased by \$153.2 billion, which represents a 67.2 percent increase.

Secondly, receivables of defaulted guaranteed FFEL Program loans, net of allowance for subsidy, increased because of continued growth in the average amount of loans, growth in online schools, and economic hardship.

**Total Federal Student Aid Loan Portfolio for the Fiscal Years 2008–2011**  
(Dollars in Billions)



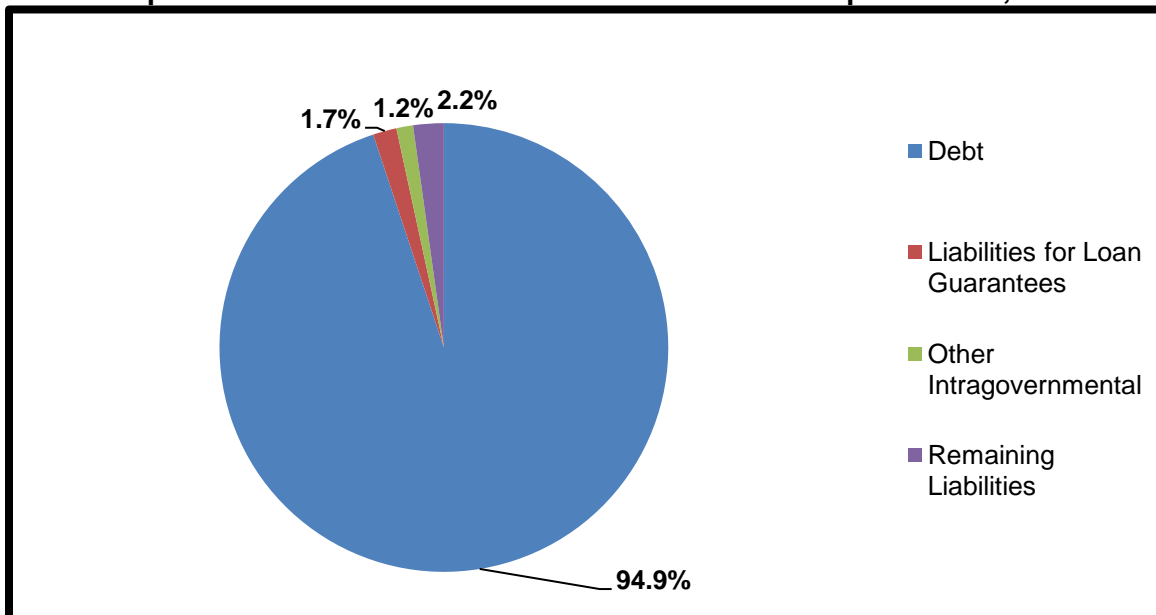




### Composition of FSA Liabilities

FSA's liabilities represent probable and measurable future outflows of resources arising from past transactions or events. As of September 30, 2011, FSA had total liabilities of \$575.7 billion, which represent an increase of \$162.0 billion over the previous year's total liabilities. The primary composition of these liabilities is FSA's Debt, Other Intragovernmental Liabilities, and its Liabilities for Loan Guarantees. The Composition of Liabilities chart depicts the significant categories of liabilities as a percentage of FSA's total liabilities. The Comparison of Liabilities chart presents a comparison of FSA's debt for Fiscal Years 2008–2011.

**Composition of Federal Student Aid Liabilities as of September 30, 2011**

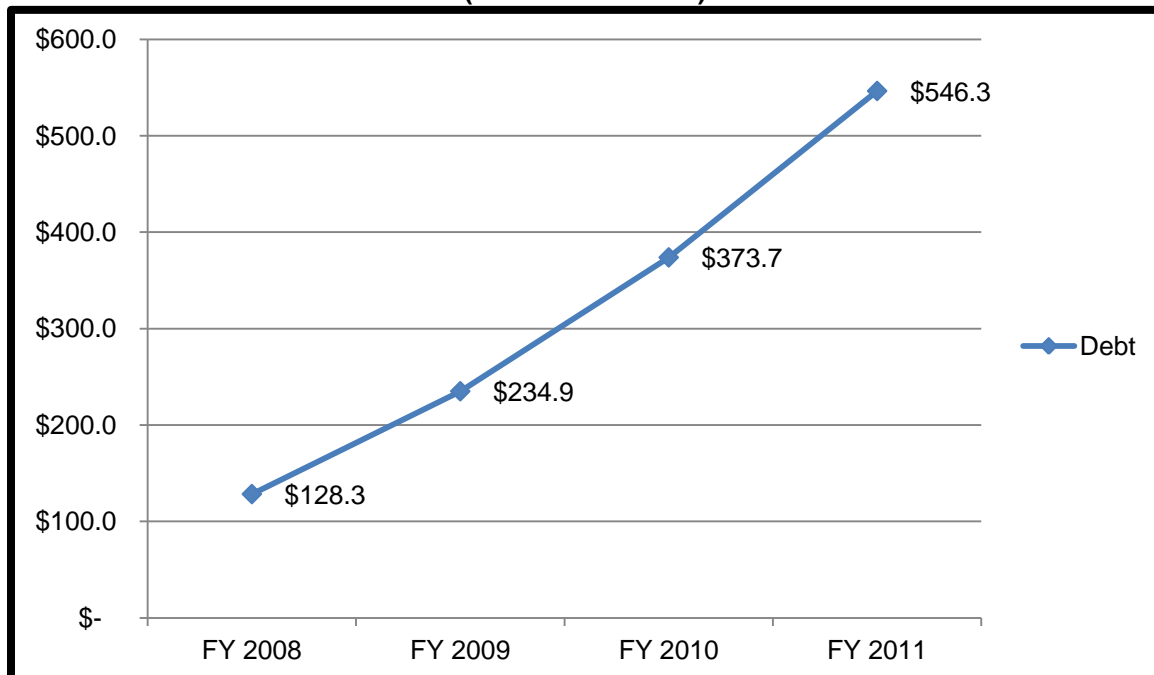


The increase in liabilities resulted primarily from an increase in Debt, Accounts Payable, and Other Intragovernmental Liabilities offset by a decrease in the Liabilities for Loan Guarantees. As can be seen from the chart above, the Debt comprises 94.9 percent of FSA's liabilities. The growth in the debt balance is illustrated in the graph below.





**Comparison of Federal Student Aid's Liabilities for Fiscal Years 2008–2011**  
(Dollars in Billions)



Debt increased 46.2 percent to \$546.3 billion primarily as a result of the new borrowings to support the growing loan volume in the Direct Loan Program. Other Intragovernmental Liabilities increased primarily as a result of the Direct Loan downward subsidy re-estimates. Net subsidy-related transactions resulted in a reduction of the Liability for Loan Guarantees.

**Statement of Net Cost**

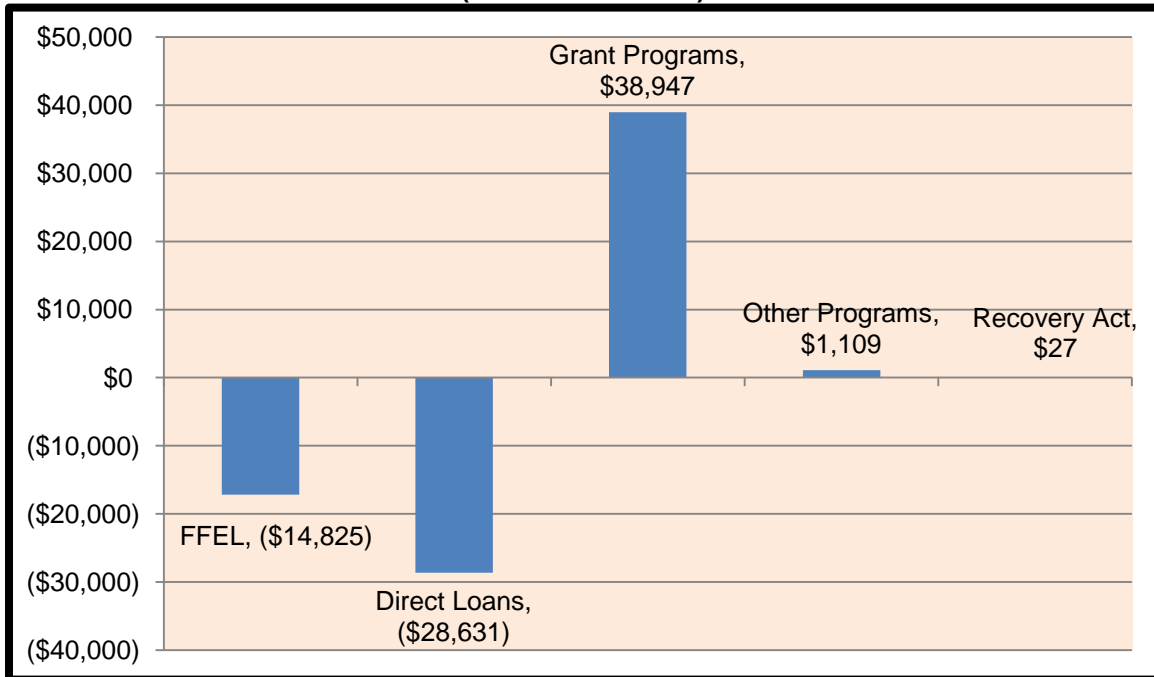
The Statement of Net Cost is the federal financial statement that presents the net cost of operations for FSA programs. FSA net cost is the gross cost incurred during its operations less any revenues earned from its activities.

Through September 30, 2011, net costs reflected a decrease of \$23.1 billion from the previous year's total net cost of \$19.7 billion. This included a significant decrease in net costs for the Direct Loan and FFEL Programs. The negative net cost amounts for FFEL and Direct Loan, as shown in the table below, are due to decreases in subsidy expenses and increase in expenses for downward subsidy re-estimates, resulting in negative gross costs. Subsidy expenses are the estimated costs of funding the Direct Loans and loan guarantees. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows. Please refer to Footnote 6, Credit Programs for Higher Education, for further details on subsidy related expenses. Additional gross costs represent the funding of grants under the Pell Grant Program and the *American Recovery and Reinvestment Act of 2009* (Recovery Act).





**Composition of FSA Net Cost  
For the Year ended September 30, 2011  
(Dollars in Millions)**



**Statement of Changes in Net Position**

The Statement of Changes in Net Position presents those amounts that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period.

FSA's net position as of September 30, 2011, was \$18.3 billion, an increase of \$7.9 billion over the previous year's total net position of \$10.4 billion. The difference is primarily due to subsidy re-estimates and the unexpended appropriations for the various programs, particularly the Direct Loan Program, FFEL Program, and Pell Grant Program.





## Statement of Budgetary Resources

The Statement of Budgetary Resources compares the budgetary resources provided with the status or execution of those resources. It also details the composition of the resources and shows the amount of net outlays. This statement shows that FSA had \$316.5 billion in combined budgetary resources, of which \$16.6 billion remained unobligated and not available.

Appropriations are available to cover the subsidy cost of each loan program and administrative expenses. Subsidy expense represents the difference between the net present value of expected future cash flows and the face value of each loan portfolio. Appropriation authority is available as needed on a permanent basis to finance costs resulting from loans guaranteed in the years before FY 1992. The Pell Grant Program receives appropriations to cover actual grant disbursements. FSA had total net outlays as of September 30, 2011, of \$161.9 billion.

There was an increase in total net outlays of \$5.7 billion comparing September 2011 to September 2010. Net outlays increased primarily as a result of the enactment of the *SAFRA Act* legislation, which stated that there would be no new originations from the FFEL program as of July 2010, resulting in a significant increase in originations from the Direct Loan Program.

Gross outlays for FSA increased \$28.4 billion comparing September 2011 to September 2010 due to increased loan originations and consolidations in the Direct Loan Program.

## Financial Management Risks

As mentioned previously, there are several financial management risks that FSA must mitigate to protect borrower and taxpayer interests. While not directly reflected on the financial statements as detailed, they are overarching risks going forward that cannot be ignored. These risks include:

**Administrative Budget:** With the passage of the *SAFRA Act*, the Congressional Budget Office estimates that the federal government will save approximately \$68 billion through FY 2020. The Congressional Budget Office also estimates that the federal government will need to spend \$6 billion over that same time period to cover the increased Direct Loan program administration cost resulting from increased Direct Loan volume. Prior to the *SAFRA Act*, the program administration costs associated with this savings were paid for through mandatory FFEL funding. Meanwhile, the federal government is under significant pressure to reduce discretionary spending. If FSA does not receive the necessary funding in the Student Aid Administration appropriation to cover this increase in administrative costs, then FSA will be at risk of not being able to maintain ongoing operations.

In addition, many of FSA's costs are driven by volume activities, such as grant/loan origination and disbursement, and loan servicing. For example, loan servicing costs are driven by the number of borrower accounts, the status of a borrower's loan(s) (e.g., In-School, Repayment, Deferment/Forbearance), and when the borrowers' loans are disbursed. Grant and loan origination and disbursement costs are driven by the number of originations and disbursements. The budgeting formulation process generally sets the initial budget for a fiscal year 18 months before the start of that fiscal year. However, even a small variation in any of FSA's volumes can significantly impact its budget. This places all other expenditures and plans associated with those expenditures at-risk. This risk must be managed as long as the





federal government pays for mandatory Direct Loan expenditures using discretionary administration funding.

**Improper Payments:** Based on OMB criteria, risk susceptible programs administered by FSA include Direct Loan Program, FFEL Program, and Pell Program. FY 2011 outlays for these programs were as follows:

- Direct Loan – \$116.1 billion
- FFEL Guaranteed - \$14.5 billion (interest and special allowance subsidies to Lenders and reinsurance claims and fees to Guaranty Agencies)
- Pell Grants - \$36.5 billion

Risks include undetected fraud, waste, and abuse. For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Improper Payments Reporting Details narrative in the Other Accompanying Information section in the Department's *Agency Financial Report (AFR)* located at <http://www.ed.gov/about/reports/annual/index.html>.

**Debt Collection:** As of September 30, 2011, the Department managed a Net Credit Program Receivable portfolio of approximately \$530.0 billion. This portfolio includes FSA's Direct Loan Program, FFEL Program (guaranteed loans held by guaranty agencies or FSA), FFEL loans acquired via authorization of the ECASLA, Federal Perkins Loans Program, and TEACH Program receivables. FSA realizes that as the size of the loan portfolio significantly grows from year to year, so does the level of financial risk associated with the collections on these loans.

Generally, a debt is considered delinquent when payment is past due 30 to 270 days. Over 270 days, the debt is considered to be in default. FSA monitors the aging of its portfolio debt, takes action to rehabilitate defaulted borrowers, and provides incentives to its partners (i.e., schools and servicers) to reduce the number of defaulted borrowers. For more details, please see the discussion of Performance Goal D.2 in the *Annual Performance Report* section of this *Annual Report*.

In its *FY 2012–FY 2016 Strategic Plan*, FSA is preparing a new metric, the overall Collection Rate, to better analyze all collections for the loan portfolio, including receivables that are defaulted and delinquent, as well as those that are in repayment. This new metric will provide a broader measurement of the status of FSA's collection activities and the supporting breakout of that Collection Rate will ensure the comprehensive management of all debt collection activities.

**Guaranteed Loan Portfolio:** As of September 30, 2011, the guaranteed loan portfolio (non-ECASLA FFEL) consisted of \$327.6 billion owned by private lenders and \$32.3 billion held by FSA (unassigned serviced by guaranty agencies or assigned serviced by FSA). As of September 30, 2011, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately \$320.7 billion. In addition to the exposure of the guarantee, FSA makes special allowance payments to private lenders and





reinsurance claims and fees to guaranty agencies. The *SAFRA Act* eliminated the origination of guaranteed FFEL loans as of July 1, 2010 and required a transition to 100 percent Direct Loans. Although the origination of guaranteed FFEL loans has ceased, FSA needs to ensure the infrastructure (i.e., participating organizations, processes, internal controls, and systems) remains fully operational through the remaining life of the existing guaranteed FFEL loan portfolio. Failure to maintain adequate infrastructure may prevent appropriate management of guarantees and loan portfolio, resulting in loss of government assets and income.





## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures that are used to meet the organization's missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets, and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- Effectiveness and efficiency of operations, including the use of the entity's resources;
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and
- Compliance with applicable laws and regulations.<sup>4</sup>

FSA management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982*. FSA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of its operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this assessment, FSA reported to the Department's management that its internal control over the effectiveness and efficiency of its operations and compliance with applicable laws and regulations, as of September 30, 2011, were operating effectively.

In addition, FSA, working with the Department's management, conducted its current year 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 OMB Circular A-123, *Management's Responsibility for Internal Control*. The scope of FSA's assessment included the following processes that impact the Department's financial statements:

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<sup>4</sup> Government Accountability Office Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999, p. 4-5.





- Total and Permanent Disability (TPD).
- Debt Collection.
- Direct Loan Program Operations.
- Direct Loan Consolidation.
- Direct Loan Servicing.
- Title IV Additional Servicers (TIVAS).
- Financial Partner Invoicing.
- Financial Partner Oversight.
- Financial Reporting.
- Funds Control Management.
- IT/General Computer Controls, Financial Management System, COD, Direct Loan Consolidation System, Direct Loan Servicing System, Debt Management and Collection System, National Student Loan Data System (NSLDS), Central Processing System (CPS), Electronic Campus Based System, Postsecondary Education Participant System, Financial Partner Data Mart , Great Lakes Commercial System, Nelnet Commercial System, Pennsylvania Higher Education Assistance Agency Commercial System, Sallie Mae Commercial System, Virtual Data Center.
- Pell Grant Program Operations.
- Campus-based Grant Program Operations.
- TEACH Grant Program Operations.
- Annual Form 2000 Processing/Operations Performance Management Division.
- Procurement Management.
- Human Resource Management.
- School Eligibility Services Group.
- Student Eligibility.

Based on the results of this evaluation, FSA provided reasonable assurance to the Department's management that its internal control over financial reporting as of June 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

FSA's participation in the Department's successful implementation of the requirements of OMB Circular A-123, Appendix A, enables it to continue to build upon its internal control framework. This framework will be used in continuing efforts to monitor and improve internal control.

Please refer to the Department's *AFR* for information related to the Department's compliance with the *Federal Financial Management Improvement Act of 1996*.

FSA's financial management systems strategy is formulated and managed as part of the Department's strategy. For details on FSA's financial management systems strategy, please refer to the Financial Management Systems Strategy narrative found in the Management's Discussion and Analysis section of the Department's *AFR* located at <http://www2.ed.gov/about/reports/annual/index.html>.







## **LIMITATIONS OF FINANCIAL STATEMENTS**

Management has prepared the accompanying financial statements to report the financial position and operational results for FSA, for FY 2011 and FY 2010 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 FSA 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 for FSA, 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.





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# ANNUAL PERFORMANCE REPORT
















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## FY 2011 Performance Highlights of Federal Student Aid

Performance Goals	FY 2011 Target	FY 2011 Actual	Result	Reference Page
<b>Strategic Goal A: Provide superior service and information to students and borrowers.</b>				
% of original FAFSA filers among high school seniors	>=49.5%	52.0%	<b>Met</b> 	<a href="#">49</a>
% of original FAFSA filers among workforce aged 25+ without college degree	>=3.9%	3.8%	<b>Not Met</b> 	<a href="#">50</a>
% of original filers among low-income students	TBD	57.0%	<b>No target</b> 	<a href="#">51</a>
% of students who dropped out due to financial reasons	TBD	—	<b>N/A</b> 	<a href="#">52</a>
Customer satisfaction score (ASCI) for the entire aid lifecycle	74	78	<b>Met</b> 	<a href="#">53</a>
<b>Strategic Goal B: Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.</b>				
“Ease of doing business with FSA” survey result from schools.	Launch survey	Survey launched	<b>Met</b> 	<a href="#">54</a>
Additional metric to measure impact of improvements under development (to be established in 2011)  Additional metric established the following: Borrower based delinquency rate	TBD	9.9%	<b>No target</b> 	<a href="#">55</a>
<b>Strategic Goal C: Develop efficient processes and effective capabilities that are among the best in the public and private sectors.</b>				
Aid delivery-related cost per application	TBD	\$9.89	<b>No target</b> 	<a href="#">56</a>
Loan servicing-related cost per borrower serviced	TBD	\$18.15	<b>No target</b> 	<a href="#">57</a>
Additional metric to measure improvement in cost structures under development (to be established in 2011)  Note: No additional metrics were established during 2011.	TBD	—	<b>N/A</b> 	<a href="#">58</a>
<b>Strategic Goal D: Ensure program integrity and safeguard taxpayers’ interests.</b>				
Delinquency rate	<=8.8%	—	<b>N/A</b> 	<a href="#">59</a>
Default rate	<=12.3%	11.3%	<b>Met</b> 	<a href="#">60</a>
<b>Strategic Goal E: Develop FSA’s performance culture and become one of the best places to work in the federal government.</b>				
Best Places to Work in the Federal Government ranking	180 <sup>th</sup>	—	<b>N/A</b> 	<a href="#">61</a>





## INTRODUCTION TO THE *ANNUAL PERFORMANCE REPORT*

To guide FSA towards achieving its vision “To be the most trusted and reliable source of student financial aid, information, and services in the nation”, FSA updated its five-year strategic plan to document the Strategic Goals, Objectives, and Performance Goals of the organization. FSA is required by the PBO enabling legislation to report annually its level of performance. This section, the *Annual Performance Report*, satisfies this annual reporting requirement.

In addition to this section, see the following portions of this document for additional performance related information:

- **Management’s Discussion and Analysis:** See the Management’s Discussion and Analysis section of this document for a more complete discussion of FSA’s mission, organization, and performance management, including performance management processes and summary of results.
- **Appendix A:** See appendix A of this document for the Strategic Objectives and Performance Metrics that were in effect for the FY 2010 reporting period that are discontinued for the FY 2011 reporting period due to the implementation of the *FSA Strategic Plan FY 2011–15*.

FSA’s updated *Strategic Plan FY 2011–15* was issued in September 2010 and implemented at the beginning of FY 2011. FSA’s Strategic Goals for FY 2011 are as follows:

- **Strategic Goal A:** Provide superior service and information to students and borrowers
- **Strategic Goal B:** Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery
- **Strategic Goal C:** Develop efficient processes and effective capabilities that are among the best in the public and private sectors
- **Strategic Goal D:** Ensure program integrity and safeguard taxpayers’ interests
- **Strategic Goal E:** Develop FSA’s performance culture and become one of the best places to work in the federal government

To gauge FSA’s success with meeting these Strategic Goals, FSA identified and included 13 Performance Goals in its *Strategic Plan*. The following is a link to the *FSA Strategic Plan FY 2011–15*.

<http://www2.ed.gov/about/offices/list/fsa/fiveyearplan.pdf>





The following table provides a summary of results, by Strategic Goal, as measured by the 13 FY 2011 Performance Goals.

### Summary of Performance Results by Strategic Goal

Strategic Goal	Met	Not met	No target	N/A	Total
<b>Goal A:</b> Provide superior service and information to students and borrowers.	2	1	1	1	5
<b>Goal B:</b> Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.	1	—	1	—	2
<b>Goal C:</b> Develop efficient processes and effective capabilities that are among the best in the public and private sectors.	—	—	2	1	3
<b>Goal D:</b> Ensure program integrity and safeguard taxpayers' interests.	1	—	—	1	2
<b>Goal E:</b> Develop FSA's performance culture and become one of the best places to work in the federal government.	—	—	—	1	1
<b>Total</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>13</b>





## PERFORMANCE RESULTS BY STRATEGIC GOAL





This section presents detailed performance results including a discussion of progress made to date in achieving the Strategic Goal and data used to assess performance.

### How this section is organized

This section is organized by the five Strategic Goals then associated Performance Goal(s). This section contains the following information for each Performance Goal:

**Table:** Identifies the Performance Goal associated with the Strategic Goal and provides historical actual results for the four previous fiscal years (if available), target and actual result for the current fiscal year, and an indicator as to whether FSA met the Performance Goal for each fiscal year reported. The following is the legend for the performance result indicator included in the table.

### Performance Result Indicator Legend

Performance result met or exceeded the target.	<b>Met</b> 
Performance result did not meet the target.	<b>Not met</b> 
Performance goal was tracked, but no target was established.	<b>No target</b> 
Performance result is not applicable because the performance goal was not developed, the performance goal was not implemented, or the required data were not available in time for inclusion.	<b>N/A</b> 

Historical actual results are not available for the Performance Goals newly developed and implemented for FY 2011 (i.e., performance goals not carried forward from the prior five-year strategic plan).

The Performance Goal results reported are as of fiscal year-end (i.e., September 30, 2011) unless otherwise noted. If the required data aren't available as of fiscal year-end in sufficient time for inclusion, data as of the most recent reporting period available are presented. Data as of fiscal year-end may not be available, since some required data are obtained from external sources (i.e., state guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

**Target Context:** Explains the parameters or rationale for targets, especially where anomalies exist.

**Analysis of Progress:** Provides a discussion of FSA's progress in meeting its targets and includes explanations for unmet targets and actions being taken or planned.

**Data Quality and Limitations:** Describes the source of data required to calculate the actual result for the performance goal, any calculation required to determine the actual result, and any





known data quality issues or limitations. For an overview of FSA's business process to confirm the quality of performance data, please see Quality of Performance Data in the Management's Discussion and Analysis section of this *Annual Report*.





**Strategic Goal A: Provide superior service and information to students and borrowers.****Performance Goal A.1: % of original FAFSA filers among high school seniors**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				>=49.5%	52.0%
Performance Result					Met	

**Target Context:**

A major component of FSA's mission is to ensure that all eligible individuals benefit from federal student aid. In order to achieve this goal, FSA goes to great lengths to increase awareness about the availability of student financial assistance. To better assess its customers and their needs and to better support college access and completion among its customer base, FSA is developing a system of customer segmentation that identifies student/family/influencer profiles and needs through the analysis of customer geographic, demographic, and behavioral data. This performance goal measures the penetration of FAFSA applications for one customer segment, high school seniors.

**Analysis of Progress:**

FSA exceeded this performance goal with approximately 52 percent of high school seniors from June 2010 submitting a FAFSA during the 2010–2011 application cycle. Since 2010, FSA and the Department have undertaken several efforts which have encouraged or made it easier for students traditionally underrepresented in postsecondary education to apply for aid. This includes a pilot program in which the Department provided FAFSA completion data to 20 entities. Entities were located across the country and included administrators from state institutions of higher education, local educational agencies, and postsecondary schools. The data provided enabled these entities, as part of their comprehensive college and career readiness strategy, to focus resources on reaching students who have not completed a FAFSA. In the future, the Department proposes to expand this program to an additional 100 entities. In addition, FSA developed and implemented the FAFSA Completion Cities Program. Under this program, FSA collaborated with key stakeholders in several cities to sponsor FAFSA completion events. FSA will expand this program to include additional cities in 2012 and beyond.


**Data Quality and Limitations:**

Data for this measure are derived from FSA's CPS to identify FAFSA filers ages 18 and under submitting an original application for an award year (not a renewal application) and who indicate they never attended college, divided by the total number of high school graduates from the most recent high school academic year reported by the National Center for Education Statistics (NCES).





**Performance Goal A.2: % of original FAFSA filers among workforce aged 25+ without college degree**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				>=3.9%	3.8%
Performance Result					Not met 	

**Target Context:**

The economy and job market require that more workers than ever develop skills and master knowledge beyond the high school level. Although progress has been made over the years to increase participation and graduation levels for all individuals, work needs to continue to address the gap for nontraditional students. Increasing completion rates and the number of graduates is a priority of this administration, as evidenced by the President's 2020 goal for America to have the highest proportion of college graduates in the world. This performance goal measures the penetration of FAFSA applications for another customer segment, individuals aged 25 and over.

**Analysis of Progress:**


FSA fell slightly short of this performance goal with approximately 3.8 percent of the workforce over 25 years of age, who have never attend college before, submitting a FAFSA during the 2010–11 application cycle. The targeting of this measure may have been overly optimistic as the 2009–10 cycle applicants were relied upon heavily to set the baseline. Unemployment peaked in October 2009 and many in this group may have enrolled in education programs to obtain additional skills. FSA will continue its efforts to understand its customers and their needs to better support college access and completion, which may result in FSA revising the target for this performance goal.

**Data Quality and Limitations:**

Data for this measure are derived from FSA's CPS to identify FAFSA filers ages 25 and over submitting an original application for an award year (not a renewal application) and who indicate they never attended college, divided by the total number of people in the workforce age 25 and older who have not attended college as of the most current Bureau of Labor Statistics Workforce data.



**Performance Goal A.3: % of original filers among low-income students**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				TBD	57.0%
Performance Result					No target 	

**Target Context:**

Increasing completion rates and the number of graduates is a priority of this Administration, as evidenced by the President's 2020 goal for America to have the highest proportion of college graduates in the world. Although progress has been made over the years to increase participation and graduation levels for all individuals, work needs to continue to address the gap for low-income students. This performance goal measures the penetration of FAFSA applications for a third customer segment, low-income students. As this is the first year for this performance goal, FSA did not establish a FY 2011 target.

**Analysis of Progress:**

No target was set for this performance goal last year because it was agreed that FSA would identify data sources and data definitions during FY 2011. The FY 2011 actual percentage will serve as the baseline for FY 2012.

**Data Quality and Limitations:**

Data for this measure are derived from FSA's CPS to identify FAFSA filers ages 18 and under submitting an original application for an award year (not a renewal application) and who indicate they never attended college and who are from households with incomes that are less than 150 percent of the Poverty Level established by the Department of Health and Human Services, divided by the total number of high school graduates from households with incomes that are less than 150 percent of the Poverty Level as reported by the most recent School Enrollment Supplement, Current Population Survey.



**Performance Goal A.4: % of students who dropped out due to financial reasons**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				TBD	—
Performance Result					N/A	

**Target Context:**

This performance goal was not implemented because the Department has no solid sources of information. NCES eliminated questions from the Beginning Postsecondary Students Longitudinal Study related to the reasons a student dropped out, because they thought that information obtained through student recall without validating against a “trigger event” like a job loss or other income change, was statistically suspect. NCES is currently evaluating alternative methodologies to obtain dropout information and hopes to have a plan in the near future. FSA currently lacks resources to do this on its own, but when the information becomes available and reported on a regular basis, FSA will consider including this performance goal in its strategic plan. As this is the first year for this performance goal, no FY 2011 target was established

**Analysis of Progress:**

Not applicable, since this performance goal was not implemented for FY 2011.

**Data Quality and Limitations:**

Not applicable, since this performance goal was not implemented for FY 2011.



**Performance Goal A.5: Customer satisfaction score (ACSI) for the entire aid lifecycle**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				74	78
Performance Result					Met	

**Target Context:**

To measure overall customer satisfaction level throughout the student aid lifecycle, FSA calculates a weighted score for the American Customer Satisfaction Index (ACSI) surveys for applicants, students in school, and borrowers in repayment. This performance goal measures how FSA is improving in terms of streamlined processes for customer interaction and the accessibility of information FSA provides to its customers on its websites.

**Analysis of Progress:**

FSA exceeded the target for this goal. FSA's FAFSA simplification efforts have improved an applicant's ability to successfully navigate and complete the application. A customized experience reduces the number of questions applicants and their parents must answer. The availability and increased use of the Internal Revenue Service (IRS) Data Retrieval Tool make it easier for applicants and their parents to provide financial information and increases the accuracy of the information provided.

**Data Quality and Limitations:**

The ACSI survey is conducted annually on FSA's major programs. The index provides a national, cross-industry, cross-public and cross-private sector economic indicator, using widely accepted methodologies to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The ACSI scores for application, in school experience, and servicing are weighted by the utilization of each process/service and the intensity of the service provided. The FSA weighted score of 78 is higher than the National Average overall ACSI score of 75.6.





**Strategic Goal B: Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.**

**Performance Goal B.1: “Ease of doing business with FSA” survey result from schools**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				Launch survey	Survey launched
Performance Result					Met	

**Target Context:**

FSA works closely with postsecondary institutions to provide millions of students with federal student aid. Successfully delivering aid through a complex system depends on FSA’s ability to work well with its institutional, financial, and state partners to support them with technical assistance that will help them improve their performance and to provide adequate oversight to ensure that participants are complying with program requirements. To ensure that all participants in the postsecondary education funding system can easily access the information they need to perform their important functions and serve the interests of students, FSA conducts a survey with postsecondary institutions and partners every quarter to gauge the “ease of doing business with FSA.” As this is the first year for this survey, the FY 2011 target is to launch the survey.

**Analysis of Progress:**

FSA launched this quarterly survey mid-FY 2011. Based upon survey results for the two quarters completed, FSA achieved a score of 72. FSA’s FY 2011 score will serve as the baseline for FY 2012. To understand this baseline, FSA conducted a preliminary analysis of survey responses received.

**Data Quality and Limitations:**


A 10-12 question survey regarding the ease of doing business with FSA is sent to schools quarterly. Questions focus on how easy it is to interact with major delivery and information systems. The 1-10 score is indexed to a scale of 1-100 for consistency with other customer satisfaction metrics and to allow greater accuracy in significance testing.





**Performance Goal B.2: Additional metric to measure impact of improvements under development (to be established in 2011)**

**Additional metric established the following: Borrower based delinquency rate**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
<b>Performance</b>	<b>New performance measure (Prior-year data not available)</b>				TBD	9.9%
<b>Performance Result</b>					<b>No target</b> 	

**Target Context:**

FSA studied other possible ways to measure the extent to which postsecondary institutions and partners are actively supporting the interest of students and borrowers. As a result, FSA developed a new delinquency metric as Performance Goal B.2: the percent of borrowers serviced by four TIVAS who are greater than 90 days delinquent. Currently, TIVAS service over 22 million borrower accounts, including Direct Loans and Department-held FFEL loans. TIVAS can best serve the interest of borrowers by helping them cure delinquencies, especially the severely delinquent loans that have a greater likelihood of going into default and tarnishing borrowers' credit. As this is the first year for this performance goal, no FY 2011 target was established.

**Analysis of Progress:**

The FY 2011 actual will serve as the baseline for FY 2012.

**Data Quality and Limitations:**

FSA calculates the average number of borrowers who are 91-270 days delinquent in the year ending June 30 each year and divides this number by the average number of borrowers in repayment for the year. Borrower-based data are collected from TIVAS invoices.





**Strategic Goal C: Develop efficient processes and effective capabilities that are among the best in the public and private sectors.**

**Performance Goal C.1: Aid delivery-related cost per application**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				TBD	\$9.89
Performance Result					No target	

**Target Context:**

In FY 2011, the Department developed two measures to gauge the efficiency and effectiveness of aid delivery. The first one is the Aid delivery-related cost per application. Throughout FY 2011, FSA continued to improve aid delivery by automating and simplifying the aid delivery processes, such as the FAFSA simplification efforts that have improved an applicant's ability to successfully navigate and complete the application. The aid delivery-related unit cost tracks the impact of these improvements on the overall costs for application and origination operations. As this is the first year for this performance goal, no FY 2011 target was established.

**Analysis of Progress:**

The unit cost reflects a rolling four quarters (FY 2010/Quarter 4 – FY 2011/Quarter 3) time period because full year FY 2011 unit costs are not available until the December-January timeframe. This is the first time such a period has been calculated so prior year data are not available. FAFSA and origination unit costs have generally been trending downward the past few years. The aid delivery-related cost per application is expected to rise as volumes plateau due to the maturation of the FAFSA simplification operations and maintenance processes.


**Data Quality and Limitations:**

Data for this measure are derived from FSA's Activity Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model. Specifically, the measure is defined as the total direct cost to process FAFSAs and to originate aid in the year ending June 30, divided by the number of original FAFSAs processed in the year ending June 30. The number of original FAFSAs does not include resubmissions or revisions. However, an applicant will have more than one FAFSA, if the applicant applied for aid for more than one award year during the year ending June 30.





**Performance Goal C.2: Loan servicing-related cost per borrower serviced**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				TBD	\$18.15
Performance Result					No target 	

**Target Context:**

The second measure developed to gauge the efficiency and effectiveness of aid delivery is the Loan servicing-related cost per borrower. This unit cost tracks the overall costs of loan servicing operations and maintenance, including labor, nonlabor, and contracts. As this is the first year for this performance goal, no FY 2011 target was established.

**Analysis of Progress:**

The loan servicing unit cost reflects a rolling four quarters (FY 2010/Quarter 4 – FY 2011/Quarter 3) time period because full year FY 2011 unit costs are not available until the December-January timeframe. This is the first time such a period has been calculated so prior year data are not available. While the loan servicing unit cost has generally been trending downward in recent years, FSA expects loan servicing cost to increase over the next several years due to the inclusion of new not-for-profit (NFP) servicers, which have higher cost structures. Also, FSA expects the maturation of its loan portfolio to increase loan servicing cost. Specifically, FSA expects the proportion of borrowers that enter repayment to increase over the next few years. Based upon the fee structure of FSA's contracts with loan servicers, fees for servicing loans in repayment, as opposed to loans for borrowers in-school, are greater. Therefore, this expected increase in loans in repayment will increase FSA's servicing costs.

**Data Quality and Limitations:**

Data for this measure are derived from FSA's Activity Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model. Specifically, the measure is defined as the total direct costs for servicing in the year ending June 30, divided by the average number of borrowers in servicing for the year. This differs slightly from the proposed calculation in the strategic plan where the administrative cost of default collections and borrowers in default status were included.





**Performance Goal C.3: Additional metric to measure improvement in cost structures under development (to be established in 2011)**

**Note: No additional metrics were established in FY 2011.**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				TBD	—
Performance Result					N/A	

**Target Context:**

This additional performance goal was not developed and implemented because changes to cost structures (fixed and variable costs) are internal tools that help FSA understand its costs and drive changes. These costs are difficult to describe and use and would not be suitable for outside consumption. A better performance goal is to focus on unit costs (Performance Goals C.1 and C.2) to measure efficiency and productivity gains.

**Analysis of Progress:**

Not applicable, since an additional performance goal was not developed and implemented for FY 2011.

**Data Quality and Limitations:**

Not applicable, since an additional performance goal was not developed and implemented for FY 2011.





**Strategic Goal D: Ensure program integrity and safeguard taxpayers' interests.**

**Performance Goal D.1: Delinquency rate**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				<=8.8%	—
Performance Result					N/A	

**Target Context:**

This Performance Goal was not implemented because delinquency rates vary by stage of delinquency, and at the overall level, delinquency rates are not a good leading indicator of default (taxpayer cost) as borrowers can go in and out of delinquency very easily, especially in the early stages of repayment. FSA has identified two additional Performance Goals for Strategic Goal D in FY 2012: improper payments rate and collections rate. FSA is currently performing an analysis to better define the Performance Goals and baseline targets.

**Analysis of Progress:**


Not applicable, since this performance goal was not implemented for FY 2011.

**Data Quality and Limitations:**

Not applicable, since this performance goal was not implemented for FY 2011.



**Performance Goal D.2: Default rate**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				<=12.3%	11.3%
Performance Result					Met 	

**Target Context:**

Because FSA annually disburses almost \$157.0 billion in aid and administers a loan portfolio valued at almost \$848.0 billion, the responsibility to safeguard taxpayer resources requires accurate oversight and management. One indication of FSA's performance in this area is the rate at which borrowers default on their student loans.

**Analysis of Progress:**

FSA exceeded the target for this performance goal. FSA is committed to avoiding borrower default as evidenced by its support for participating schools and its creation of incentives for loan servicers. For instance, FSA assists schools with their efforts to educate students about their loan repayment obligation, encourages successful repayment, and addresses delinquent repayment when it occurs. Also, FSA maintains a website that consolidates resources available for schools to assist with preventing delinquency and default. Resources include useful guidance, available training, and a list of contacts.

To incentivize its loan servicers, FSA established performance-based servicing contracts for the TIVAS. The contract terms foster improved performance by requiring vendors to compete for additional loan volume allocations. Each quarter, borrowers, schools, and Department employees are surveyed. Each vendor's success in avoiding defaults is also measured on a quarterly basis. The results of these assessments are compiled annually and are used to determine the allocation of new borrower accounts for the coming year. In addition to this allocation methodology, the TIVAS contract fee schedule provides for a higher per borrower servicing fee paid by FSA for borrowers in a non-delinquent status. These contract terms encourage TIVAS to promote positive student loan repayment behavior.

**Data Quality and Limitations:**

The default rate for this goal is defined as the average balance of loans that are 270 days or more past due and serviced by FSA or its debt collection servicer in the year ending June 30 each year, divided by the average balance of loans serviced by FSA at the end of the year (excluding loans in "school" or "grace" loan status).





**Strategic Goal E: Develop FSA's performance culture and become one of the best places to work in the federal government.**

**Performance Goal E.1: Best Places to Work in the Federal Government ranking.**

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	New performance measure (Prior-year data not available)				180th	—
Performance Result					N/A	

**Target Context:**

This measure aims to improve FSA's ranking in the *Best Places to Work in the Federal Government* as determined by the Partnership for Public Service. This ranking is based on the composite score of the Employee Viewpoint Survey conducted by Office of Personnel Management and is a good indicator to measure the change in performance culture.

**Analysis of Progress:**

The FY 2011 Actual performance level was not available in time for inclusion in this *Annual Report*. Although the Office of Personnel Management released the survey results on September 29, 2011, the Partnership for Public Service, who determines the ranking, will not publish its rankings until after the due date (November 15, 2011) of this *Annual Report*. Therefore, the actual ranking will be reported in the FY 2012 *Annual Report*. Also, FSA plans to replace this Performance Goal in FY 2012 with a Morale Index, an average of a subset of seven survey questions, a more focused measure that may more easily be impacted by internal FSA actions.

**Data Quality:**

The Federal Employee Viewpoint Survey is a tool that measures employees' perceptions of whether and to what extent conditions that characterize successful organizations are present in their agencies. The results set a baseline for ongoing human capital assessment in the federal government. The results of this survey are the basis for the "*Best Places to Work in the Federal Government*" ranking published by the Partnership for Public Service.





## FY 2011 ACCOMPLISHMENTS OF FEDERAL STUDENT AID

During FY 2011, FSA realized additional accomplishments that were not specifically measured by the Performance Goals implemented to measure performance against FSA's Strategic Plan. Although not measured by FSA Performance Goals, these additional accomplishments were the result of initiatives FSA undertook to support the implementation of this Strategic Plan or legislative changes. This section describes FSA's additional accomplishments.

### **FSA realized the following additional accomplishments in support of Strategic Goal**

**A:** *Provide superior service and information to students and borrowers.*

#### **Internal Revenue Service Data Retrieval Tool**

FSA continues to improve and simplify the FAFSA. Most recently, applicants now have the option to retrieve tax data directly from the IRS and transfer it directly to the FAFSA on the Web application. This tool was first available for the 2010–11 academic year from September 2010–June 2011 and approximately 933,000 users transferred IRS information into their FAFSA. For the 2011–12 academic year, the tool became available on January 30, 2011, and approximately 4 million users have already transferred IRS information into their FAFSA. This improvement, along with others, resulted in a nine minute decrease in the average time it takes a student to complete the online FAFSA. Future FAFSA simplification plans include developing a more customized interaction with the IRS Data Retrieval Tool to facilitate an even higher usage rate and to provide more accurate data for determining eligibility for Title IV aid, thereby reducing improper payments in the Pell Grant program. This accomplishment also supports Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests*

#### **Consolidated Websites**

In order to streamline service delivery and improve customer service, FSA began consolidating websites as part of the Integrated Student View project. The Integrated Student View project includes a review of more than 14 websites and aims to reduce the number of websites to make it easier for users of FSA websites to find information. The effort began with the retirement of the [Students.gov](http://Students.gov) website. Visitors to that site are automatically redirected to [Student Aid on the Web](http://Student Aid on the Web) and are also provided links to [USA.gov](http://USA.gov), [CareerOneStop.org](http://CareerOneStop.org), and [Student Jobs.gov](http://Student Jobs.gov) that were the most frequently visited sites from [Students.gov](http://Students.gov). Consolidating the content of FSA websites will improve discoverability (through better search, grouping of content based on audience needs, and consistent navigation) and provide more consistent and authoritative content.

### **FSA realized the following additional accomplishments in support of Strategic Goal**

**C:** *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

#### **Direct Loan Implementation**

With the enactment of the *SAFRA Act*, no new loans were originated under the FFEL Program beginning in July 2010. This transition from the FFEL Program to the Direct Loan Program resulted in a 44 percent increase in Direct Loan Program disbursements for FY





2011. To support this transition, FSA had to increase its loan origination and servicing capacities. During FY 2010, FSA successfully oversaw the capacity expansion of the COD system to accommodate the increased volume of Direct Loan originations. To obtain the necessary loan servicing capacity, FSA leveraged its existing contract with the TIVAS. The TIVAS contract was awarded in June 2009 to four loan servicers. Initially, the TIVAS serviced FFEL Program loans purchased by the Department under the authority granted to the Secretary by ECASLA. With the 2010–11 award year, FSA implemented the COD functionality to send Direct Loans originated by schools to the TIVAS for servicing. In addition to the TIVAS contract, FSA maintains a loan servicing contract with a legacy loan servicer. Collectively, these five servicers currently service over 22 million borrower accounts, including borrowers with Direct Loans and Department-held FFEL Program loans. The OIG performed a review of FSA's efforts to prepare for this transition. Specifically, their review included assessing "FSA's efforts in 1) executing appropriate modifications to the COD contract given the anticipated increase in Direct Loan volume; 2) providing technical assistance to impacted schools, and 3) preparing contingency plans if the COD system cannot effectively handle the increased loan volume, especially during the peak loan origination period."<sup>5</sup> With respect to their scope, the OIG "...found FSA took actions intended to ensure the effective processing of student loans as a result of the 100 percent transition to the Direct Loan program."<sup>6</sup> The full report is located on the OIG's website and can be found at the following link:

<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2010/x19k0008.pdf>.

### **Not-For-Profit Servicers**

As stipulated in the *SAFRA Act*, the Department initiated the solicitation to acquire loan servicing services from NFP servicers. As a result, FSA entered into memoranda of understanding with entities representing over 20 NFP servicers. Currently, the Department plans to implement these eligible NFP servicers on a rolling basis during FY 2012 and FY 2013. These NFP servicers will service both Direct Loans and Department held FFEL loans. Qualified NFP servicers must be implemented no later than July 1, 2014.

### **Enterprise Strategic Acquisition Plan**

In FY 2011, FSA launched the Enterprise Strategic Acquisition Project, which includes two components: analysis of FSA's contracts and survey of best practices. Specifically, FSA's acquisitions team performed an assessment of the current acquisition environment to ensure effective and efficient utilization of FSA's many contracts and completed a review of acquisition best practices. Based on the results of this assessment and best practices review, FSA will develop a new acquisitions model that will document how the organization can best use contract resources to help reach its vision. The implementation plan will also outline how acquisitions can help FSA fulfill the recommendations resulting from business process re-engineering as well as the technology needs articulated in its Target State Vision. FSA's Target State Vision is a business-driven, strategic, IT roadmap that aligns with the organization's overall enterprise strategy.

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<sup>5</sup> U.S. Department of Education, Office of Inspector General, *FINAL MANAGEMENT INFORMATION REPORT - Subject: Federal Student Aid's Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program (Control Number ED-OIG/X19K0008)*, September 16, 2010, 1.

<sup>6</sup> *Ibid*, 3.





### **Lifecycle Management Methodology**

This year, FSA began implementation of Lifecycle Management Methodology (LMM), a project management methodology to ensure proper and consistent planning and execution of FSA's projects by utilizing a core set of project management, acquisition, and technical system tools and templates that are designed to guide project managers through the seven LMM stages. All new projects with an IT component are expected to adhere to the requirements of LMM. LMM can be tailored for a specific project based on such risk factors as scope and complexity, routine versus non-routine projects, project duration and cost, criticality, procurement needs, contract type and resources. The LMM Integrated Project Team, working with subject matter experts, has collected templates, examples, and guidance to assist teams in developing project documents to address project risks in a consistent manner. In December 2010, the Technology and Performance Management Offices formed the LMM Integrated Project Team to work with teams piloting LMM. Ten of FSA's major IT projects were included in the pilot, including Integrated Partner Management, NSLDS, and FAFSA.

### **Realized Cost Avoidances, Cost Savings, and Increased Collections**

Through contract renegotiations and improved debt management techniques, FSA realized cost avoidances, cost savings, and increased collections of over \$18 million in FY 2011. Below are some examples of the efforts that produced the cost avoidances, cost savings, and increased collections:

- \$9.7 million more was collected from defaulted loans by expanding the Treasury Offset Program matching process to identify and match on alias names.
- \$8.3 million of development work was negotiated at no cost to the government for the replacement of the Debt Management Collection System.
- \$0.6 million of contractor labor was reduced by restructuring the Financial Partner Data Mart contract.

Additional contract renegotiations are currently under way, which will impact FY 2012 through FY 2014. These include loan servicing and Debt Management and Collection System renegotiations that are expected to result in overall cost reductions of almost \$14 million.

**FSA realized the following additional accomplishments in support of Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.***

#### **Two-Factor Authentication**

FSA handles critical personally identifiable information for millions of student aid recipients. The challenge is to protect personally identifiable information while also improving accessibility to appropriate information. FSA began upgrading its IT security with the implementation of Two-Factor Authentication. This combines something the user knows (such as a username and password) with something that the user has (i.e., a credential such as a token or card). This will greatly strengthen FSA data security while helping to reduce the complexity of verifying online identities and transactions for employees, customers, and partners. It is delivered as a secure network infrastructure (cloud-based). Over 1,000 tokens were distributed to FSA employees which are used to remotely access FSA systems. In addition, vendors are under contract for system modifications to COD,







NSLDS, CPS, Access and Identity Management System Project Management, and the Student Aid Internet Gateway. When fully implemented, these system modifications will enable the unique identification of all authorized users accessing FSA systems. Two-Factor Authentication will improve FSA's overall security posture by reducing the threat of intrusion from malicious activities such as key loggers. This initiative is global, encompassing over 60,000 users at postsecondary and financial institutions. This accomplishment also supports Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

### **Gainful Employment Regulations**

Regulations under the HEA were established in the fall of 2010 and the summer of 2011 related to the statutory requirement that some educational programs, including virtually all non-degree programs at non-profit and public institutions and virtually all programs at for-profit institutions, must lead to gainful employment in a recognized occupation. Metrics developed to measure gainful employment include the borrower repayment rate and two debt to earnings ratios – the earnings rate and the discretionary income rate. FSA, in coordination with its counterparts in the Office of the Under Secretary, Office of Postsecondary Education, and Office of the General Counsel, have taken steps to implement the regulations pertaining to gainful employment. In FY 2011, the Department published final regulations, developed a Gainful Employment webpage to provide information to the school community, and held training for schools participating in the Title IV programs. FSA's staff is working to update systems to collect and calculate the data; to establish the program oversight processes; and to coordinate with the Social Security Administration on the debt-to-earnings data. In September 2011, FSA began collecting required data from participating schools into NSLDS. FSA will use the data obtained from Social Security Administration and NSLDS to calculate the Gainful Employment metrics and provide the results to participating schools in the spring of 2012 for informational purposes. See the following link for additional information:

<http://ifap.ed.gov/GainfulEmploymentInfo/index.html>.

**FSA realized the following additional accomplishments in support of Strategic Goal E:** *Develop FSA's performance culture and become one of the best places to work in the federal government.*

### **FSA First Class**

FSA First Class is the principal vehicle that FSA uses to engage its employees in meaningful programming and dialogue about improving both FSA's culture and the overall employee experience. In FY 2011, FSA First Class introduced the first enterprise-wide employee recognition event. In recognizing individuals, teams, and other Department colleagues, the First Class program awarded deserving FSA employees with high quality, non-monetary awards based on the nomination of peers. FSA First Class also implemented a second non-monetary awards and recognition program in 2011 called *Beyond the Call*, which is geared towards managers to encourage more spontaneous recognition of employee performance and behaviors that illuminate FSA's core values, or that help to meet the agency's mission.

FSA Cares is the new community service component of FSA First Class, which was piloted during FY 2011. Volunteer opportunities were coordinated and offered throughout the year. Recently, FSA Cares launched the screening of the documentary "TEN9EIGHT", which focuses on the importance of providing programs that inspire young people from urban communities to stay in school, to recognize business opportunities, and to plan for successful futures.





### **Internal Communications**

FSA evaluated its current internal communications strategy and launched an enhanced strategy to better meet the enterprise communications needs of FSA's leaders, managers, and employees. The new internal communications strategy formalizes the process of gathering feedback from management and employees regarding their enterprise information needs and offers a streamlined solution for communicating to FSA's diverse audience. Given the organization's resource constraints, the new internal communications strategy is being implemented in phases. During FY 2011, the internal communications team implemented the following components to enhance internal communications at FSA:

- Formalized the process of enterprise-wide information sharing by establishing a comprehensive network of business unit liaisons to help identify major initiatives, processes, and metrics that should be communicated to employees across FSA;
- Revamped its existing communication vehicles, including the internal newsletter to better align with employees' needs;
- Created a monthly operational update to provide employees with an enterprise-wide perspective of FSA's work; and
- Established a new quarterly publication to highlight employees' personal and professional accomplishments.

### **SharePoint**

FSA worked to improve its IT platforms through the launch of a business collaboration platform called Microsoft SharePoint. The SharePoint Enterprise 2010 platform provides a series of websites used by the entire Department to conveniently share information, manage business process workflows, share project calendars, use instant messaging for immediate communication, create collaborative document libraries, and utilize many other tools that will improve efficiency and reduce costs.





## LEGISLATIVE AND REGULATORY RECOMMENDATIONS

One of FSA's mission responsibilities is to provide input on legislative proposals (both from the Congress and from the administration) and to support the Department's regulatory activity. FSA also may suggest legislative changes for consideration by the Department's senior policy officials. These recommendations customarily center on improving and simplifying the Title IV programs, minimizing administrative costs, and improving program integrity. FSA's recommendations inform the Department's policymaking process, including its activities and decisions related to each year's budget process. These activities are usually accomplished by direct contact with colleagues within various offices of the Department, such as the Office of Postsecondary Education and the Office of the Under Secretary, at both the senior policy level and at a staff level. These efforts, while primarily carried out by FSA's Policy Liaison, also involve other FSA offices and senior managers. While a portion of this policy advising is accomplished on an ongoing, informal daily basis, FSA's staff also contributed to the Department's Gainful Employment Rulemaking process and to budgetary changes for the federal student aid programs, including the elimination of interest subsidies for graduate students, loan incentives in the Direct Loan Program, and the second Pell Grant in an award year.





## ANNUAL BONUS AWARDS

As of the end of FY 2011, there were 75 FSA senior managers. In addition, there were eight Senior Executive Service staff members. Seven of the 75 senior managers and 3 of the 8 Senior Executive Service staff served on the FSA Operating Committee, and reported directly to the COO. The remaining 68 senior managers and 5 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

FY 2011 performance ratings and related awards for FSA senior managers and Senior Executive Service staff were not finalized at the time this report was prepared.

At the end of FY 2010, there were 74 FSA senior managers. There were also nine Senior Executive Service members. Seven of the 74 senior managers and 3 of the 9 Senior Executive Service staff served on the FSA Operating Committee (known as the Executive Leadership Team before January 2010) and reported directly to the COO. The remaining 67 senior managers and 6 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

For FY 2010, the composition of ratings for the 67 senior managers who did not serve on the Operating Committee last year were as follows: 31 achieved a performance rating of Outstanding, 27 achieved a performance rating of Highly Successful and 9 achieved a performance rating of Fully Successful.

Award amounts for those senior managers achieving an Outstanding rating ranged from a low of \$2,901 to a high of \$21,156 with a median award of \$8,947. Award amounts for those achieving a Highly Successful rating ranged from a low of \$2,887 to a high of \$13,608 with a median award of \$4,555.

In FY 2010, the COO received a performance bonus of \$71,880 for his work at FSA. There were also FY 2010 ratings and awards for six senior manager members and three Senior Executive Service members of the Operating Committee. One additional senior manager joined FSA too late in the performance cycle to be rated for FY 2010. The composition of those rated includes: three achieved a performance rating of Outstanding, three achieved a performance rating of Highly Successful, and none who received a performance rating of Fully Successful. One senior manager, who served on the Operating Committee, was not eligible for an award because the individual arrived at FSA at the end of the rating cycle. Of the six remaining Senior Executive Service members who were not on the Operating Committee, one achieved a performance rating of Outstanding, four achieved a performance rating of Highly Successful, and one was not rated.





Award amounts for those Operating Committee members achieving an Outstanding rating ranged from a low of \$22,774 to a high of \$35,597, with a median award of \$29,750. Award amounts for those achieving a Highly Successful rating ranged from a low of \$16,858 to a high of \$23,780, with a median award of \$22,698. Those receiving a rating of Fully Successful were not eligible for a performance-based award. The remaining six Senior Executive Service members' awards ranged from \$8,040 to \$22,173 with a median of \$8,222 for the combined categories of Outstanding and Highly Successful performance ratings.

For additional information, please refer to:

<http://www.ed.gov/policy/highered/leg/hea98/sec101D.html>.





## REPORT OF THE FEDERAL STUDENT AID OMBUDSMAN

The FSA Ombudsman Group entered its 12th year of service to federal student aid recipients in FY 2011. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999, and assisted its 200,000th customer during FY 2011.

Consistent with its statutory mission, the Ombudsman Group uses informal dispute resolution processes to address complaints about Title IV financial aid programs. The Ombudsman applies a collaborative approach in working with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in the student aid programs. Information about customer inquiries is compiled into the Ombudsman Case Tracking System. The data are analyzed, and the findings are included in internal and external reports for FSA and the industry in general, to identify systemic issues affecting Title IV programs. Implementation of systemic solutions can at times prevent problems, an approach preferable to resolving individual complaints as received.

Since 1999, the Ombudsman has received more than 225,470 assistance requests, including 32,922 in FY 2011. The Ombudsman has generally received more customer contacts each year of operation. The annual increase is, in part, attributable to growing awareness of the Ombudsman and the increase in individuals receiving federal student aid. In the last three fiscal years, however, customer contacts have increased at a higher rate. Cases opened in FY 2009 were 25.0 percent greater than the previous year; FY 2010 was 27.7 percent greater than FY 2009; and FY 2011 increased by 8.5 percent above FY 2010 levels.

### **FY 2011 Overview**

Customer contacts to the FSA Ombudsman continued to increase in FY 2011, but the rate of increase was lower than experienced in FY 2010. The Ombudsman received 2,576 more customer contacts in FY 2011 than in FY 2010, an increase of 8.5 percent.

The Ombudsman classifies customer cases as one of two types: General Assist, which are typically resolved almost immediately through the provision of information or referral to the appropriate entity within the student loan community; and Research, which present a more complex problem, are assigned to a research specialist to address and may take several months to close. In FY 2011, Ombudsman Research cases increased by 20.2 percent above the previous fiscal year and accounted for 24.9 percent of the total Ombudsman caseload. By comparison, Research cases accounted for 22.5 percent of the total caseload in FY 2010.

### **Economic Issues Drive Growth in Cases**

The economic downturn that began in 2008 is a major factor driving the increase in customers contacting the Ombudsman and shaping the nature of the problems for which they seek help. Borrowers experiencing difficulty meeting their monthly loan payments

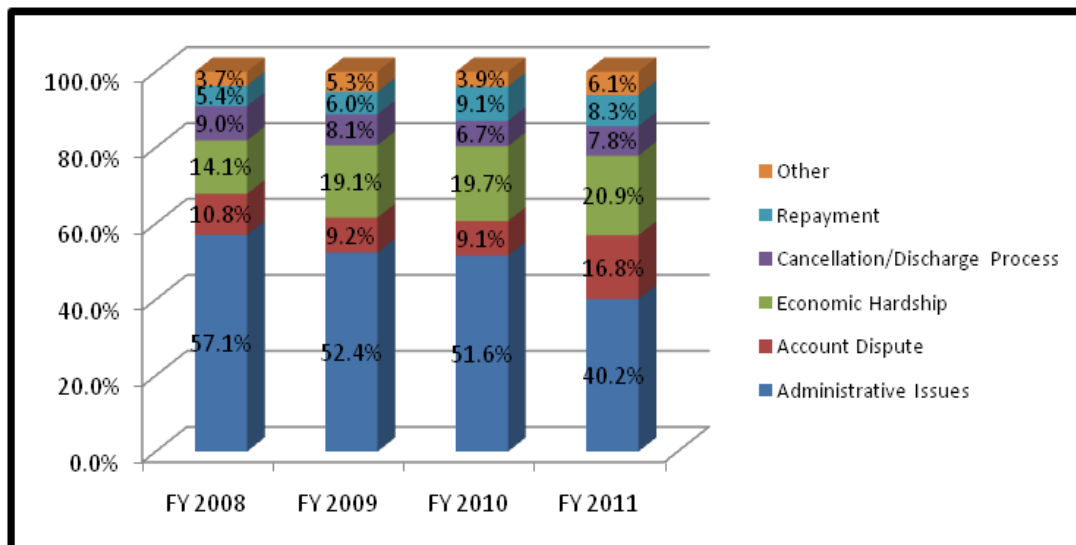




frequently report job loss, reduced earnings, or the inability to find work upon completion of their educational program.

To develop a better understanding of this phenomenon, the Ombudsman Group analyzed case data beginning with FY 2008 by grouping customer issue categories and sub-categories under a set of broad thematic headings, e.g., administrative issues (requests for general help or information), economic hardship (default, unemployment or repayment plans) and account dispute (questions about account balance, interest accrual, or fees). The chart below demonstrates a steady increase in cases falling under the thematic heading of economic hardship since 2008.

**FY 2008 – 2011 Ombudsman Case Classification**



A difference in FY 2011 was the increase in customer issues falling under the broad theme of account dispute, i.e., borrowers challenging the balance on their student loan accounts. Borrowers faced with difficulty repaying their student loans appear to be choosing to dispute the amount owed – the way interest was calculated or the addition of collection costs and other fees – as an initial step in managing the debt.

## **Issue Highlights**

### **Split Servicing**

Beginning in the latter months of FY 2010 and extending through the first few months of FY 2011, the Ombudsman Group experienced a modest uptick in split servicing issues. These issues involved borrowers with multiple loans and whose loans had been placed with more than one of the Department's contracted servicers. Split Servicing can also refer to loans that are split between FSA Servicers and entities servicing loans not held by the Department; however, in the context of this section, it only refers to borrowers that are split between multiple FSA Servicers. The issues raised included: confusion over the identity of the current loan holder, complaints that communication about transfer of the borrower's loans had lagged, and a few complaints about difficulty having payments sent to the prior loan holder being transferred to the new loan holder and credited to the proper account.





ECASLA included temporary authorization for the Department of Education to purchase FFEL loans, thus making additional capital available to lenders to provide for continued availability of federally insured student loans. The subsequent legislation, the *SAFRA Act*, enacted in 2010 provided that no new loans would be originated through the FFEL Program and that the Direct Loan Program would be the primary source of new federal student loans. As a result of these statutory changes, the Department became the owner and holder of a much-expanded portfolio of student loans. The Department initially contracted with four organizations, known as TIVAS to service this expanded portfolio of loans.

Some confusion and communication problems are expected with a change of this magnitude, and the limited number of customer contacts to the Ombudsman about the transfers suggests this is what was happening. Nonetheless, FSA responded proactively to resolve any problems.

FSA's Program Management office reports that over the course of FY 2011, more than 1.0 million borrowers' student loans were moved to place all of the individual's loans with a single servicer. In addition, FSA is developing an ongoing process to identify and resolve instances of split servicing.

The effectiveness of FSA's response is evidenced by the near disappearance of borrowers contacting the Ombudsman with split servicing issues.

#### Income-Based Repayment

With the CCRAA, Congress created the Income-Based Repayment (IBR) program to provide borrowers with FFEL or Direct Loans with repayment options more attuned to individual economic circumstances. Borrowers demonstrating partial financial hardship can have their monthly student loan payments lowered by entering into IBR. Monthly payments are adjusted through a statutory calculation based on the borrower's income, family size, and level of indebtedness.

After introduction of the program, the Ombudsman received a number of customer inquiries about IBR. Most of these were information requests associated with building awareness of a new program.

Subsequently, the Ombudsman received significantly fewer IBR information requests and more customers identified problems with applying for or being eligible for IBR.

Ombudsman IBR cases reflect some initial confusion on the part of borrowers and some loan servicers about the types of alternative income documentation that was acceptable in making an IBR determination. For instance, typically, the borrower applying for IBR submits the most recent federal tax return. However, borrowers who do not file a tax return, e.g., recipients of Social Security Disability Insurance benefits or individuals who experienced a reduction in income since their last tax filing, can submit alternative documentation of income. While most lenders use the same format for alternative documentation of income, questions arise about receipt of the supporting documentation and its use.

Because the IBR repayment plan is available only for loans in good standing, borrowers with defaulted student loans may resolve their defaulted status through consolidation into the







Direct Loan program and then demonstrate eligibility for IBR. There has been some confusion with the process of consolidation and ensuring that the borrower's full documentation related to the IBR repayment plan is transferred to the operations/servicing department in an appropriate and timely manner.

Borrowers have pointed to the length of the processing time for IBR applications, both initial and renewal applications. Renewal applicants become frustrated at sending information in a timely way and then facing a potential gap between what the lender says is the end of an IBR eligibility period before the establishment of a new payment. The delay in processing can result in a larger interim payment or additional capitalized interest being added to the principal of the loan.

A noteworthy change in July 2010 assisted married borrowers seeking IBR for their individual loans and who filed a joint federal tax return. Initially, the adjusted gross income (AGI) from the joint return was used to determine the individual borrower's eligibility for IBR, and as a result, a number of individual borrowers had income too high to qualify for IBR. These individuals had the option to resolve the problem by filing an individual federal tax return to lower their AGI to a level eligible for IBR. This, however, could result in a different tax liability.

Effective July 1, 2010, the IBR income calculation was amended to provide that married borrowers who file joint tax returns and who both have eligible student loan debt will have their individual IBR eligibility determined based on their joint AGI and the combined eligible loan debt of both spouses. This change led to a reduction in Ombudsman cases related to this issue.

Problems and questions appear to be declining in frequency as knowledge and understanding of the IBR program increases. However, the Ombudsman Group will continue to review IBR requests and similar inquiries related to the economic problems customers describe.

#### Total and Permanent Disability

TPD discharge has been the leading single issue for Ombudsman research cases for a number of years. However, from FY 2009 to FY 2010, the number of TPD research cases declined 23.7 percent. TPD cases received by the Ombudsman in FY 2011 were at comparable levels to FY 2010. These reductions are attributed to operational changes implemented in 2009, which included modifications to the medical review process and revisions to the TPD application to provide greater clarity. Congress also created a loan discharge for veterans that greatly streamlined disability discharge for veterans with service connected disabilities. FSA implemented an additional refinement to the TPD process in 2011, removing the requirement that the borrower's TPD application have an original signature rather than a copy.

Additionally, in 2011, the Department convened a new Task Force under the leadership of the Under Secretary to identify additional ways to improve TPD processing and reduce the burden on disabled borrowers. One recommendation of the Task Force is to have a single application, further reducing the burden on applicants and streamlining the TPD process.





Under current regulations, the TPD application must be submitted to each separate loan holder. Ombudsman cases, both historically and in FY 2011, show that borrowers sometimes fail to submit an application to each loan holder, resulting in a situation where some of their loans are discharged for disability, while others remain in repayment. Borrowers also complain that loan holders and servicers have different processing requirements for TPD.

The Task Force recommended and the Department has agreed to include in negotiated rule making scheduled for fall 2011, a regulatory change to permit the borrower to submit a single TPD application directly to the Department. The Ombudsman believes this change will shorten the time for TPD processing and reduce the difficulties currently encountered by borrowers seeking disability discharge.

### Public Service Loan Forgiveness

Inquiries to the Ombudsman concerning the Public Service Loan Forgiveness (PSLF) and IBR programs, sometimes confuse or conflate the two programs. Callers inquiring about PSLF do not realize only holders of Direct Loans are eligible for the benefit or that public service prior to enactment of the provisions does not qualify to satisfy loan discharge requirements. In FY 2011, an internal workgroup in FSA made significant progress in preventing the confusion and providing predictability for individuals interested in PSLF. Partially, because of those efforts, inquiries about PSLF represented only 0.6 percent of FY 2011 requests to the Ombudsman Group.

### Private Student Loan Borrowers

Borrowers with a combination of federal and private loans may contact the Ombudsman, and a small number of individuals, who have private loans but no federal debt, also reach the group. Although the Department of Education has no direct jurisdiction over the non-federal private loans, the Ombudsman has identified appropriate contacts at each of the major private lenders to which to refer the borrowers. The Ombudsman began discussions in FY 2011 with officials of the newly established Consumer Financial Protection Bureau to establish a cooperative process for dealing with private loan issues under the Consumer Financial Protection Board jurisdiction and their private loan ombudsman function.

### Ombudsman Group Effectiveness

Customer satisfaction with the Ombudsman is measured, in part, through independently conducted telephone surveys. Closed cases are chosen at random and customers are asked to rate service accessibility, Ombudsman representatives' knowledge, timeliness of case resolution, level of satisfaction with the resolution, and overall service. On a scale of 1 – 5, with 5 being the highest rating, survey results are calculated weekly and cumulatively for the fiscal year. Only ratings of 4.0 or higher meet the Ombudsman customer satisfaction performance goal. The average FY 2011 customer satisfaction for Research cases was 4.63 on a five-point scale. Customers also write or call independently to express appreciation for assistance from the Ombudsman.

The Ombudsman Group became a unique division within FSA's newly-created Customer Experience Office in FY 2011. Continuing to operate under its statutory mission and





ombudsman principles, the office expects the change to increase the ability to participate in FSA's customer-centric focus and the feedback loop that can prevent some of the problems represented in assistance requests that reach the Ombudsman.





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# FINANCIAL SECTION



START HERE  
GO FURTHER  
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## MESSAGE FROM THE CHIEF FINANCIAL OFFICER



During Fiscal Year (FY) 2011, Federal Student Aid (FSA) delivered \$157 billion of federal aid to 15 million postsecondary students and their families. In addition, the loan portfolio overseen by FSA grew by 17 percent, from \$722 billion to \$848 billion. This is an enormous financial responsibility to students seeking student financial assistance, borrowers who are paying off their student loans, and taxpayers who expect fiscal prudence and stewardship. Thanks to the dedicated and talented staff at the United States Department of Education (Department), we met the unprecedented challenges presented by this financial responsibility and continued to maintain our high standards of financial management and fiscal reporting.



**John W. Hurt, III**  
**Chief Financial Officer**

Examples of FSA's successful financial management include the following:

- As part of the FY 2011 budget process, the Department established a High Priority Performance Goal, promising that all participating higher education institutions that want to be operationally ready to originate Federal Direct Student Loans will be able to do so by the end of FY 2011. By the end of FY 2011, FSA had not only achieved the goal, but the Office of Inspector General performed an assessment related to the goal and "...found FSA took actions intended to ensure the effective processing of student loans as a result of the 100 percent transition to the Direct Loan program."<sup>7</sup> For more detail, please refer to the Section of the *FSA Annual Report* titled, High Priority Performance Goal.
- In last year's *Agency Financial Report (AFR)*, the Department reported an improper payment rate for the Pell program of 3.12 percent, caused mostly by the inaccurate self-reporting of financial income on the Free Application for Federal Student Aid (FAFSA). This year (FY 2011), the improper payment rate fell by 0.40 percent, which is partially due to a new process established with the Internal Revenue Service (IRS) that allows applicants the opportunity to use their IRS data to populate the FAFSA. Had there not been a reduction of 0.40 percent, the amount of improper payments for Pell would have been \$146 million more than it was this year. For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Improper Payments Reporting Details narrative in the Other Accompanying Information section in the Department's *AFR* located at <http://www.ed.gov/about/reports/annual/index.html>.

<sup>7</sup> U.S. Department of Education, Office of Inspector General, *FINAL MANAGEMENT INFORMATION REPORT - Subject: Federal Student Aid's Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program (Control Number ED-OIG/X19K0008)*, September 16, 2010, 3.





- As taxpayers require greater scrutiny on government expenditures and administrative budgets throughout the government are drastically reduced, FSA continues to fulfill its strategic objective to reduce administrative costs. FSA tracks all cost savings, cost avoidances, and productivity gains from the point they are conceived in FSA's business cases, all the way to actual realization. This year, FSA reported on \$8.9 million in cost savings and cost avoidances (See the FY 2011 Accomplishments of Federal Student Aid section.)
- As part of FSA's efforts to increase collections, FSA expanded its use of the Treasury Offset Program matching process to identify and match on alias names. This resulted in an increase of collections on defaulted loans by \$9.7 million during FY 2011 (See the FY 2011 Accomplishments of Federal Student Aid section.)

FSA's successful financial management and our intense focus on internal controls resulted in the following recognitions:

- An unqualified opinion was received on the principal financial statements for the tenth consecutive year, demonstrating a continuing pattern of financial accountability.
- No material weaknesses were identified as part of our Report on Internal Control for the ninth consecutive year.
- Reasonable assurance was provided of our internal control over financial reporting. The successful results of this assessment effort are described further in the Analysis of Systems, Controls, and Legal Compliance section of this report.

Also, through cooperative efforts between FSA and the Department's Office of the Chief Financial Officer, Office of Chief Information Officer, and Budget Service, the Department continued to correct two significant deficiencies in credit reform estimation and information systems controls that were identified in previous internal control reports. The complexity of these issues has required an ongoing multi-year effort. As a result of these concerted efforts, in the FY 2011 Report on Internal Control, the auditors recognized improvements in both areas.

I am proud to be working with a group of professionals throughout the Department who so enthusiastically attack our financial management challenges and achieve such distinguished results.

Sincerely,

John W. Hurt, III  
Chief Financial Officer  
November 15, 2011







## PRINCIPAL FINANCIAL STATEMENTS

**United States Department of Education**  
**Federal Student Aid**  
**Consolidated Balance Sheet**  
**As of September 30, 2011 and 2010**

(Dollars in Millions)

	Fiscal Year 2011	Fiscal Year 2010
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 62,214	\$ 53,465
Accounts Receivable (Note 4)		
Total Intragovernmental	62,214	53,465
Cash and Other Monetary Assets (Note 5)	1,664	2,965
Accounts Receivable, Net (Note 4)	110	221
Credit Program Receivables, Net (Note 6)	529,965	367,410
General Property, Plant and Equipment, Net (Note 7)	14	25
Other Assets (Note 8)	27	83
Total Assets (Note 2)	\$ 593,994	\$ 424,169
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable	\$ 1	\$ 1
Debt (Note 9)	546,264	373,656
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 5)	1,664	2,965
Payable to Treasury (Note 6)	3,886	2,424
Other Intragovernmental Liabilities (Note 10)	6,724	12,832
Total Intragovernmental	558,539	391,878
Accounts Payable	4,006	4,544
Accrued Grant Liability (Note 11)	3,036	2,619
Liabilities for Loan Guarantees (Note 6)	10,025	14,479
Other Liabilities (Note 10)	85	202
Total Liabilities	\$ 575,691	\$ 413,722
Commitments and Contingencies (Note 18)		
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	\$ 21,441	\$ 17,259
Cumulative Results of Operations - Other Funds	(3,138)	(6,812)
Total Net Position (Note 12)	\$ 18,303	\$ 10,447
Total Liabilities and Net Position	\$ 593,994	\$ 424,169

The accompanying notes are an integral part of these statements.





**United States Department of Education**  
**Federal Student Aid**  
**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2011 and 2010**  
(Dollars in Millions)

	Fiscal Year 2011	Fiscal Year 2010
<b>Program Costs</b>		
<b><u>Increase College Access, Quality, and Completion</u></b>		
Gross Costs	\$ 16,812	\$ 27,828
Less: Earned Revenue	20,212	17,071
Net Program Costs	(3,400)	10,757
<b>Total Program Costs</b>	<b>\$ (3,400)</b>	<b>\$ 10,757</b>
<b><u>American Recovery and Reinvestment Act</u></b>		
Gross Costs	\$ 27	\$ 8,920
Less: Earned Revenue	27	8,920
Net Program Costs	27	8,920
<b>Total Program Costs</b>	<b>\$ 27</b>	<b>\$ 8,920</b>
<b>Grand Total Program Costs</b>	<b>\$ (3,373)</b>	<b>\$ 19,677</b>
<b>Net Cost of Operations (Notes 13 &amp; 16)</b>	<b>\$ (3,373)</b>	<b>\$ 19,677</b>

The accompanying notes are an integral part of these statements.





## Consolidated Statement of Changes in Net Position

**United States Department of Education  
Federal Student Aid  
Consolidated Statement of Changes in Net Position  
For the Years Ended September 30, 2011 and 2010**

(Dollars in Millions)

	Fiscal Year 2011		Fiscal Year 2010	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning Balances</b>				
Beginning Balances - All Other Funds	\$ (6,812)	\$ 17,259	\$ (277)	\$ 27,328
<b>Budgetary Financing Sources:</b>				
Appropriations Received				
Appropriations Received - All Other Funds	\$	47,961	\$	35,215
Other Adjustments (rescissions, etc)				
Other Adjustments (rescissions, etc) - All Other Funds		(723)		(941)
Appropriations Used				
Appropriations Used - All Other Funds	\$ 43,056	(43,056)	\$ 44,343	(44,343)
Nonexchange Revenue				
Nonexchange Revenue - All Other Funds	3		12	
Nonexpenditure Financing Sources - Transfers-Out				
Nonexpenditure Financing Sources - Transfers-Out - All Other Funds	(6)			
<b>Other Financing Sources:</b>				
Imputed Financing from Costs Absorbed by Others				
Imputed Financing from Costs Absorbed by Others - All Other Funds	\$ 12		\$ 10	
Others				
Others - All Other Funds	(42,764)		(31,223)	
<b>Total Financing Sources</b>				
Total Financing Sources - All Other Funds	\$ 301	\$ 4,182	\$ 13,142	\$ (10,069)
<b>Net Cost of Operations</b>				
Net Cost of Operations - All Other Funds	\$ 3,373		\$ (19,677)	
<b>Net Change</b>				
Net Change - All Other Funds	\$ 3,674	\$ 4,182	\$ (6,535)	\$ (10,069)
<b>Ending Balances - All Other Funds (Note 12)</b>	<b>\$ (3,138)</b>	<b>\$ 21,441</b>	<b>\$ (6,812)</b>	<b>\$ 17,259</b>

The accompanying notes are an integral part of these statements.





## Combined Statement of Budgetary Resources

**United States Department of Education**  
**Federal Student Aid**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2011 and 2010**

(Dollars in Millions)

	Fiscal Year 2011		Fiscal Year 2010	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1:	\$ 4,174	\$ 15,409	\$ 13,476	\$ 9,690
Recoveries of prior year Unpaid Obligations	985	12,192	410	4,434
Budgetary Authority:				
Appropriations	48,532		39,140	
Borrowing Authority (Note 15)		211,802		182,901
Spending authority from offsetting collections (gross):				
Earned				
Collected	1,719	53,011	1,499	51,912
Change in Receivables from Federal Sources				3
Change in unfilled customer orders				
Without advance from Federal Sources		1		4
Subtotal	\$ 50,251	\$ 264,814	\$ 40,639	\$ 234,820
Temporarily not available pursuant to Public Law			(561)	
Permanently not available	(1,057)	(30,122)	(4,833)	(17,333)
<b>Total Budgetary Resources (Note 15)</b>	<b>\$ 54,353</b>	<b>\$ 262,293</b>	<b>\$ 49,131</b>	<b>\$ 231,611</b>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: (Note 15)				
Direct	\$ 50,938	\$ 247,289	\$ 44,957	\$ 216,202
Unobligated Balances:				
Apportioned	1,214	512	192	1,433
Unobligated Balance not available	2,201	14,492	3,982	13,976
<b>Total Status of Budgetary Resources</b>	<b>\$ 54,353</b>	<b>\$ 262,293</b>	<b>\$ 49,131</b>	<b>\$ 231,611</b>
<b>Change in Obligated Balance:</b>				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$ 18,592	\$ 150,605	\$ 17,730	\$ 133,575
Uncollected customer payments from Federal Sources, brought forward, October 1		(4)		3
Total, unpaid obligated balance, brought forward, net	\$ 18,592	\$ 150,601	\$ 17,730	\$ 133,578
Obligation Incurred net (+/-)	50,938	247,289	44,957	216,202
Gross Outlays	(45,305)	(221,506)	(43,685)	(194,738)
Recoveries of prior year unpaid obligations, actual	(985)	(12,192)	(410)	(4,434)
Change in uncollected customer payments from Federal Sources (+/-)		(1)		(7)
Obligated Balance, net, end of period				
Unpaid Obligations	\$ 23,240	\$ 164,196	\$ 18,592	\$ 150,605
Uncollected customer payments from Federal Sources		(5)		(4)
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 23,240</b>	<b>\$ 164,191</b>	<b>\$ 18,592</b>	<b>\$ 150,601</b>
<b>Net Outlays</b>				
Net Outlays:				
Gross Outlays	\$ 45,305	\$ 221,506	\$ 43,685	\$ 194,738
Offsetting collections	(1,719)	(53,011)	(1,499)	(51,912)
Distributed Offsetting receipts	(50,197)		(28,787)	
<b>Net Outlays (Note 15)</b>	<b>\$ (6,611)</b>	<b>\$ 168,495</b>	<b>\$ 13,399</b>	<b>\$ 142,826</b>

The accompanying notes are an integral part of these statements.





## NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

### Note 1. Summary of Significant Accounting Policies

#### Reporting Entity

FSA was created as a PBO within the Department under the HEA from previously existing Department student financial assistance program offices. FSA operates under the PBO mandate to develop a management structure driven by strong incentives to manage for results. FSA's primary goal is to assist lower-income and middle-income students in overcoming the financial barriers that make it difficult to attend and complete postsecondary education. FSA is responsible for administering direct loans, guaranteed loans, and grant programs.

The Direct Loan Program, added to the HEA by the *Student Loan Reform Act of 1993*, authorizes FSA to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. FSA borrows money from the Treasury to fund the loans. The program does not charge interest to eligible borrowers while they are in school or in qualified deferment periods. Under the Direct Loan Program, loans are made to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education—public or private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents, based on eligibility criteria, receive loans regardless of income or credit rating. Student borrowers who demonstrate financial need also receive federal interest subsidies while the students are in school or in a deferment period.

The FFEL Program, authorized by the HEA, operates through state and private nonprofit guaranty agency agencies to provide loan guarantees and interest subsidies on loans made by lenders to eligible students. The *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* and became effective July 1, 2010, provided that no new FFEL loans would be made after June 30, 2010.

ECASLA authorized the Secretary to purchase or enter into forward commitments to purchase FFEL loans. This temporary loan purchase authority was to expire on September 30, 2009; however, P.L. 110-350 extended the authority through September 30, 2010. The Department implemented three activities under this temporary loan purchase authority. These activities are: (1) loan purchase commitments; (2) loan participation purchases; and (3) an ABCP Conduit.

Grant appropriations funding the Pell Grant Program and campus-based student aid programs enable FSA to provide educational grants and other financial assistance to eligible applicants. Grants are not repaid to the federal government. The Pell Grant Program provides grant aid to low-income and middle-income undergraduate students. Awards vary in proportion to the financial circumstances of students and their families. The campus-based student aid programs provide educational grants and other financial assistance to eligible applicants. These





programs include the Supplemental Educational Opportunity Grant, FWS and Federal Perkins Loan Programs. Campus-based programs are not material to these statements and have been included with other programs reported under grant programs.

The TEACH Program was implemented beginning July 1, 2008. This program, added to the HEA by the CCRAA, awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

The Recovery Act, enacted on February 17, 2009 as Public Law 111-5, provided funding for improving schools, raising students' achievement, driving reform and producing better results for children and young people for the long-term health of the nation. The Recovery Act funds provided to the Department include additional funding for student aid administration and student financial assistance grant programs managed and administered by FSA. These activities are accounted for separately from non-Recovery Act funds. (See Note 17)

### **Basis of Accounting and Presentation**

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the FSA reporting group, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of FSA, in accordance with accounting principles generally accepted in the United States of America for federal entities, issued by the Federal Accounting Standards Advisory Board, and OMB Circular No. A-136 *Financial Reporting Requirements*, as revised October 2011. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control FSA's use of budgetary resources.

FSA's financial statements represent the reporting organization, FSA, within the Department of Education, which is itself a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

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

Transactions and balances among FSA funds have been eliminated from the consolidated financial statements.





### Use of Estimates

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

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

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

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

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

For each program, cash flows are projected over the life of the loans, aggregated by loan type, cohort year, and risk category. The loan’s cohort year represents the year a loan was obligated or guaranteed, regardless of the timing of disbursements. Risk categories include two-year





colleges, freshmen and sophomores at four-year colleges, juniors and seniors at four-year colleges, graduate schools, and proprietary (for-profit) schools.

Estimates reflected in these financial statements were prepared using assumptions developed for the FY 2012 Mid-Session Review, a government-wide exercise required annually by OMB. These estimates are based on the most current information available to FSA and the Department at the time the financial statements were prepared. Assumptions and their impact are updated after the Mid-Session Review to account for significant subsequent changes in activity. Management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of changes, as appropriate.

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

### **Budget Authority**

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

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

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan Program, the TEACH Program, and activities under the temporary loan purchase authority. Subsidy and administrative costs of the programs are funded by appropriations. Budgetary resources from collections are used primarily to repay FSA's debt to Treasury. Major sources of collections include principal and interest collections from borrowers, related fees, and interest from Treasury on balances in credit financing accounts that make and administer loans and guarantees.

Borrowing authority is an indefinite budgetary resource authorized under the Credit Reform Act. This resource, when realized, finances the unsubsidized portion of the Direct Loan Program, the TEACH Program, and activities under the temporary loan purchase authority. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy. Treasury prescribes the terms and conditions of borrowing authority and lends to the financing







account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

### **Assets**

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

### **Fund Balance with Treasury**

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

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

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

The Fund Balance with Treasury also includes funds received for grants during FY 2010, which were statutorily not available for obligation until the following fiscal year. Because this is a deferral made in law, it reduces total budgetary resources. (See Notes 3 and 12)

### **Accounts Receivable**

Accounts Receivable are amounts due to FSA from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, and disputed costs resulting from audits of educational assistance programs. Amounts due from other federal agencies result from reimbursable agreements





entered into by FSA with these agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts.

Estimates for the allowance for loss on uncollectible accounts are based on historical data. (See Note 4)

### **Cash and Other Monetary Assets**

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

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

FSA and the Department disburse funds to a guaranty agency. A guaranty agency, through its Federal Fund, pays lender claims and default aversion fees. The Operating Fund is the property of the guaranty agency and is used by the guaranty agency to fulfill responsibilities that include repaying money borrowed from the Federal Fund and performing default aversion and collection activities.

### **Credit Program Receivables and Liabilities for Loan Guarantees**

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





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

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

### General Property, Plant and Equipment

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

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

### Depreciable Property and Equipment

(In Years)

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

### Other Assets

Other assets include assets not reported separately on the balance sheet. FSA's other assets (with the public) consist of payments made to grant recipients in advance of their expenditures





and in-process disbursements of interest benefits and special allowance payments for the FFEL Program. (See Note 8)

### **Liabilities**

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by FSA or the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted. The government, acting in its sovereign capacity, can abrogate liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 10)

### **Accounts Payable**

Accounts Payable include amounts owed by the Department for goods and services received from other entities and scheduled payments transmitted but not yet processed. The Department's accounts payable primarily consist of in-process grant and loan disbursements to the public.

### **Debt**

The Department borrows to provide funding for the Direct Loan, FFEL, and TEACH Programs. The liability to Treasury from borrowings represents unpaid principal at year-end. FSA repays the principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury, with such rates generally fixed based on the rate for 10-year Treasury securities. As discussed in Note 6, the interest received by FSA from borrowers will vary from the rate paid to Treasury. Principal and interest payments to Treasury are made annually. (See Note 9)

### **Accrued Grant Liability**

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. A liability is accrued by FSA for expenditures incurred by grantees prior to their receiving grant funds to cover the expenditures. The amount is estimated using statistical sampling. (See Note 11)

### **Net Position**

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for federal credit financing and liquidating funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 12)





### Personnel Compensation and Other Employee Benefits

**Annual, Sick, and Other Leave.** The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. (See Note 10) Sick leave and other types of non-vested leave are expensed as taken.

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

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

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

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

The FECA liability consists of two components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events, such as death, disability, medical, and miscellaneous costs as determined by DOL annually. (See Note 10)

### Intragovernmental Transactions

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



**Reclassifications**

Certain reclassifications were made to the FY 2010 financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities, net position, net cost of operations, or budgetary resources. The FY 2010 Statement of Net Cost and related note were reclassified to align with the strategic goals presented in the Department's draft *Strategic Plan 2011-2014*. (See Note 13) Additional reclassifications were made within the FFEL Program Receivables, Net section of Note 6, Credit Programs for Higher Education, and within Note 16, Reconciliation of Budgetary Obligations to Net Cost of Operations.

**Additional Comparative Information**

In FY 2011, the Department's notes to the financial statements include disclosure of the components of Distributed Offsetting Receipts. FY 2010 information is presented for comparative purposes. (See Note 15)

**Note 2. Non-Entity Assets**

As of September 30, 2011 and 2010, non-entity assets consisted of the following:

<b>Non-Entity Assets</b>		
(Dollars in Millions)		
	<b>2011</b>	<b>2010</b>
<b>Non-Entity Assets</b>		
With the Public:		
Cash and Other Monetary Assets	\$ 1,664	\$ 2,965
Accounts Receivable, Net	7	3
Credit Program Receivables, Net	215	183
<b>Total Non-Entity Assets</b>	<b>1,886</b>	<b>3,151</b>
Entity Assets	592,108	421,018
Total Assets	\$ 593,994	\$ 424,169

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

**Note 3. Fund Balance with Treasury**

The Fund Balance with Treasury, by fund type as of September 30, 2011 and 2010, consisted of the following:

<b>Fund Balances</b>		
(Dollars in Millions)		
	<b>2011</b>	<b>2010</b>
General Funds	\$ 24,976	\$ 20,341
Revolving Funds	37,221	33,106
Special Funds	17	18
<b>Fund Balance with Treasury</b>	<b>\$ 62,214</b>	<b>\$ 53,465</b>





The Status of Fund Balance with Treasury, as of September 30, 2011 and 2010, consisted of the following:

### Status of Fund Balance with Treasury

(Dollars in Millions)

	2011	2010
Unobligated Balance:		
Available	\$ 1,726	\$ 1,625
Unavailable	15,029	14,993
Obligated Balance, Not Yet Disbursed	45,459	36,286
Authority Temporarily Precluded from Obligation	-	561
<b>Fund Balance with Treasury</b>	<b>\$ 62,214</b>	<b>\$ 53,465</b>

### Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2011 and 2010, consisted of the following:

### Accounts Receivable

(Dollars in Millions)

	2011		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	\$ -	\$ -	\$ -
With the Public	136	(26)	110
<b>Accounts Receivable</b>	<b>\$ 136</b>	<b>\$ (26)</b>	<b>\$ 110</b>
	2010		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	\$ -	\$ -	\$ -
With the Public	261	(40)	221
<b>Accounts Receivable</b>	<b>\$ 261</b>	<b>\$ (40)</b>	<b>\$ 221</b>



**Note 5. Cash and Other Monetary Assets**

Cash and Other Monetary Assets consist of reserves held in the FFEL guaranty agency Federal Funds. Changes in the valuation of the Federal Fund increase or decrease the Department's Cash and Other Monetary Assets with a corresponding change in Guaranty Agency Federal and Restricted Funds Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2011 and 2010.

**Cash and Other Monetary Assets**

(Dollars in Millions)

	2011	2010
<b>Beginning Balance, Cash and Other Monetary Assets</b>	<b>\$ 2,965</b>	<b>\$ 2,414</b>
Increase/(Decrease) in Guaranty Agency Federal Funds, net	(1,301)	989
Less: Excess Collections Remitted by Guaranty Agencies	-	438
<b>Ending Balance, Cash and Other Monetary Assets</b>	<b>\$ 1,664</b>	<b>\$ 2,965</b>

The \$1.3 billion net decrease in the Federal Fund in FY 2011 represents the change in the estimated value of net assets held in the FFEL guaranty agency Federal Funds. This decrease reflects the impact of guaranty agencies' operations and a refinement the Department made to the process for estimating the valuation of the Federal Fund.

**Note 6. Credit Programs for Higher Education**

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

The Department disbursed approximately \$133 billion in Direct Loans to eligible borrowers in FY 2011 and approximately \$75 billion in FY 2010. Loans typically are disbursed in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Half of all loan volume is obligated in the fourth quarter of a fiscal year. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement. The substantial increase in Direct Loan Program disbursements during FY 2011 resulted from the increased use of the Direct Loan Program in accordance with the changes made by the *SAFRA Act*.

Approximately 9 percent of Direct Loan obligations made in an individual fiscal year are never disbursed. Loan obligations are established at a summary level based on estimates of schools' receipt of aid applications. The loan obligation may occur before a student has been accepted by a school or before the student begins classes. For Direct Loans obligated in the 2011 cohort, an estimated \$14.5 billion will never be disbursed. Eligible schools may originate direct loans through a cash advance from the Department or by advancing their own funds in anticipation of reimbursement from the Department.

**Federal Family Education Loan Program.** In FY 2008, the Department began administering activities under temporary loan purchase authority. ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. This authority was







to expire on September 30, 2009; however, Public Law 110-350 extended the authority through September 30, 2010. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an ABCP Conduit. Credit Program Receivables are established for loans and participation interests in loans acquired through these activities.

Under the loan purchase commitment activity, lenders had the option to sell directly to the Department fully disbursed loans originated for academic years 2007-08, 2008-09, or 2009-10. In loan participation transactions, lenders transferred to a custodian FFEL loans originated in academic years 2008-09 or 2009-10 on which at least one disbursement had been made. The custodian issued participation certificates to the lenders, which conveyed a participation interest in the loans. The lenders sold the participation interest in the loans to the Department at the par value of these loans. The Department remitted the proceeds through the custodian to the lenders. Participation interests earned a yield payable from the lenders to the Department at the rate of the 91-day commercial paper rate plus 50 basis points and reset quarterly. Funds to redeem these loans from the Department's participation interest were obtained by selling the underlying loans to the Department or by other means. Lenders committed to redeem the participation certificates and sell loans by September 30, 2010; the Department finalized these transactions by October 15, 2010.

During FY 2009, the Department, Treasury, and OMB established the terms on which the Department would support an ABCP Conduit to provide liquidity to the student loan market. An ABCP Conduit issues short-term commercial paper to investors; this paper is backed by student loans pledged to the conduit. The conduit used the proceeds of sales of its commercial paper to acquire from lenders interests in student loans. Lenders must have used a portion of conduit payments to make new loans. Though the intent is for the conduit to meet demands on maturing paper by reissuing commercial paper, the Department, using its ECASLA authority, will purchase loans from the conduit as needed to ensure the conduit will be able to meet the demands on its paper if it is unable to refinance maturing commercial paper. The Department purchases those pledged loans that become more than 210 days delinquent. The conduit has sold to the Department approximately \$1.2 billion of these delinquent loans as of September 30, 2011. Under the terms of the Put Agreement with the conduit, the Department may purchase pledged loans 45 days prior to the Put Agreement expiration on January 19, 2014. As required by the Credit Reform Act, all cash flows to and from the Government resulting from its transactions with the ABCP Conduit are recorded in a non-budgetary credit financing account. Amounts in this account are a means of financing and are not included in budget totals. Loans originated in academic years 2004-05 through 2007-08, and pledged to the conduit prior to July 1, 2010, are eligible to be purchased through the ABCP Conduit.

As of September 30, 2011, the Department has \$72.6 billion in obligations to cover any buyer-of-last-resort activities and potential purchases of underlying student loans under the ABCP Conduit. These obligations are supported by available borrowing authority. The conduit, a separate legal entity, has approximately \$41.5 billion in commercial paper outstanding.

Beginning with FFEL loans first disbursed on or after October 1, 1993, FFEL lender financial institutions became responsible for 2 percent of the cost of each default. Guaranty agencies also began paying a portion of the cost (in most cases, 5 percent) of each defaulted loan from





their Federal Fund, which consists of Federal resources held in trust by the agency. FFEL lenders receive statutorily set federal interest and special allowance subsidies. Guaranty agencies receive fee payments as set by statute.

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

Under the provisions of the *SAFRA Act*, no new loans were made under the FFEL Program after June 30, 2010. This legislation effectively required a transition for new loans from guaranteed student loans to full direct lending through the Department under the Direct Loan Program. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010 until the loan is sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled.

As a result of the *SAFRA Act*, the Department did not guarantee any loans in FY 2011. The Department guaranteed \$24 billion in gross non-consolidation loans to FFEL recipients during FY 2010. As of September 30, 2011 and 2010, total principal balances outstanding of guaranteed loans held by lenders were approximately \$328 billion and \$390 billion, respectively. As of September 30, 2011 and 2010, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately \$321 billion and \$382 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the guaranty agencies from their Federal Fund. Payments by guaranty agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies but owned by the federal government.

Guaranteed loans that default are initially turned over to guaranty agencies for collection. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection.

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

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





## Loan Consolidations

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

Direct Loan Program consolidations increased from \$17 billion during FY 2010 to \$24 billion during FY 2011. Under credit reform accounting, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated. FFEL to Direct Loan consolidations are part of the \$24 billion.

## Credit Program Receivables

Credit Program Receivables, as of September 30, 2011 and 2010, consisted of the following:

### Credit Program Receivables, Net

(Dollars in Millions)

	<u>2011</u>	<u>2010</u>
Direct Loan Program Loan Receivables, Net	\$ 381,454	\$ 228,208
FFEL Program		
Guaranteed Loan Program, Net (Pre-1992)	3,675	2,419
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	28,627	24,030
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	42,116	42,279
Loan Participation Purchase, Net	72,682	69,686
ABCP Conduit, Net	943	468
Federal Perkins Program Loan Receivables, Net	215	183
TEACH Program Receivables, Net	253	137
<b>Credit Program Receivables, Net</b>	<b>\$ 529,965</b>	<b>\$ 367,410</b>





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

**Direct Loan Program Loan Receivables, Net**

(Dollars in Millions)

	<u>2011</u>	<u>2010</u>
Principal Receivable	\$ 341,822	\$ 220,522
Interest Receivable	14,286	9,655
Receivables	356,108	230,177
Less: Allowance for Subsidy	<u>(25,346)</u>	<u>1,969</u>
<b>Direct Loan Program Loan Receivables, Net</b>	<b><u>\$ 381,454</u></b>	<b><u>\$ 228,208</u></b>

Of the \$356.1 billion in receivables, as of September 30, 2011, \$16.1 billion in loan principal was in default, compared to \$14.0 billion a year earlier.





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

**FFEL Program Receivables, Net**

(Dollars in Millions)

	<u>2011</u>	<u>2010</u>
<b><u>FFEL Guaranteed Loan Program (Pre-1992)</u></b>		
Principal Receivable	\$ 6,228	\$ 6,681
Interest Receivable	4,034	3,849
Receivables	10,262	10,530
Less: Allowance for Subsidy	6,587	8,111
<b>FFEL Guaranteed Loan Program, Net (Pre-1992)</b>	<b>3,675</b>	<b>2,419</b>
<b><u>FFEL Program (Post-1991)</u></b>		
FFEL Guaranteed Loan Program:		
Principal Receivable	29,790	26,358
Interest Receivable	4,236	4,049
Receivables	34,026	30,407
Less: Allowance for Subsidy	5,399	6,377
<b>FFEL Guaranteed Loan Program, Net</b>	<b>28,627</b>	<b>24,030</b>
Temporary Loan Purchase Authority:		
Loan Purchase Commitment:		
Principal Receivable	35,822	36,623
Interest Receivable	1,879	1,400
Receivables	37,701	38,023
Less: Allowance for Subsidy	(4,415)	(4,256)
<b>Loan Purchase Commitment, Net</b>	<b>42,116</b>	<b>42,279</b>
Loan Participation Purchase:		
Principal Receivable	61,125	62,931
Interest Receivable	2,993	1,665
Receivables	64,118	64,596
Less: Allowance for Subsidy	(8,564)	(5,090)
<b>Loan Participation Purchase, Net</b>	<b>72,682</b>	<b>69,686</b>
ABCP Conduit:		
Principal Receivable	1,121	544
Interest Receivable	55	26
Receivables	1,176	570
Less: Allowance for Subsidy	233	102
<b>ABCP Conduit, Net</b>	<b>943</b>	<b>468</b>
<b>FFEL Program Receivables, Net</b>	<b>\$ 148,043</b>	<b>\$ 138,882</b>

All loans and participation interests in loans purchased by the Department under the temporary loan purchase authority are federal assets; the loan receivable represents all outstanding loans and participation interests.





**Federal Perkins Loan Program.** As of September 30, 2011 and 2010, loan receivables, net of an allowance for loss, were \$215 million and \$183 million, respectively. These loans are valued at historical cost.

**TEACH Program.** As of September 30, 2011 and 2010, loan receivables, net of an allowance for subsidy, were \$253 million and \$137 million, respectively.

### Reconciliation of Allowance for Subsidy and Liability for Loan Guarantees

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

#### Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2011	2010
<b>Beginning Balance, Allowance for Subsidy</b>	<b>\$ 1,969</b>	<b>\$ 4,036</b>
<b>Components of Subsidy Transfers</b>		
Interest Rate Differential	(26,898)	(11,708)
Defaults, Net of Recoveries	2,342	1,307
Fees	(1,739)	(1,067)
Other	9,264	5,158
<b>Current Year Subsidy Transfers</b>	<b>(17,031)</b>	<b>(6,310)</b>
<b>Components of Subsidy Re-estimates</b>		
Interest Rate Re-estimates <sup>1</sup>	(8,084)	3,547
Technical and Default Re-estimates	(3,515)	1,196
<b>Subsidy Re-estimates</b>	<b>(11,599)</b>	<b>4,743</b>
<b>Activity</b>		
Fee Collections	1,623	1,056
Loan Cancellations <sup>2</sup>	(964)	(388)
Subsidy Allowance Amortization	1,638	(500)
Other	(982)	(668)
<b>Total Activity</b>	<b>1,315</b>	<b>(500)</b>
<b>Ending Balance, Allowance for Subsidy</b>	<b>\$ (25,346)</b>	<b>\$ 1,969</b>

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

<sup>2</sup> Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.





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

### FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2011	2010
<b>Beginning Balance, FFEL Financing Account Liability for Loan Guarantees</b>	<b>\$ 14,407</b>	<b>\$ 20,448</b>
<b>Components of Subsidy Transfers</b>		
Interest Supplement Costs	-	(733)
Defaults, Net of Recoveries	-	212
Fees	-	(960)
Other <sup>1</sup>	-	878
<b>Current Year Subsidy Transfers</b>	<b>-</b>	<b>(603)</b>
<b>Components of Subsidy Re-estimates</b>		
Interest Rate Re-estimates	(1)	59
Technical and Default Re-estimates	(11,220)	(12,727)
<b>Subsidy Re-estimates</b>	<b>(11,221)</b>	<b>(12,668)</b>
<b>Activity</b>		
Interest Supplement Payments	(2,453)	(3,881)
Claim Payments	(9,707)	(8,987)
Fee Collections	2,600	3,736
Interest on Liability Balance	(867)	(152)
Other <sup>2</sup>	17,225	16,514
<b>Total Activity</b>	<b>6,798</b>	<b>7,230</b>
<b>Ending Balance, FFEL Financing Account Liability for Loan Guarantees</b>	<b>9,984</b>	<b>14,407</b>
FFEL Liquidating Account Liability for Loan Guarantees	41	72
<b>Liabilities for Loan Guarantees</b>	<b>\$ 10,025</b>	<b>\$ 14,479</b>

<sup>1</sup> Subsidy primarily associated with debt collections and loan cancellations due to death, disability, and bankruptcy.

<sup>2</sup> Activity primarily associated with negative special allowance payments; also composed of the transfer of subsidy for defaults, loan consolidation activity, and loan cancellations due to death, disability, and bankruptcy.





The following schedules provide reconciliations between the beginning and ending balances of the allowance for subsidy for the Loan Purchase Commitment component and the Loan Participation Purchase component of the FFEL Program. These FFEL components are accounted for using credit reform accounting methodology and affect credit program receivables accordingly.

### Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2011	2010
<b>Beginning Balance, Allowance for Subsidy</b>	<b>\$ (4,256)</b>	<b>\$ (2,360)</b>
<b>Components of Subsidy Transfers</b>		
Interest Costs	-	(4,548)
Defaults, Net of Recoveries	-	178
Fees	-	520
Other	-	1,647
<b>Current Year Subsidy Transfers</b>	<b>-</b>	<b>(2,203)</b>
<b>Components of Subsidy Re-estimates</b>		
Interest Rate Re-estimates	(518)	1,299
Technical and Default Re-estimates	(323)	438
<b>Subsidy Re-estimates</b>	<b>(841)</b>	<b>1,737</b>
<b>Activity</b>		
Fee Disbursements	(31)	(644)
Subsidy Allowance Amortization	381	(314)
Direct Asset Activities and Other	332	(472)
<b>Total Activity</b>	<b>682</b>	<b>(1,430)</b>
<b>Ending Balance, Allowance for Subsidy</b>	<b>\$ (4,415)</b>	<b>\$ (4,256)</b>

### Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2011	2010
<b>Beginning Balance, Allowance for Subsidy</b>	<b>\$ (5,090)</b>	<b>\$ (2,717)</b>
<b>Components of Subsidy Transfers</b>		
Interest Costs	-	(3,662)
Defaults, Net of Recoveries	-	254
Fees	-	(693)
Other	-	2,194
<b>Current Year Subsidy Transfers</b>	<b>-</b>	<b>(1,907)</b>
<b>Components of Subsidy Re-estimates</b>		
Interest Rate Re-estimates	(1,495)	2,621
Technical and Default Re-estimates	(2,569)	(1,321)
<b>Subsidy Re-estimates</b>	<b>(4,064)</b>	<b>1,300</b>
<b>Activity</b>		
Fee Disbursements	(655)	(837)
Subsidy Allowance Amortization	635	(673)
Direct Asset Activities and Other	610	(256)
<b>Total Activity</b>	<b>590</b>	<b>(1,766)</b>
<b>Ending Balance, Allowance for Subsidy</b>	<b>\$ (8,564)</b>	<b>\$ (5,090)</b>





**Financing Account Interest Expense and Interest Revenue**

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

The Department accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by the Department. Interest receivable is accrued on defaulted guaranteed loans, with an offset to the allowance for subsidy. The Department does not record interest revenue on defaulted guaranteed loans.

Subsidy amortization is calculated as the difference between interest revenue and interest expense. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

**William D. Ford Federal Direct Loan Program.** The following schedule summarizes the Direct Loan financing account interest expense and interest revenue for the years ended September 30, 2011 and 2010:

**Direct Loan Program**

(Dollars in Millions)

	2011	2010
Interest Expense on Treasury Borrowing	\$ 14,321	\$ 10,514
<b>Interest Expense</b>	<b>\$ 14,321</b>	<b>\$ 10,514</b>
Interest Revenue from the Public	\$ 12,466	\$ 7,352
Amortization of Subsidy	(1,638)	500
Interest Revenue on Uninvested Funds	3,493	2,662
<b>Interest Revenue</b>	<b>\$ 14,321</b>	<b>\$ 10,514</b>

**Payable to Treasury**

Payable to Treasury, for the years ended September 30, 2011 and 2010, consisted of the following:

**Payable to Treasury**

(Dollars in Millions)

	2011	2010
<b>Future Liquidating Account Collections, Beginning Balance</b>	<b>\$ 2,424</b>	<b>\$ 3,569</b>
Valuation of Pre-1992 Loan Liability and Allowance	1,787	(717)
Capital Transfers to Treasury	(325)	(428)
<b>Future Liquidating Account Collections, Ending Balance</b>	<b>3,886</b>	<b>2,424</b>
<b>Payable to Treasury</b>	<b>\$ 3,886</b>	<b>\$ 2,424</b>



**Subsidy Expense****William D. Ford Federal Direct Loan Program****Direct Loan Program Subsidy Expense**

(Dollars in Millions)

	<b>2011</b>	<b>2010</b>
<b>Components of Current Year Subsidy Transfers</b>		
Interest Rate Differential	\$ (26,898)	\$ (11,708)
Defaults, Net of Recoveries	2,342	1,307
Fees	(1,739)	(1,067)
Other	9,264	5,158
<b>Current Year Subsidy Transfers</b>	<b>(17,031)</b>	<b>(6,310)</b>
Subsidy Re-estimates	(11,599)	4,743
<b>Direct Loan Subsidy Expense</b>	<b>\$ (28,630)</b>	<b>\$ (1,567)</b>

William D. Ford Federal Direct Loan re-estimated subsidy cost was adjusted downward by \$11.6 billion in FY 2011. Costs decreased \$5.7 billion due to updated economic assumptions, including probabilistic estimating, discount rates, and weighted consolidation loan interest rates. The availability of new information allowed Direct Loan death, disability, and bankruptcy rates to be estimated directly rather than having to use the FFEL rates, reducing cost by \$1.5 billion. The decrease in costs is due to lower bankruptcy rates used in formulating the estimate for Direct Loans. Court action usually prevents discharges of Direct student loans. Costs decreased by \$1.0 billion due to updated actual activity indicating slightly lower rates of prepayments, resulting in higher interest earnings from borrowers. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations, for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost \$1.1 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994-2010.

William D. Ford Federal Direct Loan re-estimated subsidy cost increased \$4.7 billion in FY 2010. The majority of this increase was related to discount rate changes increasing costs by \$2.2 billion. Changes in assumptions for income-based repayments and public service loan forgiveness increased subsidy cost by \$611 million. Rising default rates increased subsidy cost \$226 million. Changes in other interest components, probabilistic methodology for estimating, and an uptick in consolidated weighted rates increased costs by \$887 million. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations, for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost \$662 million. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994-2009.





## Federal Family Education Loan Program

## FFEL Program Subsidy Expense

(Dollars in Millions)

	<u>2011</u>	<u>2010</u>
<b><u>FFEL Guaranteed Loan Program</u></b>		
<b>Components of Current Year Subsidy Transfers</b>		
Interest Supplement Costs	\$ -	\$ (733)
Defaults, Net of Recoveries	-	212
Fees	-	(960)
Other	-	878
<b>Current Year Subsidy Transfers</b>	<b>-</b>	<b>(603)</b>
Subsidy Re-estimates	(11,221)	(12,668)
<b>FFEL Guaranteed Loan Program Subsidy Expense</b>	<b>(11,221)</b>	<b>(13,271)</b>
<b><u>Temporary Loan Purchase Authority</u></b>		
<b>Loan Purchase Commitment</b>		
<b>Components of Current Year Subsidy Transfers</b>		
Interest Costs	-	(4,548)
Defaults, Net of Recoveries	-	178
Fees	-	520
Other	-	1,647
<b>Current Year Subsidy Transfers</b>	<b>-</b>	<b>(2,203)</b>
Subsidy Re-estimates	(841)	1,737
<b>Loan Purchase Commitment Subsidy Expense</b>	<b>(841)</b>	<b>(466)</b>
<b>Loan Participation Purchase</b>		
<b>Components of Current Year Subsidy Transfers</b>		
Interest Costs	-	(3,662)
Defaults, Net of Recoveries	-	254
Fees	-	(693)
Other	-	2,194
<b>Current Year Subsidy Transfers</b>	<b>-</b>	<b>(1,907)</b>
Subsidy Re-estimates	(4,064)	1,300
<b>Loan Participation Purchase Subsidy Expense</b>	<b>(4,064)</b>	<b>(607)</b>
<b>FFEL Program Subsidy Expense</b>	<b>\$ (16,126)</b>	<b>\$ (14,344)</b>

FFEL Guaranteed subsidy cost was adjusted downward \$11.2 billion in FY 2011. Costs decreased \$5.5 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Costs decreased \$2.0 billion due to multiple assumption changes affecting the Guaranteed ECASLA cash flows. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations, for example, a 1 percent increase in borrower interest rates and the guaranteed





yield for lenders would increase projected FFEL costs by \$13.4 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1992-2010.

FFEL Guaranteed re-estimated subsidy cost decreased \$12.7 billion in FY 2010. The change in consolidated weighted rates decreased subsidy cost \$6.6 billion. Interest rates and probabilistic methodology for estimating decreased subsidy costs \$3.7 billion. ECASLA and other volume adjustments decreased subsidy cost \$1.7 billion. Loan deferment increases produced an increase in subsidy cost of \$1 billion. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations, for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by \$17 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1992-2009.

**Subsidy Rates**

The subsidy rates applicable to the 2011 loan cohort year follow:

**Subsidy Rates—Cohort 2011**

	Interest Differential/ Supplements	Defaults	Fees	Other	Total
Direct Loan Program	(20.55%)	1.69%	(1.22%)	6.18%	(13.90%)
TEACH Program	4.29%	0.52%	0.00%	7.92%	12.73%

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year. The subsidy expense for new direct loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year includes re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2011 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

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



**Administrative Expenses**

Administrative Expenses, for the years ended September 30, 2011 and 2010, consisted of the following:

**Administrative Expenses**

(Dollars in Millions)

	2011		2010	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	\$ 661	\$ 388	\$ 536	\$ 314
Other Expense	30	18	22	13
<b>Administrative Expenses</b>	<b>\$ 691</b>	<b>\$ 406</b>	<b>\$ 558</b>	<b>\$ 327</b>

**Note 7. General Property, Plant, and Equipment**

General Property, Plant, and Equipment, as of September 30, 2011 and 2010, consisted of the following:

**General Property, Plant, and Equipment**

(Dollars in Millions)

	2011		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	\$ 125	\$ (111)	\$ 14
Furniture and Fixtures	2	(2)	-
<b>General Property, Plant, and Equipment</b>	<b>\$ 127</b>	<b>\$ (113)</b>	<b>\$ 14</b>

	2010		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	\$ 122	\$ (97)	\$ 25
Furniture and Fixtures	2	(2)	-
<b>General Property, Plant, and Equipment</b>	<b>\$ 124</b>	<b>\$ (99)</b>	<b>\$ 25</b>

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

**Leases**

FSA leases information technology and telecommunications equipment as part of a contractor-owned contractor-operated services contract. Lease payments associated with the equipment are classified as operating leases and as such are expensed as incurred. The non-cancelable





lease term is one year, with the right to extend the lease term by exercising additional one-year options.

### Note 8. Other Assets

Other Assets (with the public) consist of payments made to grant recipients in advance of their expenditures and in-process invoices for interest benefits and special allowances for the FFEL Program. Other Assets (with the public) were \$27 million and \$83 million as of September 30, 2011 and 2010, respectively.

### Note 9. Debt

Debt, as of September 30, 2011 and 2010, consisted of the following:

<b>Debt</b>				
(Dollars in Millions)				
	<b>2011</b>			
	<u>Beginning Balance</u>	<u>New Borrowing</u>	<u>Repayments</u>	<u>Ending Balance</u>
<b>Treasury Debt</b>				
Direct Loan Program	\$ 237,190	\$ 167,071	\$ (11,887)	\$ 392,374
FFEL Program				
Guaranteed Loan Program	10,730	18,754	-	29,484
Loan Purchase Commitment	45,205	1,394	(2,740)	43,859
Loan Participation Purchase	79,577	5,352	(5,627)	79,302
ABCP Conduit	804	250	(90)	964
TEACH Program	150	133	(2)	281
<b>Total</b>	<b><u>\$ 373,656</u></b>	<b><u>\$ 192,954</u></b>	<b><u>\$ (20,346)</u></b>	<b><u>\$ 546,264</u></b>
	<b>2010</b>			
	<u>Beginning Balance</u>	<u>New Borrowing</u>	<u>Repayments</u>	<u>Ending Balance</u>
<b>Treasury Debt</b>				
Direct Loan Program	\$ 154,218	\$ 91,192	\$ (8,220)	\$ 237,190
FFEL Program				
Guaranteed Loan Program	1,474	9,285	(29)	10,730
Loan Purchase Commitment	24,877	21,744	(1,416)	45,205
Loan Participation Purchase	53,977	32,206	(6,606)	79,577
ABCP Conduit	244	650	(90)	804
TEACH Program	68	98	(16)	150
<b>Total</b>	<b><u>\$ 234,858</u></b>	<b><u>\$ 155,175</u></b>	<b><u>\$ (16,377)</u></b>	<b><u>\$ 373,656</u></b>

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



**Note 10. Other Liabilities**

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

The current liabilities covered by budgetary resources primarily consist of downward subsidy re-estimates, which when executed will be paid to Treasury.

Other Liabilities, as of September 30, 2011 and 2010, consisted of the following:

**Other Liabilities**

(Dollars in Millions)

	2011		2010	
	Intragovern- mental	With the Public	Intragovern- mental	With the Public
<b>Liabilities Covered by Budgetary Resources</b>				
<b>Current</b>				
Employer Contributions and Payroll Taxes	\$ 2	\$ -	\$ 1	\$ -
Accrued Payroll and Benefits	-	8	-	7
Deferred Revenue	-	62	-	182
Liabilities in Miscellaneous Receipt Accounts	6,506	-	12,647	-
<b>Total Other Liabilities Covered by Budgetary Resources</b>	<b>6,508</b>	<b>70</b>	<b>12,648</b>	<b>189</b>
<b>Liabilities Not Covered by Budgetary Resources</b>				
<b>Current</b>				
Accrued Unfunded Annual Leave	-	10	-	9
<b>Non-Current</b>				
Accrued Unfunded FECA Liability	1	-	1	-
Liabilities in Miscellaneous Receipt Accounts	215	-	183	-
Accrued FECA Actuarial Liability	-	5	-	4
<b>Total Other Liabilities Not Covered by Budgetary Resources</b>	<b>216</b>	<b>15</b>	<b>184</b>	<b>13</b>
<b>Other Liabilities</b>	<b>\$ 6,724</b>	<b>\$ 85</b>	<b>\$ 12,832</b>	<b>\$ 202</b>

**Liabilities Not Covered by Budgetary Resources**

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled \$231 million and \$197 million as of September 30, 2011 and 2010, respectively.

As of September 30, 2011 and 2010, liabilities on the Balance Sheet totaled \$575.7 billion and \$413.7 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled \$575.5 billion as of September 30, 2011, and \$413.5 billion as of September 30, 2010.



**Note 11. Accrued Grant Liability**

FSA's accrued grant liability was \$3,036 million and \$2,619 million as of September 30, 2011 and 2010, respectively. These amounts include \$0 million and \$603 million accrued grant liability for Recovery Act funds administered by FSA for FY 2011 and FY 2010, respectively.

**Note 12. Net Position**

Unexpended appropriations, as of September 30, 2011 and 2010, consisted of the following:

**Unexpended Appropriations**

(Dollars in Millions)

	<u>2011</u>	<u>2010</u>
Unobligated Balances		
Available	\$ 1,117	\$ 166
Not Available	398	988
Undelivered Orders	19,926	15,544
Authority Temporarily Precluded from Obligation	-	561
<b>Unexpended Appropriations</b>	<b><u>\$ 21,441</u></b>	<b><u>\$ 17,259</u></b>

FSA had Cumulative Results of Operations of \$(3,138) million as of September 30, 2011, and \$(6,812) million as of September 30, 2010. Cumulative Results of Operations consists mostly of unfunded upward subsidy re-estimates, other unfunded expenses, and net investments of capitalized assets.





**Note 13. Intragovernmental Cost and Exchange Revenue by Program**

As required by the *GPRRA Modernization Act of 2010*, FSA's reporting organization has been aligned with Strategic Goal 1 presented in the U.S. Department of Education's *Strategic Plan 2011—2014*. Strategic Goal 1, Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults, is a sharply defined directive that guides divisions to carry out the vision and programmatic mission of FSA.

The goals of the Recovery Act are consistent with the Department's current strategic goals and programs. For reporting purposes, an American Recovery and Reinvestment Act net cost program has been created.

The following table presents FSA's gross cost and exchange revenue by program for FY 2011 and FY 2010. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between FSA and other entities within the federal government) or with the public (exchange transactions between FSA and non-federal entities).

**Gross Cost and Exchange Revenue by Program**

(Dollars in Millions)

	2011	2010
<b><i>Increase College Access, Quality, and Completion</i></b>		
Intragovernmental Gross Cost	\$ 20,247	\$ 16,286
Public Gross Cost	(3,435)	11,542
Total Gross Program Costs	16,812	27,828
Intragovernmental Earned Revenue	5,304	5,862
Public Earned Revenue	14,908	11,209
Total Program Earned Revenue	20,212	17,071
<b>Total Program Cost</b>	<b>(3,400)</b>	<b>10,757</b>
<b><i>American Recovery and Reinvestment Act</i></b>		
Intragovernmental Gross Cost	-	-
Public Gross Cost	27	8,920
Total Gross Program Costs	27	8,920
Intragovernmental Earned Revenue	-	-
Public Earned Revenue	-	-
Total Program Earned Revenue	-	-
<b>Total Program Cost</b>	<b>27</b>	<b>8,920</b>
<b>Net Cost of Operations</b>	<b>\$ (3,373)</b>	<b>\$ 19,677</b>



**Note 14. Interest Expense and Interest Revenue**

For FY 2011 and FY 2010, interest expense and interest revenue by program consisted of the following:

**Interest Expense and Interest Revenue**

(Dollars in Millions)

	2011					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	\$ 14,321	\$ -	\$ 14,321	\$ 3,493	\$ 10,828	\$ 14,321
FFEL Program						
Guaranteed Loan Program	1,331	(867)	464	464	-	464
Loan Purchase Commitment	1,552	-	1,552	77	1,475	1,552
Loan Participation Purchase	2,916	-	2,916	385	2,531	2,916
ABCP Conduit	48	-	48	18	30	48
TEACH Program	9	-	9	3	6	9
<b>Total</b>	<b>\$ 20,177</b>	<b>\$ (867)</b>	<b>\$ 19,310</b>	<b>\$ 4,440</b>	<b>\$ 14,870</b>	<b>\$ 19,310</b>

	2010					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	\$ 10,514	\$ -	\$ 10,514	\$ 2,662	\$ 7,852	\$ 10,514
FFEL Program						
Guaranteed Loan Program	474	(152)	322	322	-	322
Loan Purchase Commitment	1,771	-	1,771	631	1,140	1,771
Loan Participation Purchase	3,397	-	3,397	1,222	2,175	3,397
ABCP Conduit	41	-	41	29	12	41
TEACH Program	7	-	7	3	4	7
<b>Total</b>	<b>\$ 16,204</b>	<b>\$ (152)</b>	<b>\$ 16,052</b>	<b>\$ 4,869</b>	<b>\$ 11,183</b>	<b>\$ 16,052</b>

Federal interest expense is recognized on the Department's outstanding debt. Non-federal interest revenue is earned on the individual loans and participation interests in FFEL loans. Federal interest revenue is earned on the uninvested Fund Balance with Treasury.

**Note 15. Statement of Budgetary Resources**

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2011, budgetary resources were \$316,646 million and net outlays were \$161,884 million. As of September 30, 2010, budgetary resources were \$280,742 million and net outlays were \$156,225 million.

**Permanent Indefinite Budget Authority**

The Direct Loan, FFEL, and TEACH Programs have permanent indefinite budget authority through legislation. Parts B and D of the HEA (for the FFEL Program and Direct Loan Program,





respectively) pertain to the existence, purpose, and availability of this permanent indefinite budget authority.

### Reauthorization of Legislation

Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current Budget of the United States Government presumes all programs continue per congressional budgeting rules.

### Obligations Incurred by Apportionment Category

Obligations incurred by apportionment category, as of September 30, 2011 and 2010, consisted of the following:

#### Obligations Incurred by Apportionment Category

(Dollars in Millions)

	2011	2010
Direct		
Category A	\$ 5	\$ 910
Category B	296,056	260,245
Exempt from Apportionment	2,166	4
<b>Obligations Incurred</b>	<b>\$ 298,227</b>	<b>\$ 261,159</b>

Category A apportionments are those resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

### Unused Borrowing Authority

Unused borrowing authority, as of September 30, 2011 and 2010, consisted of the following:

#### Unused Borrowing Authority

(Dollars in Millions)

	2011	2010
<b>Beginning Balance, Unused Borrowing Authority</b>	<b>\$ 132,905</b>	<b>\$ 106,147</b>
Current Year Borrowing Authority	211,802	182,901
Funds Drawn From Treasury	(192,954)	(155,175)
Borrowing Authority Withdrawn	(9,776)	(968)
<b>Ending Balance, Unused Borrowing Authority</b>	<b>\$ 141,977</b>	<b>\$ 132,905</b>





FSA is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and TEACH Programs. Unused borrowing authority is a budgetary resource and is available to support obligations. FSA periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

### Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2011 and 2010, consisted of the following:

#### Undelivered Orders

(Dollars in Millions)

	2011	2010
Budgetary	\$ 19,968	\$ 15,589
Non-Budgetary	160,824	147,032
<b>Undelivered Orders (Unpaid)</b>	<b>\$ 180,792</b>	<b>\$ 162,621</b>

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in the Net Position, Unexpended Appropriations. Undelivered orders for federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 12)

### Distributed Offsetting Receipts

The majority of the Distributed Offsetting Receipts line item on the SBR represents amounts paid from the Direct Loan Program and FFEL Program financing accounts to general fund receipt accounts for downward re-estimates and negative subsidies. Distributed Offsetting Receipts, for the years ended September 30, 2011 and 2010, consisted of the following:

#### Distributed Offsetting Receipts

(Dollars in Millions)

	2011	2010
Negative Subsidies and Downward Re-estimates:		
FFEL Program	\$ 24,670	\$ 16,389
Direct Loan Program	25,502	12,375
TEACH Program	6	1
Subtotal	50,178	28,765
Other	19	22
<b>Undelivered Orders (Unpaid)</b>	<b>\$ 50,197</b>	<b>\$ 28,787</b>





### **Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

Budgetary accounting as shown in the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Funds of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the FY 2010 Statement of Budgetary Resources for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.





## Note 16. Reconciliation of Budgetary Obligations to Net Cost of Operations

The Reconciliation of Budgetary Obligations to Net Cost of Operations provides information on how budgetary resources obligated during the period relate to the net cost of operations by: (1) removing resources that do not fund net cost of operations, and (2) including components of net cost of operations that did not generate or use resources during the year.

The Reconciliation of Budgetary Obligations to Net Cost of Operations, as of September 30, 2011 and 2010, are presented below:

### Reconciliation of Budgetary Obligations to Net Cost of Operations

(Dollars in Millions)

	2011	2010
<b><u>Resources Used to Finance Activities:</u></b>		
Obligations Incurred	\$ 298,227	\$ 261,159
Spending Authority from Offsetting Collections and Recoveries	(67,908)	(58,262)
Offsetting Receipts	(50,197)	(28,787)
<b>Net Budgetary Resources Obligated</b>	<b>180,122</b>	<b>174,110</b>
Imputed Financing from Costs Absorbed by Others	12	10
Other Financing Sources	(42,764)	(31,223)
<b>Net Other Resources</b>	<b>(42,752)</b>	<b>(31,213)</b>
<b>Net Resources Used to Finance Activities</b>	<b>137,370</b>	<b>142,897</b>
<b><u>Less: Resources Used or Generated for Items Not Part of the Net Cost of Operations:</u></b>		
Increase/(Decrease) in Budgetary Resources Obligated but Not Yet Provided	17,611	15,810
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(5,785)	(10,883)
Credit Program Collections	(43,314)	(43,410)
Acquisition of Fixed Assets	3	10
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	201,458	179,632
Resources from Non-Entity Activity	(42,764)	(31,223)
<b>Net Resources That Do Not Finance the Net Cost of Operations</b>	<b>127,209</b>	<b>109,936</b>
<b>Net Resources Used to Finance the Net Cost of Operations</b>	<b>10,161</b>	<b>32,961</b>
<b><u>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</u></b>		
Depreciation	14	19
Subsidy Amortization and Interest on the Liability for Loan Guarantees	1,806	(1,640)
Other	1	(1)
<b>Total Components Not Requiring or Generating Resources</b>	<b>1,821</b>	<b>(1,622)</b>
Increase in Annual Leave Liability	1	1
Accrued Re-estimates of Credit Subsidy Expense	(3,329)	(5,785)
Increase in Exchange Revenue Receivable from the Public	(12,010)	(5,875)
Other	(17)	(3)
<b>Total Components Requiring or Generating Resources in Future Periods</b>	<b>(15,355)</b>	<b>(11,662)</b>
<b>Total Components That Will Not Require or Generate Resources in the Current Period</b>	<b>(13,534)</b>	<b>(13,284)</b>
<b>Net Cost of Operations</b>	<b>\$ (3,373)</b>	<b>\$ 19,677</b>



**Note 17. American Recovery and Reinvestment Act of 2009**

The Recovery Act provided \$16,543 million for student aid administration and student financial assistance programs managed and administered by FSA. Funds provided for student financial assistance programs included additional Pell Grant authority for low and middle-income undergraduate students, an increase to the per Pell grant amount, and additional funding made available in the federal work study program. Additional student aid administration funding was provided to increase the number of Title IV student loan servicing vehicles and to improve operational performance to collect and deliver loan and grant data.

The status of Recovery Act funding, as of September 30, 2011 and 2010, are presented below:

**American Recovery and Reinvestment Act of 2009**

(Dollars in Millions)

	<b>Cumulative Totals as of September 30, 2011</b>		
	<b>Appropriations</b>	<b>Obligations</b>	<b>Outlays</b>
Student Financial Assistance:			
Federal Pell Grants	\$ 15,640	\$ 15,640	\$ 15,618
Mandatory Add-on Pell Grants	643	643	643
Federal Work Study Grants	200	200	200
<b>Total Student Financial Assistance</b>	<b>16,483</b>	<b>16,483</b>	<b>16,461</b>
Student Aid Administration	60	60	60
<b>Total</b>	<b>\$ 16,543</b>	<b>\$ 16,543</b>	<b>\$ 16,521</b>

**American Recovery and Reinvestment Act of 2009**

(Dollars in Millions)

	<b>Cumulative Totals as of September 30, 2010</b>		
	<b>Appropriations</b>	<b>Obligations</b>	<b>Outlays</b>
Student Financial Assistance:			
Federal Pell Grants	\$ 15,640	\$ 15,640	\$ 14,950
Mandatory Add-on Pell Grants*	643	643	643
Federal Work Study Grants	200	200	199
<b>Total Student Financial Assistance</b>	<b>16,483</b>	<b>16,483</b>	<b>15,792</b>
Student Aid Administration	60	60	52
<b>Total</b>	<b>\$ 16,543</b>	<b>\$ 16,543</b>	<b>\$ 15,844</b>

\*An additional \$831 million provided by the Recovery Act was to be made available during FY 2010; however, this funding was repealed by the *Health Care and Education Reconciliation Act of 2010*, effective July 1, 2010.



**Note 18. Contingencies****Guaranty Agencies**

FSA can assist guaranty agencies experiencing financial difficulties by various means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of guaranty agencies because the likelihood of such occurrences cannot be estimated with sufficient reliability.

**Federal Perkins Loan Program Reserve**

The Federal Perkins Loan Program is a campus-based program that provides financial assistance to eligible postsecondary school students. In FY 2011, the Department provided funding of 82.6 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.4 percent of program funding. For the academic latest year ended June 30, 2011, approximately 459 thousand loans were made, totaling approximately \$853.9 million at 1,505 institutions, averaging \$1,859 per loan. The Department's share of the Federal Perkins Loan Program was approximately \$6.6 billion as of June 30, 2011.

In FY 2010, the Department provided funding of 82.5 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.5 percent of program funding. For the academic year ended June 30, 2010, approximately 441 thousand loans were made, totaling approximately \$816.4 million at 1,540 institutions, averaging 1,852 per loan. The Department's share of the Federal Perkins Loan Program was approximately \$6.6 billion as of June 30, 2010.

Federal Perkins Loan Program borrowers who meet statutory eligibility requirements—such as those who provide service as teachers in low-income areas or as Peace Corps or AmeriCorps VISTA volunteers, as well as those who serve in the military, law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances, a contingency is deemed to exist. The Department may be required to compensate Federal Perkins Loan Program institutions for the cost of the partial loan forgiveness.

**Litigation and Other Claims**

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on FSA's financial position.

**Other Matters**

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the FSA's financial position.







## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Human Capital investments are those expenses included in net cost for general public education and training programs that are intended to increase or maintain national economic productive capacity.

Expenses incurred for human capital investments consisted of the following for FY 2011 and the preceding four years:

### Summary of Human Capital Expenses

	(Dollars in Millions)				
	2011	2010	2009	2008	2007
<b>Federal Student Aid Expense</b>					
Direct Loan Subsidy	\$ (28,630)	\$ (1,567)	\$ (9,603)	\$ 5,236	\$ (499)
FFEL Program Subsidy	(16,126)	(14,344)	(29,940)	(2,852)	4,884
Recovery Act	18	8,869	7,571		
Grant Programs	39,008	26,799	17,302	17,464	15,092
Salaries and Administrative	193	208	186	189	173
<b>Total</b>	<b>\$ (5,537)</b>	<b>\$ 19,965</b>	<b>\$ (14,484)</b>	<b>\$ 20,037</b>	<b>\$ 19,650</b>

The Direct Loan Program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the U.S. Treasury. With the passage of SAFRA last year, which eliminated new loan originations from the FFEL program, loans that were previously made through the FFEL program are made through the Direct Loan Program.

Although there have been no new loan originations through the FFEL Loan Program since June 30, 2010, it operates with state and private nonprofit guaranty agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students. The FFEL Loan Program expenses include the Loan Participation Purchase and Loan Purchase Commitment expenses of \$(4,064) million and \$(841) million respectively.

The TEACH Grant program, authorized by the CCRAA, awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans.

Grant programs include the Pell Grant Program that awards direct grants through participating institutions to undergraduate students with financial need. Participating institutions either credit the appropriated funds to the student's school account or pay the student directly once per term. Signed into law in 2006, the ACG and the National SMART Programs are available to encourage eligible students to take more challenging courses in high school and to pursue college majors in high demand in the global economy. These programs sunset at the conclusion of the 2010-2011 award year.





Federal Student Aid's programs link with the overall initiatives of the Department in enhancing education—a fundamental stepping-stone to higher living standards for American citizens. While education is vital to national economic growth, education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

In the past, economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Both individuals and society as a whole continue to place increased emphasis on educational attainment as the workplace has become increasingly technological, and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society includes reduced reliance on welfare subsidies, increased participation in civic activities and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of investing in postsecondary education.



**REQUIRED SUPPLEMENTARY INFORMATION**

**United States Department of Education  
Federal Student Aid  
Combining Statement of Budgetary Resources  
For the Year Ended September 30, 2011  
(Dollars in Millions)**

	Combined		American Recovery and Reinvestment Act	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1	\$ 4,174	\$ 15,409		
Recoveries of prior year Unpaid Obligations	985	12,192	\$ 43	
Budgetary Authority:				
Appropriations	48,532			
Borrowing Authority (Note 15)		211,802		
Spending authority from offsetting collections (gross):				
Earned				
Collected	1,719	53,011		
Change in unfilled customers orders				
Without advance from Federal Sources		1		
Subtotal	\$ 50,251	\$ 264,814	\$ 0	\$ 0
Permanently not available	(1,057)	(30,122)		
<b>Total Budgetary Resources (Note 15)</b>	<b>\$ 54,353</b>	<b>\$ 262,293</b>	<b>\$ 43</b>	<b>\$ 0</b>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: Direct (Note 15)	\$ 50,938	\$ 247,289	\$ 43	
Unobligated Balances: Apportioned	1,214	512		
Unobligated Balance not available	2,201	14,492		
<b>Total Status of Budgetary Resources</b>	<b>\$ 54,353</b>	<b>\$ 262,293</b>	<b>\$ 43</b>	<b>\$ 0</b>
<b>Change in Obligated Balance:</b>				
Obligated balance, net: Unpaid obligations, brought forward, October 1	\$ 18,592	\$ 150,605	\$ 699	
Uncollected customer payments from Federal Sources, brought forward, October 1		(4)		
Total, unpaid obligated balance, brought forward, net	\$ 18,592	\$ 150,601	\$ 699	\$ 0
Obligation Incurred, net (+/-)	50,938	247,289	43	
Gross Outlays	(45,305)	(221,506)	(677)	
Recoveries of prior year unpaid obligations, actual	(985)	(12,192)	(43)	
Change in uncollected customer payments from Federal Sources (+/-)		(1)		
Obligated Balance, net, end of period:				
Unpaid Obligations	\$ 23,240	\$ 164,196	\$ 22	
Uncollected customer payments from Federal Sources		(5)		
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 23,240</b>	<b>\$ 164,191</b>	<b>\$ 22</b>	<b>\$ 0</b>
<b>Net Outlays:</b>				
Gross Outlays	\$ 45,305	\$ 221,506	\$ 677	
Offsetting collections	(1,719)	(53,011)		
Distributed Offsetting receipts	(50,197)			
<b>Net Outlays (Note 15)</b>	<b>\$ (6,611)</b>	<b>\$ 168,495</b>	<b>\$ 677</b>	<b>\$ 0</b>





**United States Department of Education**  
**Federal Student Aid**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2011**  
(Dollars in Millions)

	Non ARRA Combined		Direct Student Loan Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1	\$ 4,174	\$ 15,409	\$ 23	\$ 2,334
Recoveries of prior year Unpaid Obligations	942	12,192		7,202
Budgetary Authority:				
Appropriations	48,532		2,782	
Borrowing Authority (Note 15)		211,802		186,888
Spending authority from offsetting collections (gross):				
Earned				
Collected	1,719	53,011		25,161
Change in unfilled customers orders				
Without advance from Federal Sources		1		
Subtotal	\$ 50,251	\$ 264,814	\$ 2,782	\$ 212,049
Permanently not available	(1,057)	(30,122)	(23)	(17,689)
<b>Total Budgetary Resources (Note 15)</b>	<b>\$ 54,310</b>	<b>\$ 262,293</b>	<b>\$ 2,782</b>	<b>\$ 203,896</b>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: Direct (Note 15)	\$ 50,895	\$ 247,289	\$ 2,782	\$ 202,079
Unobligated Balances: Apportioned	1,214	512		
Unobligated Balance not available	2,201	14,492		1,817
<b>Total Status of Budgetary Resources</b>	<b>\$ 54,310</b>	<b>\$ 262,293</b>	<b>\$ 2,782</b>	<b>\$ 203,896</b>
<b>Change in Obligated Balance:</b>				
Obligated balance, net: Unpaid obligations, brought forward, October 1	\$ 17,893	\$ 150,605		\$ 55,291
Uncollected customer payments from Federal Sources, brought forward, October 1		(4)		
Total, unpaid obligated balance, brought forward, net	\$ 17,893	\$ 150,601	\$ 0	\$ 55,291
Obligation Incurred, net (+/-)	50,895	247,289	2,782	202,079
Gross Outlays	(44,628)	(221,506)	(2,782)	(173,110)
Recoveries of prior year unpaid obligations, actual	(942)	(12,192)		(7,202)
Change in uncollected customer payments from Federal Sources (+/-)		(1)		
Obligated Balance, net, end of period:				
Unpaid Obligations	\$ 23,218	\$ 164,196		\$ 77,058
Uncollected customer payments from Federal Sources		(5)		
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 23,218</b>	<b>\$ 164,191</b>	<b>\$ 0</b>	<b>\$ 77,058</b>
<b>Net Outlays:</b>				
Gross Outlays	\$ 44,628	\$ 221,506	\$ 2,782	\$ 173,110
Offsetting collections	(1,719)	(53,011)		(25,161)
Distributed Offsetting receipts	(50,197)		(25,502)	
<b>Net Outlays (Note 15)</b>	<b>\$ (7,288)</b>	<b>\$ 168,495</b>	<b>\$ (22,720)</b>	<b>\$ 147,949</b>





**United States Department of Education**  
**Federal Student Aid**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2011**  
(Dollars in Millions)

	Teach Grant Program		Federal Family Education Loan Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1	\$ 7		\$ 3,021	\$ 13,075
Recoveries of prior year Unpaid Obligations		\$ 1	6	4,989
Budgetary Authority:				
Appropriations	22		177	
Borrowing Authority (Note 15)		160		24,754
Spending authority from offsetting collections (gross):				
Earned				
Collected		24	1,498	27,826
Change in unfilled customers orders				
Without advance from Federal Sources		1		
Subtotal	\$ 22	\$ 185	\$ 1,675	\$ 52,580
Permanently not available		(2)	(325)	(12,431)
<b>Total Budgetary Resources (Note 15)</b>	<b>\$ 29</b>	<b>\$ 184</b>	<b>\$ 4,377</b>	<b>\$ 58,213</b>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: Direct (Note 15)	\$ 22	\$ 184	\$ 2,476	\$ 45,026
Unobligated Balances: Apportioned			98	512
Unobligated Balance not available	7		1,803	12,675
<b>Total Status of Budgetary Resources</b>	<b>\$ 29</b>	<b>\$ 184</b>	<b>\$ 4,377</b>	<b>\$ 58,213</b>
<b>Change in Obligated Balance:</b>				
Obligated balance, net: Unpaid obligations, brought forward, October 1	\$ 5	\$ 47	\$ 24	\$ 95,267
Uncollected customer payments from Federal Sources, brought forward, October 1		(4)		
Total, unpaid obligated balance, brought forward, net	\$ 5	\$ 43	\$ 24	\$ 95,267
Obligation Incurred, net (+/-)	22	184	2,476	45,026
Gross Outlays	(19)	(142)	(2,474)	(48,254)
Recoveries of prior year unpaid obligations, actual		(1)	(6)	(4,989)
Change in uncollected customer payments from Federal Sources (+/-)		(1)		
Obligated Balance, net, end of period:				
Unpaid Obligations	\$ 8	\$ 88	\$ 20	\$ 87,050
Uncollected customer payments from Federal Sources		(5)		
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 8</b>	<b>\$ 83</b>	<b>\$ 20</b>	<b>\$ 87,050</b>
<b>Net Outlays:</b>				
Gross Outlays	\$ 19	\$ 142	\$ 2,474	\$ 48,254
Offsetting collections		(24)	(1,498)	(27,826)
Distributed Offsetting receipts	(6)		(24,670)	
<b>Net Outlays (Note 15)</b>	<b>\$ 13</b>	<b>\$ 118</b>	<b>\$ (23,694)</b>	<b>\$ 20,428</b>





**United States Department of Education**  
**Federal Student Aid**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2011**  
(Dollars in Millions)

	<u>Grant Programs</u>		<u>Administrative Funds</u>	
	<u>Budgetary</u>	<u>Non-Budgetary Credit Reform Financing Accounts</u>	<u>Budgetary</u>	<u>Non-Budgetary Credit Reform Financing Accounts</u>
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1	\$ 1,115		\$ 8	
Recoveries of prior year Unpaid Obligations	932		4	
Budgetary Authority:				
Appropriations	44,351		1,200	
Borrowing Authority (Note 15)				
Spending authority from offsetting collections (gross):				
Earned				
Collected	221			
Change in unfilled customers orders				
Without advance from Federal Sources				
Subtotal	\$ 44,572	\$ 0	\$ 1,200	\$ 0
Permanently not available	(645)		(64)	
<b>Total Budgetary Resources (Note 15)</b>	<b>\$ 45,974</b>	<b>\$ 0</b>	<b>\$ 1,148</b>	<b>\$ 0</b>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: Direct (Note 15)	\$ 44,475		\$ 1,140	
Unobligated Balances: Apportioned	1,108			
Unobligated Balance not available	391		8	
<b>Total Status of Budgetary Resources</b>	<b>\$ 45,974</b>	<b>\$ 0</b>	<b>\$ 1,148</b>	<b>\$ 0</b>
<b>Change in Obligated Balance:</b>				
Obligated balance, net: Unpaid obligations, brought forward, October 1	\$ 17,387		\$ 477	
Uncollected customer payments from Federal Sources, brought forward, October 1				
Total, unpaid obligated balance, brought forward, net	\$ 17,387	\$ 0	\$ 477	\$ 0
Obligation Incurred, net (+/-)	44,475		1,140	
Gross Outlays	(38,274)		(1,079)	
Recoveries of prior year unpaid obligations, actual	(932)		(4)	
Change in uncollected customer payments from Federal Sources (+/-)				
Obligated Balance, net, end of period:				
Unpaid Obligations	\$ 22,656		\$ 534	
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 22,656</b>	<b>\$ 0</b>	<b>\$ 534</b>	<b>\$ 0</b>
<b>Net Outlays:</b>				
Gross Outlays	\$ 38,274		\$ 1,079	
Offsetting collections	(221)			
Distributed Offsetting receipts	(19)			
<b>Net Outlays (Note 15)</b>	<b>\$ 38,034</b>	<b>\$ 0</b>	<b>\$ 1,079</b>	<b>\$ 0</b>





# INDEPENDENT AUDITORS' REPORTS



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**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 15, 2011

James Runcie  
Chief Operating Officer  
Federal Student Aid  
Washington, D.C. 20202

Dear Mr. Runcie:

The enclosed reports present the results of the annual audits of the Federal Student Aid's (FSA) financial statements for fiscal years 2011 and 2010 to comply with the Higher Education Act amendments of 1998. The reports should be read in conjunction with the FSA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of Ernst & Young, LLP (Ernst & Young) to audit the financial statements of FSA as of September 30, 2011 and 2010, and for the years then ended. The contract required that the audits be performed in accordance with U.S. generally accepted government auditing standards and OMB's bulletin, *Audit Requirements for Federal Financial Statements*.

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on FSA's financial statements, or conclusions about the effectiveness of internal control, whether FSA's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or on compliance with laws and regulations.

Ernst & Young is responsible for the enclosed auditor's report and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,

Kathleen S. Tighe  
Inspector General

Enclosures

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





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### Report of Independent Auditors

To the Inspector General  
U.S. Department of Education

We have audited the accompanying consolidated balance sheets of Federal Student Aid (FSA), a performance-based organization of the U.S. Department of Education (the Department) as of September 30, 2011 and 2010, and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of FSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of FSA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSA as of September 30, 2011 and 2010, and its net cost, changes in net position, and budgetary resources, for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 15, 2011, on our consideration of FSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Report of Independent Auditors  
Page 2

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in the Management's Discussion and analysis, required supplementary stewardship information, required supplementary information, and other accompanying information is not a required part of the basic financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. The other accompanying information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it. For the remaining information, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Ernst & Young LLP*

November 15, 2011

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**Report on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Inspector General  
U.S. Department of Education

We have audited the consolidated balance sheet of Federal Student Aid (FSA), a performance-based organization of the U.S. Department of Education (the Department) as of September 30, 2011, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered FSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FSA's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the second preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies,

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Page 2

in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

FSA relies on the Department's Office of Chief Financial Officer (OCFO) to provide support for FSA's financial reporting needs. Specifically, FSA has a memorandum of understanding (MOU) with OCFO that indicates that OCFO is responsible for the following: (1) preparing FSA's financial statements; (2) performing the daily operations of processing transactions in the general ledger; (3) preparing the required financial reporting to OMB and the U.S. Department of the Treasury, such as the SF-133 and the SF-224; and (4) developing and distributing accounting policies and procedures.

In addition, under the MOU, FSA is responsible for: (1) implementing accounting policies and procedures, (2) coordinating with OCFO and Budget Service on all financial reporting issues, and (3) reconciling subsidiary ledgers to supporting documentation and ledgers.

#### SIGNIFICANT DEFICIENCIES

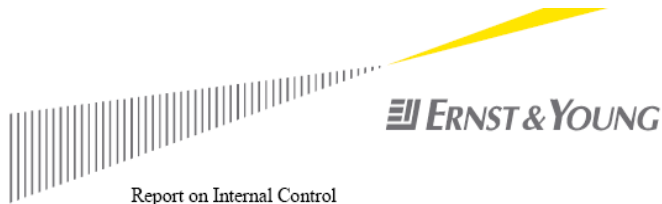
##### **1. Continued Focus on Credit Reform Estimation and Financial Reporting Processes is Warranted (Modified Repeat Condition)**

The Federal Credit Reform Act of 1990, as amended, was enacted to require agencies to more accurately measure and budget for the cost of federal loan programs. In implementing the requirements of the Credit Reform Act, and in complying with Federal accounting standards, agencies are required to estimate the net cost of extending credit over the life of a direct loan or guaranteed loan based on the present value of estimated net cash flows, excluding certain administrative costs. Such net costs are also re-estimated on a periodic basis. While improvements have been made over the last several years, we noted that internal controls and processes surrounding the calculation and reporting of the loan liability activity and allowance for subsidy estimates should be maintained and further refined to ensure that appropriate estimates are prepared.

During the last few years, several pieces of legislation have been enacted that have had a significant impact on the Department's loan programs. The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) legislation, amended the Federal Family Education Loan (FFEL) program and provided the Secretary of Education with temporary authority to purchase student loans from private lenders and enter into forward commitments to purchase FFEL loans. Authority for the majority of the temporary loan purchase programs under ECASLA expired as of September 30, 2010, with the Department finalizing transactions in early fiscal year (FY) 2011. The *Student Aid and Financial Responsibility Act* (SAFRA) included in the *Health Care and Education Reconciliation Act of 2010* provided that no new FFEL loans were authorized

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after June 30, 2010. This increased the Department's responsibility for originating federal student loans, primarily through the William D. Ford Federal Direct Loan program (direct loan program). As part of this process, the Department and FSA have spent significant time and effort managing the transition to the direct loan program, which has resulted in a significant increase in direct loans during FY 2011. The Department brought together representatives from throughout the organization to implement and administer the activities surrounding the transition to direct loans and the wind-down of many activities under the temporary loan purchase authority. Representatives included individuals from OCFO, FSA, and Budget Service.

During FY 2011, the Department completed a cohort-level analysis for both the direct loan and FFEL programs. The Department's financial systems are not configured to account for cash flows on a precise cohort level; consequently, over the last several years the Department developed and refined a methodology to analyze and maintain student loan activity at the origination cohort level. The result of this analysis, the cohort analysis tool, is currently the Department's primary repository of cohort-level data. OMB A-11, *Preparation, Submission, and Execution of the Budget*, the Credit Reform Act and other accounting guidance strongly recommend agencies be able to analyze loan portfolios at the cohort level. Another tool, the forecast, consists of expected cash flows, that, when discounted, can be used to compare to the recorded activity in the general ledger and point out variances. In recent years, growth in unexplained variances has forced the Department to devote substantial resources to analyze and evaluate these differences. Using the cohort analysis tool, the Department has been able to research these variances and demonstrate that balances in the Department's financial records are supported by its estimates.

After identifying the challenges faced by the Department and FSA, as well as the key improvements made or being made by the Department and FSA, we noted the following items that indicate management controls and analysis can be strengthened:

- The long-term cost for the credit programs is reflected in the financial statements through periodic charges for subsidy costs, adjustments or re-estimates to those subsidy costs, and loan activity, which is all recognized in the allowance for the receivables related to the direct loan program and the temporary loan purchase authority, and in the liability for the guaranteed loan (FFEL) program. The Department uses a computer-based cash flow projection model (i.e., Student Loan Model, or SLM) and OMB calculator to calculate subsidy estimates related to the loan programs that are then recorded in the allowance for subsidy or liability accounts. The model uses multiple sources of loan data and hundreds of complex assumptions. In order to perform a check of estimates resulting from the SLM and OMB calculator, the Department prepares a backcast, which compares the model's estimates to actual activity for the current and prior fiscal years. The SLM also produces a forecast of the expected cash flows in the current year for the outstanding loans which, when discounted, can be used to compare to the recorded activity in the general ledger. Comparisons using the backcast and forecast tools, and to the extent

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practical, recomputation of expected amounts based on loan volumes, interest rates, and simplified cash flow assumptions, can serve as key detect controls for potential undetected errors that may exist in the development of the assumption data and credit reform estimates. During our testing, we noted that management has no formal detailed review procedures surrounding the input of the many variables into the SLM, the input of cash flows into the OMB calculator or the process surrounding the analytical tools. Management does perform a high-level review of such data, however, this review is not sufficient to identify errors that may occur at a detailed level. For example, after the current year's financial statements were prepared; management noted an error in the re-estimate calculations that resulted in an adjustment to the financial statements of approximately \$240 million. Additionally, we noted calculation errors in certain of the analytical tools used by the Department, including the back of the envelope reasonableness analytical tool, and fluctuation analysis. While these calculation errors in certain analytical tools did not directly impact amounts in the financial statements, the analytical tools should contain accurate information if they are to serve their purpose as a detect control. Implementing a detail review process may reduce the potential for errors occurring in all aspects of this complex re-estimate and also in the analytical tools, which may facilitate their use in a formalized cross-functional review of the estimates.

- The early phase of the loan estimation process includes the development of the assumptions, which are used to populate the SLM with data that, in turn, feeds into the OMB calculator, which arrives at the actual cost re-estimates. In order to develop many of the assumptions, the Department utilizes the National Student Loan Database System to extract a sample of loan data, which is known as the Statistical Abstract (STAB). The Department then executes internally developed computer programs to arrive at the assumption data that is entered into the SLM. During our review of the development of the death, disability and bankruptcy (DD&B) assumption, we noted that documentation can be further strengthened by performing an attribution analysis that isolates the impact of changes in the methodology from those changes resulting from updated data. Furthermore, we noted that the DD&B rate for the direct loan sample had a very different distribution from that of the FFEL sample. The Department should consider a discussion of the difference between the distribution of the samples from the different loan programs and the reasons for such differences should be incorporated into the Department's documentation. Additionally, during our review of the development of the prepayment assumption, we noted that the description of how future prepayment rates are forecast using the existing actual cohort prepayment rate data could be enhanced by explaining the methodology in greater detail and with more examples or illustrations. Also, we noted further opportunities for documentation improvements in this area. For example, the Department performs certain intermediate data processing steps for this assumption in Excel worksheets. The calculations are complex and can be difficult to follow, and would be enhanced by adding descriptions related to work flow and formulas. Prepayment rate documentation could be further strengthened by including descriptions surrounding the need for manual adjustments and including additional comments to the

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Department's SAS programs to enhance the clarity of the code.

- Consistent with credit reform implementation guidance, the Department relies significantly on prior patterns to estimate future cash flow activity. However, the Department should be more proactive in identifying conditions in which a refinement of such estimates should be made when circumstances suggest that fundamental patterns will change. For example, to the extent that lender or borrower behavior appears likely to have changed, or be changing, deviations from the use of historical data, or consideration of additional information to capture the impact of such changes, may be warranted in developing credit reform estimates. The current economic conditions, including high unemployment, reductions in credit availability for borrowers, and declines in home prices may have a significant impact on student loan borrowers and consequently on the Department's credit reform results. Many of these impacts have not been explicitly reflected in the Department's estimates. During our review of the development of the prepayment assumption, we noted that the Department does not take into account changes in general economic conditions. On occasion, manual overrides are done where rate results are known to be unreasonable and a prepayment rate from an earlier year is used instead. The Department should consider a modeling approach that would allow the prepayment rates to reflect changes in general economic conditions. Additionally, the Department uses the actual prepayment rate pattern from earlier cohorts to predict the future prepayment rates for later cohorts. When calculating the prepayment rate, the denominator reflects only past prepayments, but not scheduled principal payments, defaults, deferments, or forbearances which may cause the prepayment rates to be underestimated. The Department should consider the interactions between prepayments, principal payments, defaults, deferments and forbearance.
- Management's assessment of internal control over financial reporting required under OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A may also provide management with an additional opportunity to objectively review its controls over the credit reform estimation process by individuals outside of Budget Service. The Department's procedures with respect to evaluating the controls over credit reform estimation are evolving and, during FY 2011, focused on evaluating the adequacy of existing controls and identifying potential control gaps. To the extent that management is able to leverage the testing performed under OMB A-123, Appendix A, such results may provide additional feedback in refining and improving controls over the estimation process.

#### **Recommendations:**

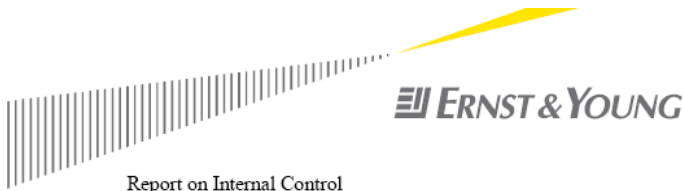
We recommend that Federal Student Aid perform the following:

1. Continue to improve the analytical tools used for the loan estimation process, working to develop formats and content that synthesize and capture loan level data available in the

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Department's and FSA's systems. Specifically:

- Critically assess prepayment, death, disability and bankruptcy rates by cohort in light of recent changes in the economic environment to determine the extent to which there may be differences in performance across cohorts.
  - For a subset of borrowers, obtain credit rating data and track the borrower's ability to pay over time. Utilize the results for further analysis.
2. Implement formal detail review procedures over the input of variables into the SLM, input of cash flows into the OMB calculator and other calculations surrounding the process to avoid potential errors that may negatively affect the re-estimates. Also, perform a detailed review of the input of source data included in the Department's analytical tools to avoid errors and ensure that all analytical tools reconcile with one another to allow for their use as detect controls for loan program cost estimates.
  3. Strengthen the documentation related to assumption development, including documentation and discussion of changes in the methodology and the impact of those changes. Furthermore, improve documentation detail by adding additional descriptions for intermediate data processing steps between SAS programs and Excel worksheets, Excel worksheet work flow and formulas, manual adjustments and comments to SAS programs. Consider the impact of changes in general economic conditions when developing assumptions. The Department should consider a modeling approach that would allow the prepayment rates to reflect these types of factors. Additionally, the Department should consider the interactions between prepayments, scheduled principal payments, defaults, deferments and forbearance.
  4. Consider ways to better leverage management's efforts under Appendix A of OMB Circular A-123 as a way to provide additional focus and attention to the controls surrounding the credit reform estimation process.

## **2. Controls Surrounding Information Systems Need Enhancement (Modified Repeat Condition)**

In connection with the annual audit of FSA's FY 2011 financial statements, we conducted a controls review of the information technology processes related to the significant accounting and financial reporting systems. OMB Circular A-130, *Management of Federal Information Resources*, requires: (1) standard documentation and procedures for certification and accreditation of systems; (2) records management programs that provide adequate and proper documentation of agency activities; (3) agencies to develop internal information policies and procedures and oversee, evaluate, and otherwise periodically review agency information resource management activities; and (4) agency plans to assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system.

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The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* identifies five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring. With respect to the Control Environment and Monitoring components, the GAO publication states that:

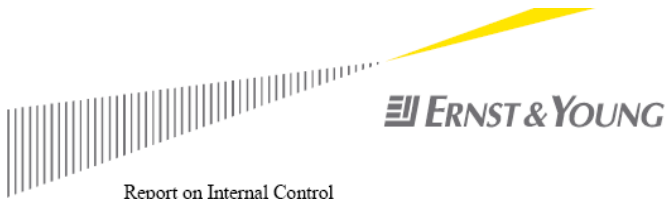
- "management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management," and
- "internal control monitoring should assess the quality of performance over time and ensure that the findings of audit and other reviews are promptly resolved."

While the Department and FSA have worked toward strengthening and improving controls over information technology processes during FY 2011, our audit work and audit reports prepared by the Office of Inspector General (OIG) continue to identify certain control weaknesses, including repeat conditions, within information technology security and systems, that need to be addressed. During our review of IT general controls at the Department and FSA, we identified deficiencies in the following areas: (1) lack of monitoring of the activities of administrator and privileged user accounts at the application, operating system, and database layer; (2) access for terminated users was not removed in a timely manner or not removed at all; (3) revalidation of users' rights is not consistently performed for all applications and users, and for those revalidations that are performed, we noted instances in which there was no validation of the appropriateness of user access or users were not revalidated by the appropriate members of management; (4) password configurations did not comply with the relevant Department or FSA policy; (5) documentation and related approvals required to provision user access are not consistently maintained; (6) administrator level access was assigned to individuals not requiring elevated privileges; and (7) controls related to the change management process were not consistently applied during the audit period. Specifically, documentation of approvals for application changes was not consistently maintained, improper segregation of environments exists where users have access to make changes to code and migrate changes to production, and select code elements are migrated to production without being tested.

The OIG has identified information technology-related deficiencies for the Department and FSA in reports issued during FY 2011, including its FY 2011 Federal Information Security Management Act (FISMA) review, EDUCATE Information Security Audit, and Department's Processes for Validating the EDUCATE Contractor's Performance. In its EDUCATE Information Security Audit report, the OIG noted that the Department's account and identity management processes need significant improvement. The review noted dormant accounts, inappropriate or inappropriately enforced password settings and issues related to access provisioning and terminated accounts.

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In addition, the OIG FISMA and EDUCATE Information Security Audit reports note issues related to compliance with National Institute of Standards and Technology (NIST) 800-37 guidelines, including in the areas of Risk Management, Configuration Management, Remote Access Management, Contingency Planning, Security Management, and Security Capital Planning.

The OIG reports also noted that the Department's incident response and reporting procedures are not sufficient to handle computer security incidents. During the year, the Department was exposed to several information technology security incidents. Some of the incidents pertained to "spear phishing" attacks where targeted emails were used to gain access to the Department's networks and systems. OIG reported that these attacks had not been detected timely and appropriately blocked.

In its review of EDUCATE Contractor's Performance, the OIG noted that the Department did not have adequate controls in place to validate the EDUCATE contractor's performance. The Department's processes do not provide independent assurance of contractor performance or assurance of the quality of the data being relied upon to assess performance. In addition, the Department has not always assigned personnel with the appropriate qualifications to validate contractor-submitted service level agreement (SLA) performance data. The Department needs to improve processes for validation of chargeback reports of unit-based expenses. The Department's current SLA framework is ineffective in encouraging the EDUCATE contractor to improve performance.

Several of the above deficiencies are repeat conditions (although for different platforms or systems) that were noted in our work and in the OIG's audit reports, an indication that the control environment and monitoring components of internal controls at the Department require additional focus.

**Recommendations:**

Applications and related infrastructure are supported by a number of separate groups within the Department and FSA. While these groups have attempted to implement controls promulgated by Department, FSA, OMB, and NIST guidelines, control processes and practices continue to be implemented in a disparate manner across these groups. In addition, audit resolution activities have traditionally been performed by each separate group and have largely focused around addressing the immediate security and control weaknesses identified by audit reports.

We recommend that the Department and FSA continue their efforts to address security and control weaknesses disclosed in audit reports or identified in internal self-assessments with an emphasis on addressing the root cause of the security or control weakness uniformly across the organization, which should decrease the likelihood of similar weaknesses being identified in future audit assessments and internal self-assessments. Examples of addressing root causes may

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include, but are not limited to, additional training for the information technology professionals within the organization, allocating appropriate resources and subject matter resources to information technology process areas, maintaining updated procedures to ensure proper configuration of servers against documented standards at the time of changes in the environment, and monitoring of contract performance of vendors providing system support services to the Department. As appropriate, the specific security and government standards that are to be applied, and approaches to achieving and monitoring such compliance, continue to merit additional focus in contracts the Department executes with service providers.

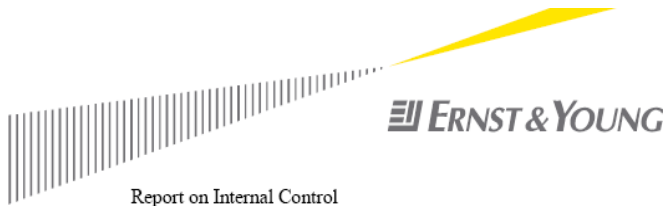
More specifically, the Department and FSA should: (1) implement standards around the logging of privileged user access and activities and establish controls over the monitoring of that access; (2) strengthen access controls to protect mission-critical systems (e.g., periodic access revalidation, timely removal of user access, enforcement of changes in access due to changes in roles and responsibilities, and compliance with password policies); (3) improve the configuration management process to ensure consistent security configuration of servers and mainframe security packages across the organization and improve configuration settings to comply with Department and FSA policy; (4) enhance its security training and awareness program, specifically around actions to be taken in the event an employee encounters suspicious activity; (5) revise current methods of identifying and logging suspicious activity as it relates to unauthorized access to accounts and data; (6) improve change management processes to control migration of changes to production and approvals of change testing; and (7) improve incident response and reporting procedures.

#### STATUS OF PRIOR YEAR FINDINGS

In the reports on the results of the FY 2010 audit of Federal Student Aid's financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:

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Summary of FY 2010 Significant Deficiencies

Issue Area	Summary Control Issue	FY 2010 Status
Continued Focus on Credit Reform Estimation and Financial Reporting Processes is Warranted (Significant Deficiency)	Management controls and analysis need to be strengthened over credit reform estimation and financial reporting processes.	Modified Repeat Condition classified as a Significant Deficiency
Controls Surrounding Information Systems Need Enhancement (Significant Deficiency)	Improvements are needed in overall information technology security and systems.	Modified Repeat Condition classified as a Significant Deficiency

We have reviewed our findings and recommendations with FSA management. Management generally concurs with our findings and recommendations in their response and will provide a corrective action plan to the OIG in accordance with applicable Department directives. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of FSA and the Department, OMB, Congress, and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

November 15, 2011

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**Report on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Inspector General  
U.S. Department of Education

We have audited the consolidated balance sheet of Federal Student Aid (FSA), a performance-based organization of the U.S. Department of Education (the Department) as of September 30, 2011, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended, and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

As part of obtaining reasonable assurance about whether the entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to FSA. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Under FFMIA, we are required to report whether FSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

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Report on Compliance and Other Matters  
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The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with certain requirements discussed in the preceding paragraph. FSA relies on the Department's systems to provide support for FSA's financial reporting needs, including utilizing the Department's general ledger to process transactions. We have identified the following instance of noncompliance:

While the Department and FSA have worked toward strengthening and improving controls over information technology processes during FY 2011, our audit work and audit reports prepared by the Office of Inspector General (OIG) continue to identify certain control weaknesses, including repeat conditions, within information technology security and systems, that need to be addressed. During our review of IT general controls at the Department and FSA, we identified deficiencies in the following areas: (1) lack of monitoring of the activities of administrator and privileged user accounts at the application, operating system, and database layer; (2) access for terminated users was not removed in a timely manner or not removed at all; (3) revalidation of users' rights is not consistently performed for all applications and users, and for those revalidations that are performed, we noted instances in which there was no validation of the appropriateness of user access or users were not revalidated by the appropriate members of management; (4) password configurations did not comply with the relevant Department or FSA policy; (5) documentation and related approvals required to provision user access are not consistently maintained; (6) administrator level access was assigned to individuals not requiring elevated privileges; and (7) controls related to the change management process were not consistently applied during the audit period. Specifically, documentation of approvals for application changes was not consistently maintained, improper segregation of environments exists where users have access to make changes to code and migrate changes to production, and select code elements are migrated to production without being tested. The OIG has identified information technology-related deficiencies for the Department and FSA in reports issued during FY 2011, including its FY 2011 Federal Information Security Management Act (FISMA) review, EDUCATE Information Security Audit, and Department's Processes for Validating the EDUCATE Contractor's Performance. In its EDUCATE Information Security Audit report, the OIG noted that the Department's account and identity management processes need significant improvement. The review noted dormant accounts, inappropriate or inappropriately enforced password settings and issues related to access provisioning and terminated accounts. In addition, the OIG FISMA and EDUCATE Information Security Audit reports note issues related to compliance with National Institute of Standards and Technology (NIST) 800-37 guidelines, including in the areas of Risk Management, Configuration Management, Remote Access Management, Contingency Planning, Security Management, and Security Capital Planning. The OIG reports also noted that the Department's incident response and reporting procedures are not sufficient to handle computer security incidents. During the year, the Department was exposed to several information technology security incidents. Some of the incidents pertained to "spear phishing" attacks where targeted emails were used to gain access to the Department's networks and systems. OIG reported that these attacks had not been detected timely and appropriately blocked. In its review of EDUCATE Contractor's Performance, the OIG noted that the Department did not have

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adequate controls in place to validate the EDUCATE contractor's performance. The Department's processes do not provide independent assurance of contractor performance or assurance of the quality of the data being relied upon to assess performance. In addition, the Department has not always assigned personnel with the appropriate qualifications to validate contractor-submitted service level agreement (SLA) performance data. The Department needs to improve processes for validation of chargeback reports of unit-based expenses. The Department's current SLA framework is ineffective in encouraging the EDUCATE contractor to improve performance.

Our Report on Internal Control dated November 15, 2011, includes additional information related to the financial management systems that were found not to comply with the requirements of FFMIA relating to information technology security and controls. It also provides information on the responsible parties, relevant facts pertaining to the noncompliance with FFMIA, and our recommendations related to the specific issues. We have reviewed our findings and recommendations with management of the Department and FSA. Management concurs with our recommendations and, to the extent findings and recommendations were noted in prior years, has provided a proposed action plan to the OIG in accordance with applicable Department directives. We did not audit management's proposed action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of FSA and the Department, OMB, Congress, and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

November 15, 2011

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FEDERAL STUDENT AID

November 10, 2011

MEMORANDUM

TO: Kathleen Tighe  
Inspector General

FROM: John W. Hurt, III   
Chief Financial Officer  
Federal Student Aid

SUBJECT: DRAFT AUDIT REPORTS  
Financial Statement Audit Fiscal Years 2011 and 2010  
Federal Student Aid  
ED-OIG/A17L0002

Please convey our sincere thanks to everyone on your staff and the Ernst & Young, LLP, team who supported the successful completion of the Financial Statement Audit Fiscal Years 2011 and 2010. Federal Student Aid reviewed the draft audit reports provided on November 1, 2011. We concur with the findings and recommendations as identified in the Report on Compliance and Other Matters and Report on Internal Control Over Financial Reporting.

Federal Student Aid will continue to support the Department of Education's (Department) efforts to address the significant control deficiencies related to the credit reform estimation and financial reporting processes. Although we continued to make progress during fiscal year 2011, we acknowledge there are opportunities to modify existing practices to accommodate changes in credit reform programs and address noted deficiencies. In addition, we will continue to work with the Federal Student Aid and Department staff to further strengthen controls over information systems.

We are committed to maintaining an unqualified opinion and will develop and implement appropriate corrective action plans to address the significant control deficiencies cited in these reports.

Once again, we thank the Office of Inspector General and Ernst & Young for their efforts to complete a successful audit of Federal Student Aid's financial statements.





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# OTHER ACCOMPANYING INFORMATION



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## **OTHER ACCOMPANYING INFORMATION**

### ***Improper Payment Information Act Reporting Details***

For improper payments information, FSA's activities are part of an overall Departmental integrated reporting effort. Please refer to the Improper Payments Reporting Details narrative in the Other Accompanying Information section in the Department's *AFR* located at <http://www2.ed.gov/about/reports/annual/index.html>.

### **Summary of Financial Statement Audit and Management Assurances**

For details on FSA programs, please refer to the Analysis of Systems, Controls and Legal Compliance discussion found in the Management's Discussion and Analysis section of this document as well as the Summary of Financial Statement Audit and Management Assurances narrative located in the Other Accompanying Information section of the Department's *AFR* located at <http://www2.ed.gov/about/reports/annual/index.html>.

### **Management Challenges**

For details on FSA Management Challenges, please refer to relevant items included in the OIG's Management Challenges for FY 2012 Executive Summary found in the Other Accompanying Information section within the Department's *AFR* located at <http://www2.ed.gov/about/reports/annual/index.html>.





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# APPENDICES



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## APPENDIX A: DISCONTINUED STRATEGIC OBJECTIVES AND PERFORMANCE METRICS

### Discontinued Strategic Objectives and Performance Metrics FY 2006–2010 Five-Year Plan

During FY 2010, FSA reviewed its strategic plan to identify revisions that would enable FSA to better address the challenges of the economic environment and improve the delivery of its mission—“Funding America’s Future, One Student at a Time”. As a result of this review, FSA developed and implemented a new set of Strategic Goals and Performance Goals for FY 2011 as documented in *FSA Strategic Plan FY 2011–15*. Implementation of this new strategic plan resulted in the discontinuation FY 2010 strategic objectives and performance metrics. The following table details the FY 2010 strategic objectives and performance metrics discontinued for FY 2011.

Strategic Objective/Metric	Description
<b>Strategic Objective 1</b>	<b>Integrate Federal Student Aid systems and provide new technology solutions.</b>
<b>Performance Metric 1</b>	Integrated Partner Management
<b>Performance Metric 2</b>	Integrate aid delivery systems
<b>Performance Metric 3</b>	Acquisition strategy
<b>Performance Metric 4</b>	Infrastructure
<b>Strategic Objective 2</b>	<b>Improve program integrity to facilitate access to postsecondary education, while reducing the vulnerability of the federal student financial assistance programs to fraud, waste, abuse, and mismanagement.</b>
<b>Performance Metric 1</b>	Cumulative Lifetime Default Rate Title IV student loan portfolio
<b>Performance Metric 2</b>	Cohort Default Rate
<b>Performance Metric 3</b>	Direct Loan Default Recovery Rate
<b>Performance Metric 4</b>	FFEL Default Recovery Rate
<b>Strategic Objective 3</b>	<b>Reduce program administration costs.</b>
<b>Performance Metric 1</b>	Reduce electronic FAFSA direct unit costs
<b>Performance Metric 2</b>	Reduce origination and disbursement direct unit costs
<b>Performance Metric 3</b>	Reduce Direct Loan Servicing direct unit costs
<b>Performance Metric 4</b>	Reduce Collections direct unit cost
<b>Strategic Objective 4</b>	<b>Improve human capital management.</b>
<b>Performance Metric 1</b>	Leadership training
<b>Performance Metric 2</b>	Acquisitions training
<b>Performance Metric 3</b>	Project management training
<b>Performance Metric 4</b>	FSA business knowledge training
<b>Performance Metric 5</b>	School compliance officials training
<b>Performance Metric 6</b>	General workforce training





Strategic Objective/Metric	Description
<b>Strategic Objective 5</b>	<b>Improve products and services to provide better customer service.</b>
<b>Performance Metric 1</b>	Student Aid Application
<b>Performance Metric 2</b>	Lender Payment Processing
<b>Performance Metric 3</b>	Direct Loan Borrower Servicing



**APPENDIX B: GLOSSARY OF ACRONYMS AND TERMS**

<b>Acronym</b>	<b>Description</b>
<b>A</b>	
ABCP Conduit	Asset-Backed Commercial Paper Conduit
ACG	Academic Competitiveness Grant
ACSI	American Customer Satisfaction Index
AGI	Adjusted Gross Income
AFR	Agency Financial Report
<b>C</b>	
CCRAA	<i>College Cost Reduction and Access Act of 2007</i>
COD	Common Origination and Disbursement System
Conduit	Asset-Backed Commercial Paper Conduit
COO	Chief Operating Officer
CPS	Central Processing System
Credit Reform Act	<i>Federal Credit Reform Act of 1990</i>
CSRS	Civil Service Retirement System
<b>D</b>	
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DOL	U.S. Department of Labor
<b>E</b>	
ECASLA	<i>Ensuring Continued Access to Student Loans Act of 2008</i>
ED	U.S. Department of Education





<b>Acronym</b>	<b>Description</b>
<b>F</b>	
FAFSA	Free Application for Federal Student Aid
FECA	<i>Federal Employees' Compensation Act</i>
Federal Fund	Federal Student Loan Reserve Fund
FERS	Federal Employees Retirement System
FFEL Program	Federal Family Education Loan Program
FFELP	Federal Family Education Loan Program
FSA	Federal Student Aid
<i>FSA Strategic Plan FY 2011–15</i>	<i>Federal Student Aid: Strategic Plan, Fiscal Years 2011–15</i>
FWS	Federal Work-Study
FY	Fiscal Year
<b>G</b>	
GAO	Government Accountability Office
<b>H</b>	
HCERA	<i>Health Care and Education Reconciliation Act of 2010</i>
HEA	<i>Higher Education Act of 1965, as amended</i>
HPPG	High Priority Performance Goal
<b>I</b>	
IBR	Income Based Repayment program
IRS	Internal Revenue Service
IT	Information Technology





<b>Acronym</b>	<b>Description</b>
<b>L</b>	
LEAP	Leveraging Educational Assistance Partnership
LMM	Lifecycle Management Methodology
<b>M</b>	
Met	Performance result met or exceeded target
<b>N</b>	
N/A	Performance result is not applicable because the performance goal was not developed, the performance goal was not implemented, or the required data were not available in time for inclusion.
NCES	National Center for Education Statistics
NFP	Not-For-Profit
NSLDS	National Student Loan Data System
Not met	Performance result did not meet target
No target	Performance result was tracked, but no target was established.
<b>O</b>	
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPR	Organizational Performance Review
<b>P</b>	
PBO	Performance-Based Organization
Pell Grant	Federal Pell Grant Program
PSLF	Public Service Loan Forgiveness program





<b>Acronym</b>	<b>Description</b>
<b>R</b>	
Recovery Act	<i>American Recovery and Reinvestment Act of 2009</i>
<b>S</b>	
Secretary	Secretary of Education
SFFAS	Statement of Federal Financial Accounting Standards
SLEAP	Special Leveraging Educational Assistance Partnership
SMART	National Science and Mathematics Access to Retain Talent Grant Program
<b>T</b>	
TEACH	Teacher Education Assistance for College and Higher Education
Title IV	Title IV of <i>the Higher Education Act of 1965</i> , as amended
TIVAS	Title IV Additional Servicers
TPD	Total and Permanent Disability
<b>U</b>	
U.S.	United States





## **APPENDIX C: AVAILABILITY OF THE FEDERAL STUDENT AID ANNUAL REPORT**

FSA's publicly available *FY 2011 Annual Report* is accessible on FSA's and the Department's Web sites at:

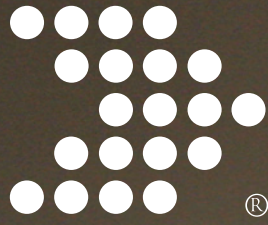
<http://www.federalstudentaid.ed.gov>

<http://www.ed.gov/about/reports/annual/index.html>

The *Federal Student Aid: Strategic Plan, Fiscal Years 2011–15* and previous years' *Annual Reports* are also available on the websites listed above.

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